

Modern Slavery – An investment and social risk

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The International Labour Organization (ILO) estimated in 2016ⁱ that there are 40.3 million people globally who live under conditions of slavery. To put this number in context, that's the equivalent of the entire population of Sudan.

Clearly, slavery does not belong to a bygone era, it is a feature of modern society and is possibly more prevalent than ever before in human history. The causes of people falling into this dire predicament are many and varied, although many relate to forced migration undertaken to escape civil conflict, violent regime change and environmental destruction.

Modern slavery may take many forms. Broadly, it includes child labour, forced labour, debt bondage, human trafficking, forced marriages and sexual exploitation.

Of the total amount of people in slavery, it was estimated that 24.9 million are ensnared in forced labour and it is not confined to developing countries.

Although it was also estimated that there are 15,000 victims in Australiaⁱⁱ, the incidence of forced labour here is comparatively limited. The biggest risk of slavery for Australian companies is in their supply chains, particularly overseas. The practice of slavery may be hidden deep within a supply chain and may be difficult to detect even where suppliers have been audited. Slavery is a lucrative business. The Global Slavery Index 2018 estimates there are \$354 billion at-risk products imported by G20 countries. The top 5 at-risk products of modern slavery are laptops, computers and mobile phones, garments, fish, cocoa and sugarcane.

Maintaining and upholding human rights in a company's supply chain can be a complex issue. This is examined in greater detail within our paper that deals with the investment implications of modern slavery and human rights in supply chains. The challenge for management is greatly increased when workers are located overseas, particularly in jurisdictions that have patchy records in maintaining workers' basic human and labour rights. Sometimes there is a fine line between poor labour standards and what constitutes modern slavery.

Nevertheless, in the current environment, where companies' social license to operate is under close and almost constant scrutiny, any

ignorance by management of the mistreatment of workers anywhere within the supply chain can result in reputational damage. It can also be seen as a proxy for management quality and it can lead to earnings disruption too; earnings from a business model that relies on underpaid workers or slavery will unlikely be sustainable over time.

Failure to identify shortcomings in the treatment of workers along the entire length of their supply chains, leaves a company vulnerable to prosecution in the court of public opinion, and indeed more formally when Australia follows the lead of the UK in introducing a Modern Slavery Act.

Following a parliamentary inquiry and several rounds of public hearings, including feedback from Ausbil and other stakeholders, a draft Modern Slavery Bill was introduced to Federal Parliament in August 2018 and was passed by the House of Representatives on 17 September. Once passed by both houses, the Act will stipulate that Australian entities with more than \$100 million in annual consolidated revenue will need to provide transparency regarding the risks inherent in their operations and supply chains, the actions they are taking to address these risks and how effective those actions have been. At the moment, it looks like the earliest anyone would have to report is June 2020.

Labour rights, and the broader consideration of environmental, social and governance (ESG) issues, form an integral part of the Ausbil investment management process. Consistent with our view that earnings revisions drive share prices, we seek to invest in companies with sustainable earnings. It follows that if a company's business model relies on operations or a supply chain with underpaid or exploited workers, then its earnings are unlikely to prove sustainable.

Advocating for the protection of human and labour rights within companies' supply chains is a hallmark of Ausbil's engagement with the management of companies in which we invest. Engagement on labour rights featured prominently in a comprehensive ESG engagement report, we published earlier this year. The report details the previous year's strategies, activities and outcomes achieved by Ausbil pursuant to its philosophy of active company engagement.

- i Global Slavery Index 2018
- ii Global Slavery Index 2018

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