

# Human rights and modern slavery

## Supply chain | Operations | Products and services

### Thematic overview

Alphinity strongly supports the United Nations Guiding Principles on Business and Human Rights and expects our investee companies to do the same. We have a responsibility to ensure, to the greatest extent possible, that human rights and modern slavery violations do not occur in the companies in which we invest, including in their supply chains.

In addition to our ethical responsibility to prevent modern slavery and human rights issues within our investee companies, we recognise the potential investment impacts associated with a failure to manage these risks. Such threats can materialise in various forms, including supply chain disruptions, reputational harm, lawsuits and penalties, shareholder activism and regulatory changes.

We closely assess this as a central thematic each year, completing bottom-up analysis of all holdings to inform our understanding of current and emerging portfolio risks. We engage with companies and participate in research trips to better understand the risk landscape, such as the palm oil industry in Indonesia and apparel factories in Bangladesh.

Our [Human Rights and Modern Slavery Fact sheet](#) provides information on our overall management approach across operations and investment activities.

### Human rights

Human rights are fundamental freedoms and rights that every person is entitled to, regardless of race, sex, language, religion or any other status. These rights are based on the principles of dignity, equality and respect. These foundations are set out in the United Nations' Universal Declaration of Human Rights, which has inspired many human rights laws.

Investment implications from human rights issues can arise from supply chain disruptions (e.g. worker dissent from low wages, poor conditions or discrimination), regulatory changes (e.g. rising wages in developing markets impacting procurement costs) or reputational impacts. Human rights often interface with other ESG factors such as heritage management and community risk.

### Modern slavery

Modern slavery is a severe violation of human rights, involving situations where individuals are exploited and controlled through force, coercion, or deception. Practices that constitute modern slavery can include human trafficking, slavery, servitude, forced labour, debt bondage, forced marriage and the worst forms of child labour.<sup>8</sup>

Modern slavery incidents can have significant impact on a companies' social license and business practices. For example, supply chain disruptions caused by US import bans and increased public attention on products like cocoa, cobalt and sugarcane. Companies are also increasingly required under legal obligations to identify and mitigate modern slavery risks, thereby increasing the importance of managing such risks as investors.



<sup>8</sup> <https://www.modernslavery.gov.au/about-modern-slavery/types-modern-slavery>

# Human rights and modern slavery framework

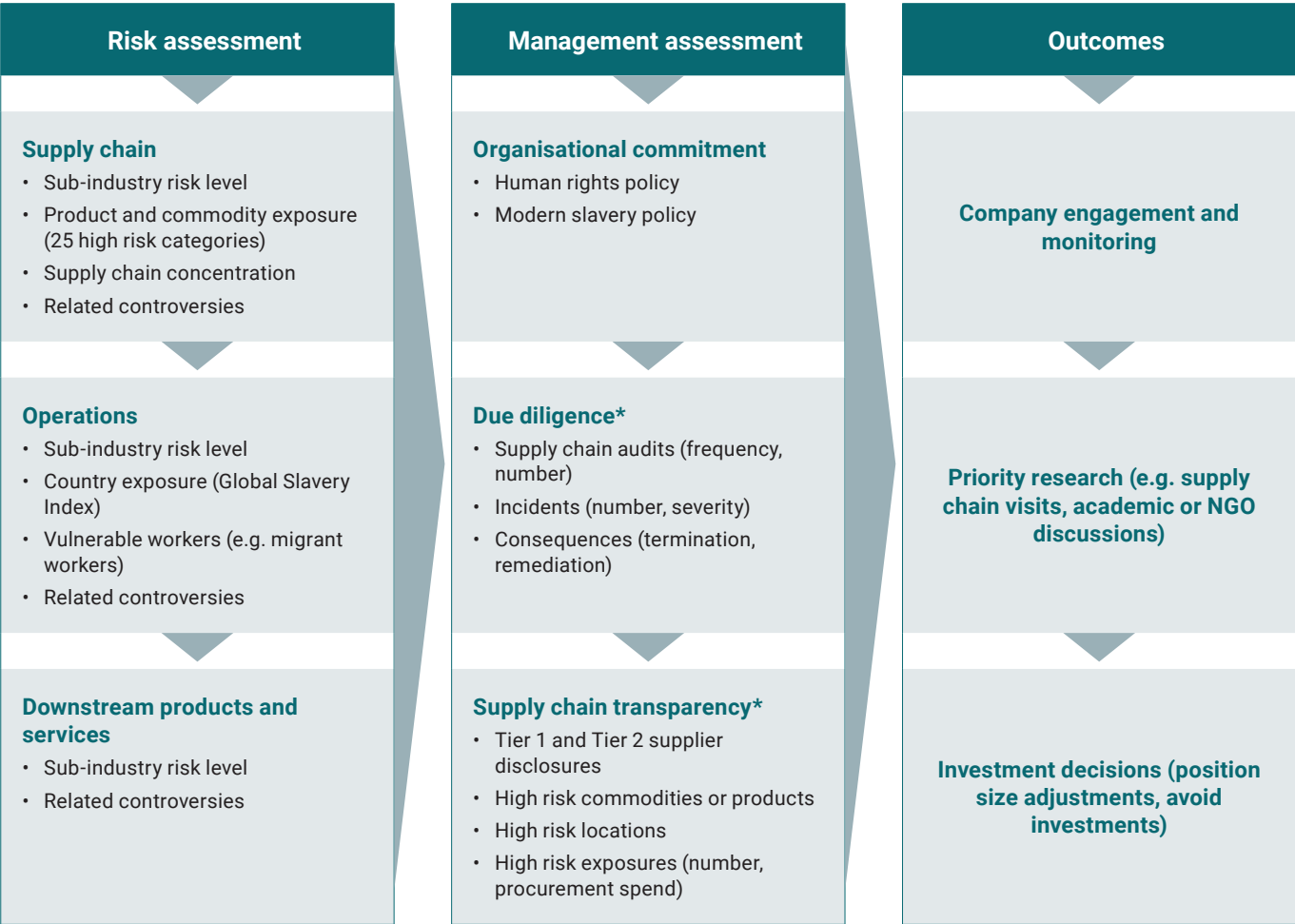
In 2021 we introduced a Modern Slavery and Human Rights Framework to support the consistent identification and analysis of different risks across investee companies and those under consideration for investment.

Over the past four years, this framework has served as an important foundation to identify and review the modern slavery and human rights risks in our portfolios. We use the outputs to support the portfolio management team, engage with companies, and identify top-down trends and research priorities. It also feeds into our ESG materiality assessment and company ESG risk level.

Each year we have introduced improvements to reflect emerging risks and integrate company management measures into the tool to form a view on residual risk.

In 2023 we enhanced our visibility of supply chain risks by identifying 25 high risk products and commodities. This includes 14 categories outlined in the Global Slavery Index and a further 11 categories such as cobalt, mica, bricks and tea, identified from the US List of Goods Produced by Child or Forced Labour and other sources. The same 25 categories were utilised in 2024, however, this list may change in the future.

The outcomes of the assessment of risk and management practices of our holdings in 2024 are presented in this section. The following graphic provides an overview of the framework and process.



\*We have integrated management indicators specific to the supply chain in this assessment as supply chain presents the highest overall risk across our portfolios. Examples are given in the detailed discussion on the framework. Developing further indicators across the operational and downstream risk categories is a priority for 2025.

# 2024 update

## Materiality

Within our ESG Framework, we identify human rights and modern slavery risks across three categories: upstream supply chain, operations, and downstream products and services. In 2024, human rights and modern slavery risks in the supply chain were assessed as highly material. While operational risks (e.g. agriculture) or those associated with products and services (e.g. financial services) are less pertinent overall, these issues can still be highly material at the company level.

The main concerns related to human rights and modern slavery in the supply chains of our holdings were similar to 2023. Fashion and apparel industries saw many reports about concerning working conditions and forced labour risks. Issues in sugarcane plantations, fisheries and the shipping industry were also identified as high risk. The construction industry, particularly in developing countries, was identified at risk of exploiting migrant workers and overlooking safety practices. Poor working conditions and modern slavery in the agricultural sector, including products like cocoa, coffee and palm oil, continued to be visible through the year.

In 2024, we also identified the interconnectedness of human rights risks and other ESG issues. For example, the inter-relationship between First Nations, mining practices and human rights. Another area we have explored are embedded risks in the net zero transition and renewable energy value chain.

In terms of the external environment, human rights and modern slavery remains a focus from a regulatory perspective. The US, Germany, France and Canada are

all investigating or enforcing modern slavery risks within company supply chains. In Australia there was a review of the Modern Slavery Act 2018 that indicated the possibility of introducing penalties for non-compliance in future.

## Research

- Analysis of all 2024 holdings using our Human Rights and Modern Slavery framework. Insights are used to inform the portfolio management teams on high-risk companies and specific risk areas, and to develop stewardship priorities.
- Meetings with human rights experts in India to discuss different salient risks for the sugarcane, technology, construction and apparel supply chains. This research informed our analysis for portfolio holdings such as Coca Cola, Apple, and Wesfarmers.
- Research trip to China to visit companies and manufacturing facilities involved in energy transition technologies like batteries and renewable energy.
- Participation in the Responsible Investment Association of Australasia (RIAA) Human Rights working group and digital technology sub-group. We contributed to the toolkit published for investors in May 2024.
- We have continued to support the PRI Advance collaborative initiative on human rights as co-leads for Freeport McMoran and supporting investors for BHP and Rio Tinto.



## Human Rights and Modern Slavery Framework assessment

The purpose of this framework is to provide a structure to identify companies and sectors that present the highest overall human rights and modern slavery concerns. The assessment includes supply chain analysis to identify high risk commodities and a management assessment to consider the quality and implementation of processes to mitigate key risks.

118 companies held during the year were evaluated against our framework.<sup>9</sup>

<sup>9</sup> This assessment has not been weighted by portfolio position size across the year. All percentage insights represent a simple average calculation.

## Supply chain analysis

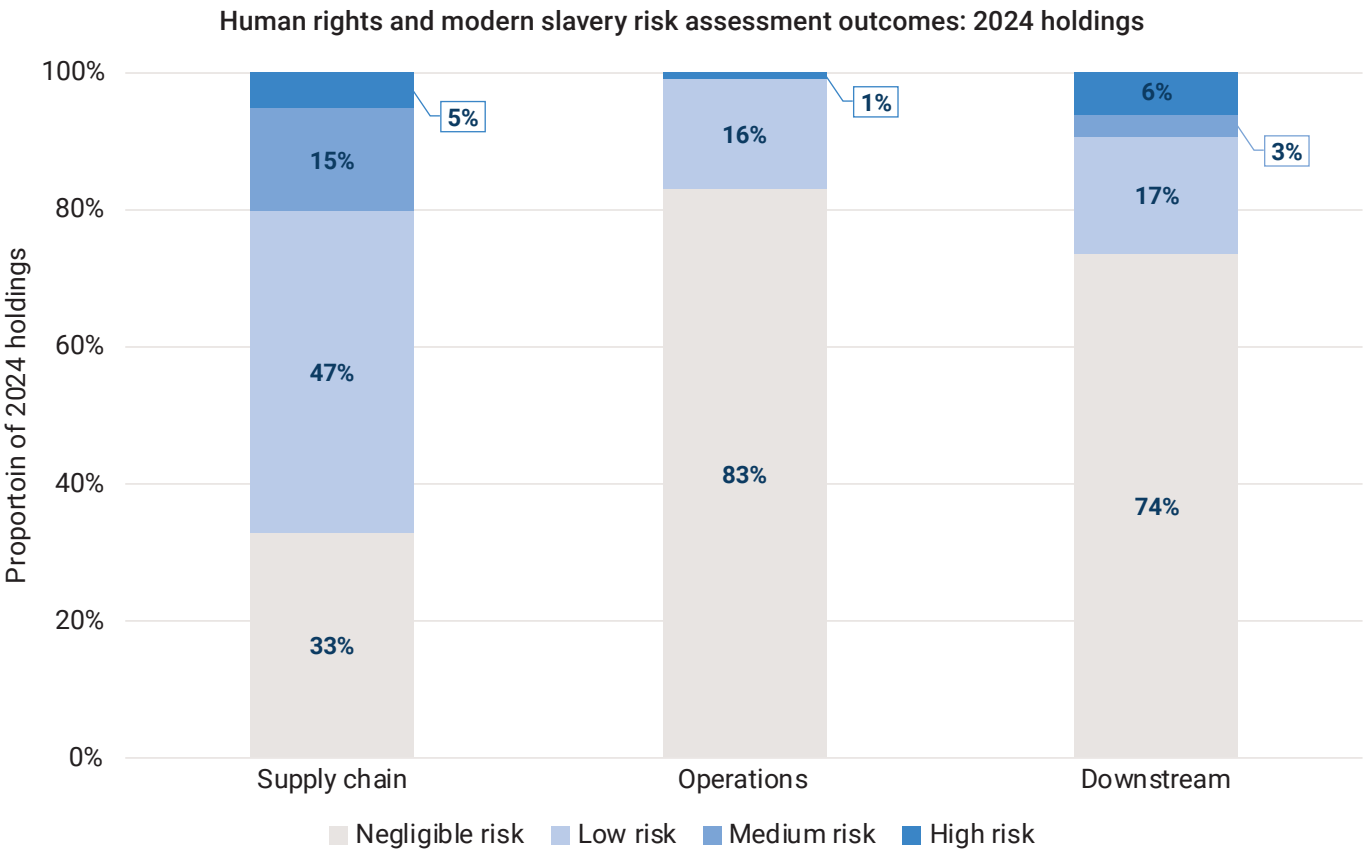
The chart below illustrates the materiality outcomes by sector from the supply chain analysis for all companies held in 2024. It is important to note that the distribution of companies is uneven across sectors due to our investment activities through the year. Therefore, this is not a generalised sector risk outcome, but serves to focus our risk analysis, company engagement and research priorities.

This analysis highlights that consumer discretionary and staples sectors are consistently linked to the highest exposure to human rights and modern slavery risks. It also identifies the prominence of technology as a risk area across most sectors. Apparel, PVC plastics and rubber are also supply chains with high exposure, marking them as areas for further research in the coming year.

High risk supply chain		Communication Services	Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Real Estate	Utilities
Agriculture	Cattle											
	Cocoa											
	Coffee											
	Cotton											
	Palm oil											
	Rice											
	Rubber											
	Seafood											
	Sugarcane											
	Tea											
	Timber											
Consumer goods	Apparel											
	Furniture											
	PPE											
Materials	Bricks											
	PVC plastics											
	Textiles											
Mining	Coal											
	Cobalt											
	Gold											
	Mica											
Technology	Computer/phone peripherals											
	Computers, laptops, phones											
	Product IT components											
	Solar panels											

## Risk assessment outcomes

The chart below illustrates the risk assessment outcomes for all companies held in 2024 across three segments of the value chain. This highlights that the greatest risk area across investments is concentrated in the supply chain.



**Supply chain risks** hold the highest exposure with 20% of companies having a medium or high risk. This is consistent with previous years and largely driven by companies with exposure to garments, electronics, agricultural commodities (coffee, cocoa, palm oil) and construction materials (timber, bricks) or related construction activities (eg. real estate).

**Operational risks** remain negligible for most holdings because we generally invest in companies in developed markets with strong employment standards. However, 17% were assessed as low risk due to direct operations in high-risk countries such as China, India and Malaysia. One Australian company engaged in direct agriculture operations was assessed as high risk due to the inherent industry risk and employment of migrant workers.

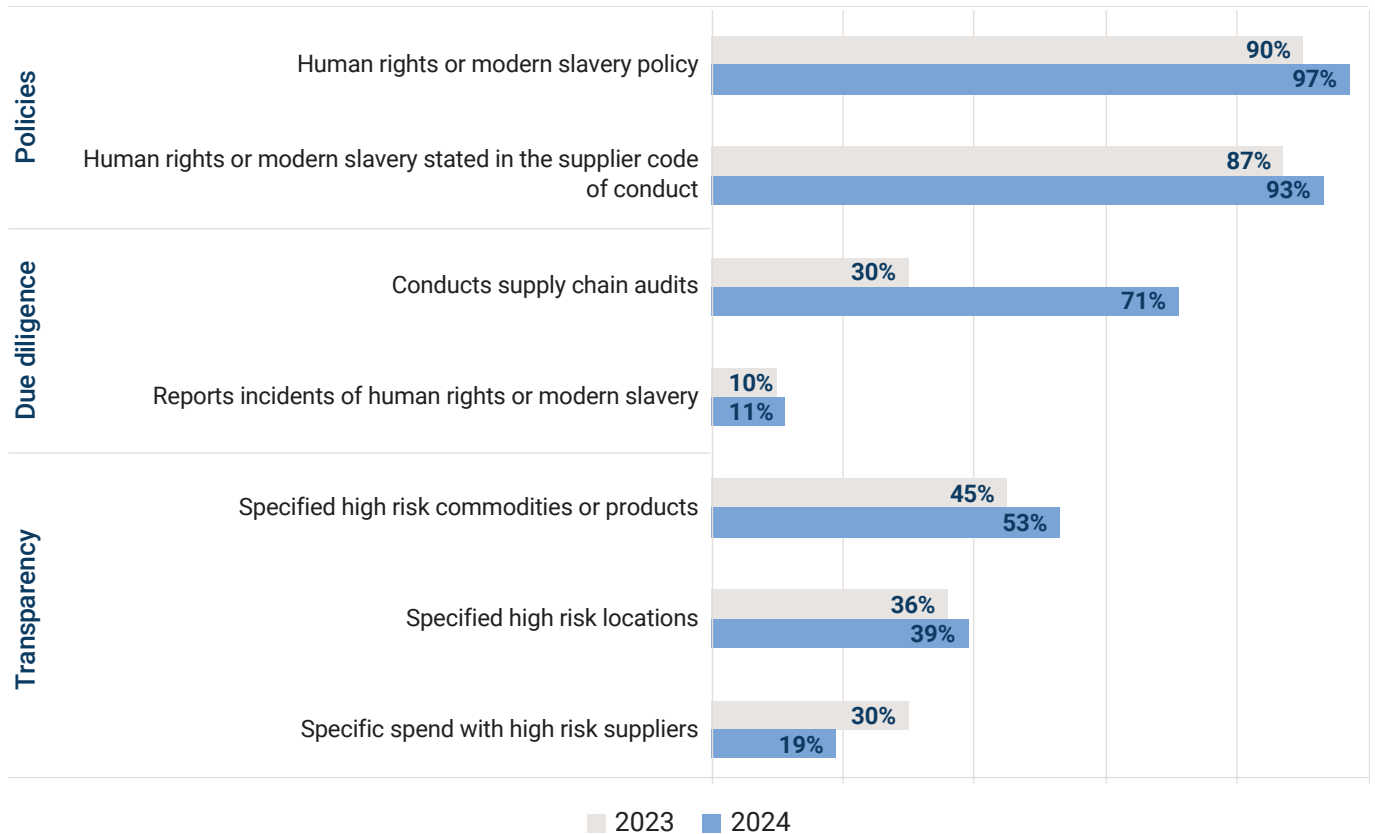
**Downstream risks** remain negligible for most holdings, but financials are considered high risk through their lending practices. We have also identified companies that operate online marketplaces and facilitate the sale of goods as high risk. Industries that are considered low risk include communications, transport services such as airlines and ports, and insurance companies where their services could be implicated in human rights and modern slavery issues.

## Management assessment outcomes

The chart below illustrates the management assessment outcomes for all companies held in 2024 across seven indicators. Performance across most indicators has improved this year, however, the percentage of companies which report incidents of human rights or modern slavery remains very low.

The data shows the proportion of companies that pass the assessment across all global and Australian holdings in 2024. Generally, we see stronger disclosure across the Australian holdings due to the requirements of the Australian Modern Slavery Act.

Human rights and modern slavery management outcomes: 2023 and 2024 holdings



**Note:** Comparisons between years are not like-for-like as holdings change over time. However, this indicates how disclosures are generally trending over time.

## Conclusions

- Supply chains remain the highest priority for human rights and modern slavery risks based on exposure to high-risk commodities and regions. According to our assessment, operational exposure to modern slavery risks is largely negligible, however, this can still be very material for certain companies.
- The consumer discretionary, consumer staples, industrials, and materials sectors have the largest exposure to high-risk supply chains like cotton, sugarcane, plastics, and technology.
- We have seen strong performance against our policy management indicators this year. However, performance against the due diligence and transparency indicators is less advanced.
- Good quality reporting on modern slavery strategies, including clear goals and objectives, is still lacking across most companies in our assessment. This has been a priority engagement area to date and will continue into 2025.



# Examples of company engagement



## MODERN SLAVERY RISK

In 2021 and 2022, Ansell faced a significant issue when the US Customs and Border Protection banned two of its suppliers over forced labour concerns. Though Alphinity was not a shareholder then, in 2024 we conducted an ESG review to assess the ongoing risks in the rubber supply chain and to better understand what steps the company has taken to manage its exposure. We **engaged** with Ansell and despite confirming a number of significant improvements, challenges remain. Consequently, we assigned an **ESG risk level of 2** to Ansell under our ESG Framework which requires heightened monitoring and active engagement.



## BEST PRACTICE

We often **engage** with leading organisations to better understand best practices in specific areas. In 2024, we participated in a meeting with Nike to conduct an in-depth review of policies and practices and to understand the progress Nike has made in mitigating risks related to modern slavery in its supply chain. This engagement highlighted that Nike is leading in modern slavery identification, management and disclosure. For example, Nike has collected wage data for 103 strategic suppliers that manufacture 80% of its product volume and has included wage sentiment as part of its supplier surveys. Nike discloses key insights from this assessment on its website. Nike also publishes an interactive map with information on where its products are made and statistics about workers, such as the average age, along with full disclosure of tier 1 and tier 2 suppliers.



## MICA

Mica is a high-risk supply chain for child labour and is a mineral commonly found in paint, construction materials and makeup. Although our portfolios have low exposure to mica, we targeted Sherwin Williams for an **engagement** in 2024 to clarify mica use and procurement controls. The company confirmed minimal natural mica is used, with most pigments made from synthetic mica. For the very small amount of natural mica sourced from India and Brazil, the company conducts supplier due diligence and obtains supplier policies on child labour. We were satisfied with the overall risk exposure and company response, but will continue to **monitor** this issue.



## MODERN SLAVERY

Wesfarmers is recognised as a leader in modern slavery disclosure in Australia. It reports audit outcomes, grievance mechanisms and remediation actions across its supply chain programs. Given its high-risk supply chain, in 2023 we set an **engagement objective** for the company to develop and publish a multi-year modern slavery strategy. Through discussions with Senior Management (which are ongoing), we have urged Wesfarmers to include a living wage objective and outline measurable objectives in the strategy. We believe this will enhance investors' understanding of the company's efforts to mitigate human rights and modern slavery risks.

## CASE STUDY

### Thermo Fisher (TMO) engagement example: Human rights risk linked to its products

TMO is a global supplier of analytical instruments, clinical development solutions, specialty diagnostics, laboratory, pharmaceutical and biotechnology services. In 2019 and 2022, TMO was involved in two different reports which stated that the company's DNA tests were being used by the Chinese Governments and the Tibetan Police respectively to collect DNA data from citizens. This is a unique situation where a company's products may have resulted in a breach of human rights.

**Before investing** in TMO, we conducted due diligence through company engagement, expert calls, and desktop research to confirm the background of this issue and the steps that were subsequently taken by the company. Through our **engagement**, the company stated that it conducted thorough due diligence into these claims but determined that the risk of misuse was limited. An important clarification with the company was that the DNA kits sold cannot determine ethnicity, but provide binary matching results and partial matches through familial lines. Additionally, sales to China represent a very small portion of the business.

Regardless, TMO have implemented restrictions on the sales of DNA kits in these regions, which include additional contractual clauses with distributors and in-sales monitoring. TMO also established a bioethics committee in 2019, comprising senior leadership, which collaborates with NGOs to elevate ethical considerations in the industry, particularly concerning genetic data.

Overall, we concluded that it is unlikely a similar controversy will arise. Because the management response was satisfactory, we confirmed TMO was investible and assigned a **Level 2 ESG risk** under our ESG Framework.

## CASE STUDY

### BHP Group engagement objective example: The inter-relationship between the energy transition and human rights

The cobalt value chain has significant modern slavery risks but has an essential role in the energy transition due to its use in EV batteries and renewable energy storage systems. As commodity demand grows, the pressure on supply from miners may also heighten the modern slavery risk profile over time.

In 2024, our Senior ESG and Sustainability Analyst participated in an energy transition **research trip** through China and met with a range of companies, including one of the world's largest cobalt miners. This mining company is a substantial supplier to EV battery manufacturers, which are used in heavy haul vehicles and mining fleets, but was not able to demonstrate how human rights management practices were implemented and measured.

Before BHP's AGM, we **engaged** with the VP Sustainability and Climate Change to discuss the company's 2024 Climate Transition Action Plan (CTAP). During this meeting, we shared our feedback from the research trip and our concerns regarding human rights risks in the energy transition value chain. We asked the company how it considers human rights in the timing of the CTAP and what trade-offs might be made to ensure the 2030 climate targets are met. We reiterated this feedback in another meeting with the VP ESG and the Chair of the Board.

We have established a new **engagement objective** for BHP to improve the management of inter-related issues in the energy transition, including human rights, in the CTAP and will continue to engage throughout 2025. We have added this item to the engagement agenda for other companies in the mining, energy, industrials and real estate sectors.



### PRI Advance collaborative engagement: Freeport McMoran, BHP and Rio Tinto

The PRI Advance collaboration aims to “protect and enhance risk-adjusted returns by advancing progress on human rights through investor stewardship”. It monitors corporate performance against the World Benchmarking Alliance’s (WBA) Social Transformation Framework.

In 2023, we were selected as co-leads for the **Freeport McMoran** engagement and joined the **BHP** engagement as a support investor. In 2024, we also joined the **Rio Tinto** engagement as a support investor.

This case study summarises the engagement priorities and actions during 2024. While progress has been made across all three working groups, this case study highlights that achieving results for big, complex issues don’t easily take place in the short-term. This underscores the importance of persistence and building long-term relationships with investee companies to promote stronger ESG practices.

#### Freeport McMoran (January 2023 – Present)

Discussions across three group meetings primarily focussed on the environmental and human rights impacts of the riverine tailings system at the Grasberg copper mine in West Papua. Grasberg is a large asset that contributes significantly to Freeport’s earnings, and we requested more frequent water monitoring data and assurance around community grievances. The group issued a **formal letter** outlining these perspectives, which the company acknowledged. Part of the letter also referred to Board oversight of grievances and the security controls at mine sites.

In November 2024, we had a productive meeting with the VP of Sustainability, who confirmed senior management had acknowledged our **engagement objective** for stronger disclosure at Grasberg. We understand that the team will be considering improved disclosures from 2025.

Other engagement areas in 2025 include addressing modern slavery in the supply chain.

#### BHP Group (January 2023 – Present)

The group met with the company twice in 2024 to focus on the management of modern slavery risks in the supply chain and remediation of Samarco’s tailing dam collapse. We contributed by leading a dedicated discussion on psychosocial safety, harassment and culture. This was based on the assessment of BHP’s performance against our bespoke **Workplace Culture Framework**.

The group has agreed on engagement topics for 2025 which strongly align with our **ESG priorities** for BHP. These include First Nations’ relationships, labour practices and psychosocial safety.

#### Rio Tinto (September 2024 – Present)

We joined this group recently and there have been three meetings held on topics such as water rights and reputational risk driven by stakeholders. These strongly align with our **ESG priorities** for Rio Tinto. Further engagement priorities are being discussed, such as co-management models with First Nations and proactive management of behavioural and harassment issues.