

Modern slavery statement 2021

 **First Sentier**
Investors



Modern slavery statement 2021


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Our commitment to the cause

Modern slavery is a large and persistent problem in today's world, occurring in forms such as forced labour, child labour, human trafficking and debt bondage. At First Sentier Investors, we know that 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. We're committed to addressing modern slavery by looking closely at our own business and supply chains, and by engaging with the companies we invest in. We also collaborate with other stakeholders to bring greater awareness to the issue, and to advocate for positive changes that will reduce the prevalence of modern slavery around the world.

This statement looks at key achievements in our fight against Modern Slavery in 2021, as well as highlighting where we have further work to do. Thank you for joining us on our journey to identify and fight against modern slavery.

A handwritten signature in black ink, appearing to read 'Mark', with a horizontal line underneath it.

Mark Steinberg

CEO
First Sentier Investors



Starting with supply chains

Our vision, purpose and values are integral to the way we operate our business and our commitment to human rights is supported by the policies we've put in place. Now, we are establishing processes that will further support our efforts to identify, assess and mitigate risks of modern slavery and human trafficking.

In 2020, First Sentier Investors established a Modern Slavery Taskforce responsible for reviewing and enhancing our policies and processes to address risks of modern slavery and human trafficking.

In considering the risks of modern slavery in our operations, and following a similar strategy to 2020, we looked predominantly at the locations of our offices. Reviewing these against our high level risk assessment criteria, and noting our relevant Human Resources policies, there has been no change to the risk of modern slavery and human trafficking in our operations. We therefore continue to focus our attention on the development of tools to monitor our investment strategies and supply chains.


Building on our existing risk management processes and systems, First Sentier Investors has improved its strategic approach to mitigating risks of modern slavery and human trafficking, which is 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 report any non-compliance with such systems and processes.

We have also conducted a refresh of our high-level supply chain risk assessment, incorporating input from our Modern Slavery Taskforce at a supplier category level. This qualitative risk assessment has been supplemented by publicly available reports and assessments. Specifically, we considered a broader

range of our suppliers against the Global Corruption Perceptions Index 2020 and found there was no material change to the level of modern slavery or human trafficking risk. This assessment was approved by our Modern Slavery Task Force in November 2021.

A review of a range of First Sentier Investors policies, including the policies listed below, was completed in 2021. The review included consideration of principles to prevent modern slavery and human trafficking.

- FSI Risk Appetite Statement;
- FSI Risk Management Strategy;
- Modern Slavery Policy;
- Supplier Code of Conduct;
- Global Supplier Governance Procedure;
- Global Mandatory Learning Policy;
- Anti-Money Laundering and Counter-Terrorism Financing Program – Part B;
- Global Responsible Investment and Stewardship Policy and Principles;
- Human Rights Toolkit;
- Modern Slavery Toolkit; and
- Global Whistleblower Policy.



We determined that the principles contained in our policy suite effectively support appropriate controls to address and minimise the risk of modern slavery and human trafficking in our operations, supply chains and investment processes - both directly and indirectly.

We took steps to increase awareness across our business with respect to modern slavery risk. In January 2021 our Modern Slavery Policy was approved. Our CEO, through his weekly global message, outlined the importance of addressing modern slavery and First Sentier Investors' approach to addressing modern slavery risk, appraised the broader business of our Modern Slavery Statement and raised awareness as to the activities of our Modern Slavery Task Force. This has resulted in increased engagement across the business.

For the 2022 financial year, we have allocated budget to facilitate an uplift in this program of work. Our aim is to either uplift the manual risk assessment of suppliers with additional research, or to source and implement a platform that will facilitate a deeper assessment of our supply chain risk with regards to modern slavery.

We continue working to enhance the integration of this assessment into our supplier on-boarding and management systems. The establishment of a dedicated global procurement and supplier governance team in 2021 is assisting in this by standardising our sourcing and on-boarding risk assessments across the First Sentier Investors business. In Q4 2021, the team undertook a project to add our existing critical suppliers onto a global supplier governance platform. Throughout 2022 this work will continue, with plans to begin onboarding new suppliers to the platform after Q1 2022. The team is also designing and deploying templates to ensure that any prospective suppliers have a like-minded approach to modern slavery. These templates will go live in 2022.

We also finalised standard anti-modern slavery clauses for our supplier contracts. We are targeting these for inclusion in contracts (as appropriate) from Q2 2022.

FSI also began the process to hire a Global Head of Corporate Sustainability, with a formal appointment made in January 2022. This role will be responsible for executing First Sentier Investor's sustainability strategy, including progressing our approach to modern slavery.

Mitigating modern slavery

Throughout 2021 First Sentier Investors has continued our journey to fight against modern slavery risk. We have made progress through:



Staff training: Our investment teams received specialised training from an external expert in May 2021. Noting the progress on our Modern Slavery Policy deployment in 2021, we will work to develop targeted training for staff involved in the engagement of suppliers. Further, in 2022, we will conduct a comprehensive review and refresh of the existing compulsory Modern Slavery Training module.



Policy development: Following the approval of our Modern Slavery Policy, we intend to build on this, and to develop the processes to address any instances of modern slavery and human trafficking we may identify in our operations and supply chain.



Supplier reviews: Through the implementation of a dedicated Global Procurement and Supplier Governance function, we are expanding the scope of new and existing suppliers who we ask about their approaches to tackling modern slavery. We developed a broader deployment strategy for our Supplier Code of Conduct and a targeted ethical due diligence questionnaire. In the late stages of 2021, we sought compliance with our Supplier Code of Conduct where we noted a higher potential risk of modern slavery in the supplier's supply chain. We plan to increase this application throughout 2022 when engaging with new suppliers or negotiating with existing suppliers that we have identified as operating in a sector or region with a higher potential modern slavery risk, through our sector level risk assessment.

Where we've noted that some of our critical suppliers have exposure in their operations to countries where there is a higher risk of modern slavery, we have included additional due diligence questions to enquire into this space. We plan to schedule onsite visits for a representative sample of these suppliers, should travel restrictions permit, to ensure those positive responses are in evidence.



Transparent management reporting: As a global investment manager, management information has been developed and is reported to the Global Investment Committee (GIC) to increase transparency on how we are reviewing potential risks of modern slavery and human trafficking in our investment universe.



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 (the 'toolkit') was finalised in June 2020 and was followed by a pilot period of implementation. The 2021 Reporting Period was our first full year of implementation. The toolkit 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 and Remediation:** 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.

We commenced the year with a meeting of the Modern Slavery Investor Working Group¹ to:

- review the pilot implementation of the toolkit;
- share information on risks identified during the previous reporting period;
- identify knowledge gaps amongst the investment teams; and
- identify opportunities to collaborate in the coming year.

As a result of this exercise, we identified a need for additional training on specialist topics for the investment teams (referred to in 'mitigating modern slavery' above), and for minor updates to the toolkit, both of which we completed in 2021. Over the Reporting Period, the Responsible Investment team continued to support our investment teams to refine their approaches to addressing this issue.

1. The Modern Slavery Investor Working Group is a group of investment team and Responsible Investment team members who developed and oversee implementation of the Modern Slavery Toolkit.

The investment teams also completed an annual revision of their risk mapping. Below are risks we have identified for each asset class. Further information is available at team level.

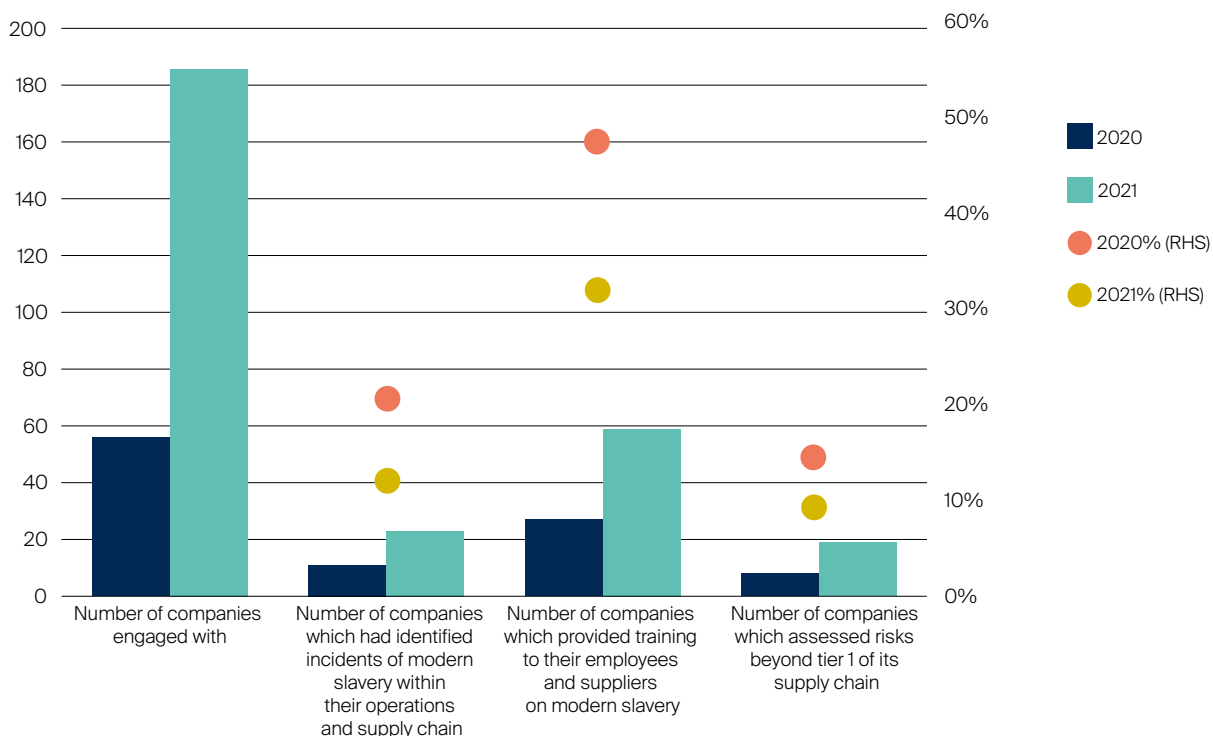
Asset Class	Key Risks
Australian Equities	Supermarket sourcing, specialty retail, metals & mining, healthcare and electronics industry supply chain particularly where manufacturing is linked to Asia and mining companies with remote and foreign operations.
Fixed Income and Credit	Supermarket supply chain (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.
Emerging Markets and Asia Pacific Equities	Companies whose franchises may be labour and/or manufacturing intensive, which resort to contractual employment terms, and where product sourcing exposes companies to areas of concern. Examples may include: apparel and textile manufacturing, fisheries, bank lending to companies in high risk countries and industries (especially around textile manufacturing lending), mining companies and the sourcing of conflict minerals across tier 3 suppliers particularly in relation to companies in which we invest in the semiconductor ecosystem, and the sourcing of agricultural commodities by consumer goods companies (palm oil, tea, coffee, chocolate, etc.), amongst others.
Systematic Global Equities	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: mining (particularly in India and China), construction and engineering.
Global Listed Infrastructure	Given the developed market focus of the strategy, modern slavery risks are found primarily in company supply chains. Other areas that we pay particular attention to include infrastructure companies with operations in developing markets such as parts of Asia and Latin America, and infrastructure companies with construction-related business segments.
Igneo Infrastructure Partners	Companies that employ a small percentage of their workforce on a contractual (temporary) basis, are in the transport and warehousing sectors, have long and complex supply chains and specifically supply chains of renewable energy projects.
Global Property	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).

Addressing risks and reporting on progress

A key measure to address modern slavery risk within our investments in 2021 was through our involvement in Investors Against Slavery and Trafficking (IAST) APAC, an investor initiative to promote effective action by companies to find, fix and prevent modern slavery, labour exploitation and human trafficking across the value chain. IAST APAC is convened and chaired by First Sentier Investors. In 2021, IAST APAC launched a collaborative engagement with 22 companies from four sectors – Consumer Discretionary, Consumer Staples, Technology, and Healthcare across Asia.

In addition to this, individual engagements increased significantly throughout the reporting period, which is partly attributable to the fact that in 2021 we collected data for a full calendar year, whereas the previous year was based on a 6-month period. Unfortunately, the proportion of companies which had identified modern slavery incidents, provided training to employees and suppliers on modern slavery and assessed modern slavery risks beyond tier 1 of their supply chains dropped. This is potentially due to the fact that our investment teams engaged more with smaller companies and companies in emerging markets during the Reporting Period, however, it is a trend that we will continue to monitor.

Reporting on Progress: company engagement



Source: First Sentier Investors, 31 December 2021

Case study

Background

The Multi-Asset Solutions investment team partnered with Sustainalytics to add our voice to many others, and encourage companies to understand and reduce the risks associated with modern slavery and human trafficking in supply chains. According to global estimates of modern slavery, the business sectors with the largest shares of adults in forced labour were found to be in the construction and manufacturing sectors. Based on these findings and the expressed interests of participating investors, this engagement has targeted high-risk companies across the apparel, footwear, construction and engineering sectors.

Objectives

This engagement takes a multi-dimensional approach to have an impact at the structural, operational and worker levels. This includes encouraging companies to ensure their business model does not contribute to worker exploitation, that due diligence efforts are robust and that workers are heard and empowered.

Process

Sustainalytics initiated dialogue with 20 companies across the apparel and construction sectors. Throughout these engagements, Sustainalytics assessed the companies on key performance indicators (KPIs) that cover – amongst others – governance, reporting, purchasing practices, wages, stakeholder involvement, collaboration, worker inclusion and auditing. The results of each KPI are converted into a score and any change in the overall score will be compared after each engagement. While we hope to see an increase in the overall scoring over time, in the short term an increase is likely to indicate better explanations of a process or the result of additional disclosure.

Outcomes

Through these engagements, some trends have been highlighted:

1. Construction companies, largely, do not see modern slavery as a significant risk in developed markets. It is often assumed that regulation and or corporate codes are robust enough to deter these practices. However, according to a study in 2015 by the European Union's Agency for Fundamental Rights, construction was listed as the highest risk of labour exploitation in 9 out of 21 EU countries and 4 were in Western Europe.
2. There is a tendency to want to present overly positive results in audits and survey findings. This can place unrealistic requirements on suppliers to ensure their practices are in line with a 'norm' that is quite far from reality and more nuanced.
3. Some companies still have no specific policy or position on responsible recruitment, including the 'employer pays' principle, which requires recruitment fees to be paid for by the employer, not the employee. This is a concern given around 16 million people are in forced labour in the private sector, with 51 percent in debt bondage.

Next steps

Engagement with these industry sectors will include a second round of engagement sessions over the next six months, seeking to deepen dialogue with the companies and wider stakeholders, and to enlist the participation of additional companies. Additionally, Sustainalytics is looking to hold roundtables in 2022 to provide a forum and opportunity for wider conversation between participating investors, companies and key stakeholder organisations.

Benchmarking our effectiveness

We continue to monitor the effectiveness of our processes and procedures. In doing so we seek to address the risk that our business causes, contributes to, or is directly linked to modern slavery through our operations and supply chains.

Throughout 2022, our Modern Slavery Task Force will continue to progress activities to help us improve and assess our effectiveness in combating modern slavery. These include the following actions First Sentier Investors seeks to achieve over the next reporting periods:

- Identify a platform to improve our supply chain risk assessment, increasing screening activities beyond tier 1 of our suppliers;
- Globalise the use of our supplier onboarding platform for our critical suppliers to ensure uniform risk assessments are undertaken to highlight any high risk sectors or geographies;
- Develop targeted supplier business owner training on FSI's approved Modern Slavery Policy.

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 2021 ("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). Following approval by First Sentier Investors Europe Holdings Limited; First Sentier Investors (UK) Services Limited; First Sentier Investors (UK) IM Limited; First Sentier Investors International IM Limited; and First Sentier Investors (UK) Funds Limited, this document was approved by the Board of directors of FSI HP on 8th June 2022 on behalf of FSI Group entities in Australia and Asia. This covers those entities subject of 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 our 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 15 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. These 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 supplies.



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