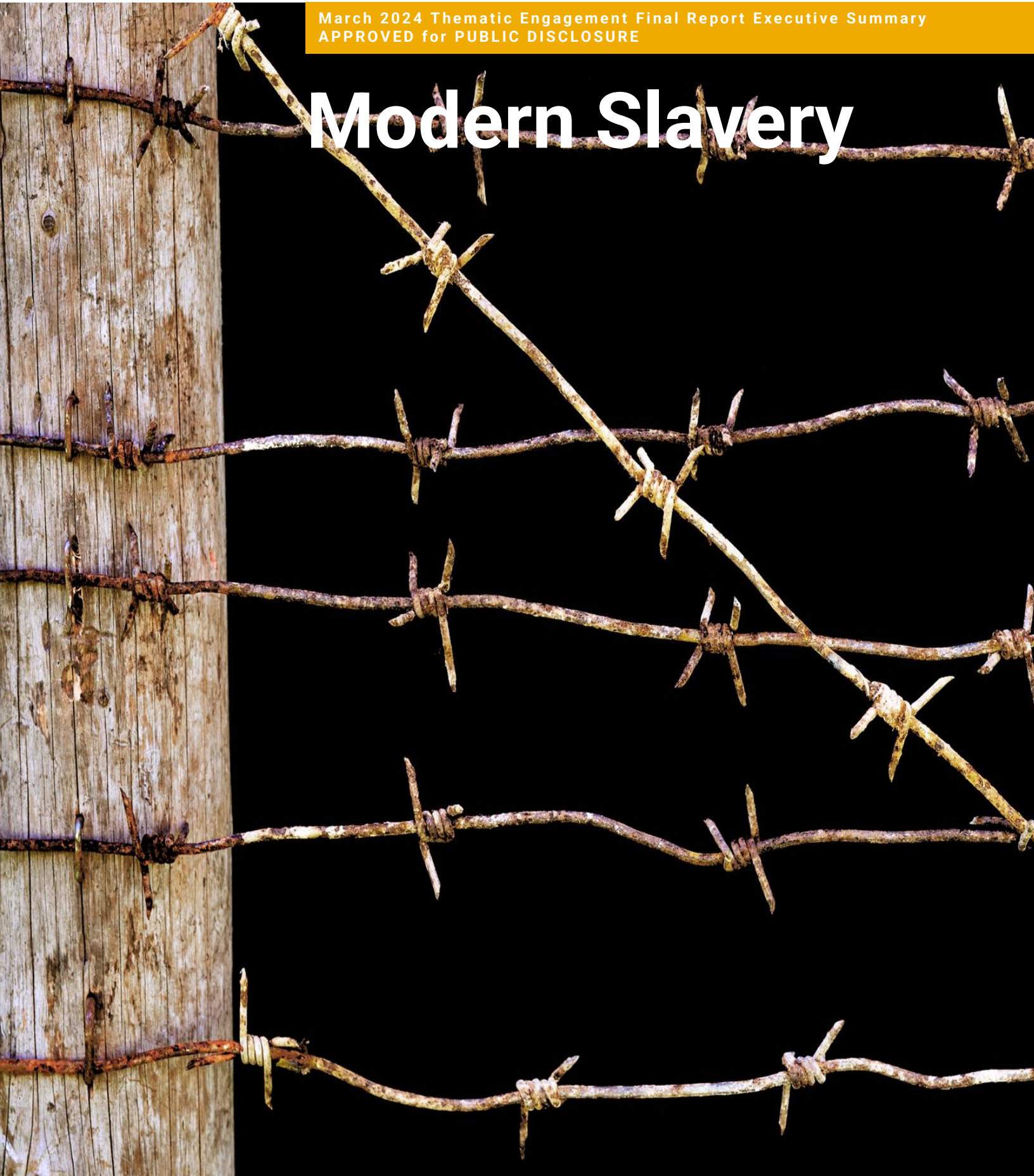


March 2024 Thematic Engagement Final Report Executive Summary
APPROVED for PUBLIC DISCLOSURE

Modern Slavery



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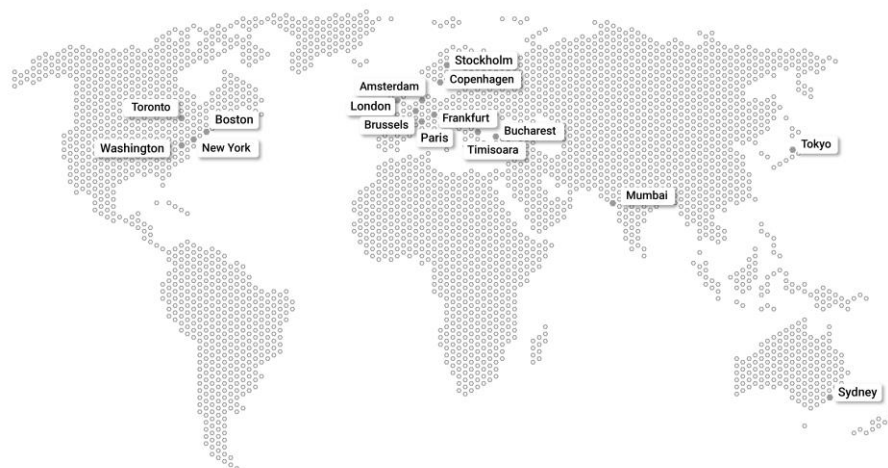
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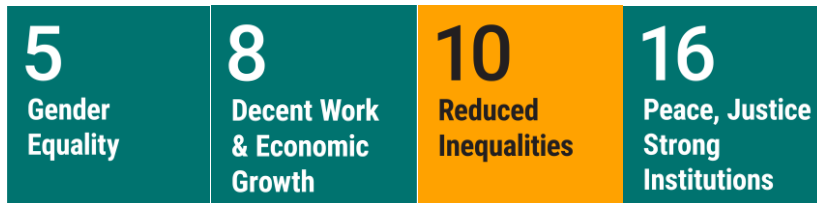
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THE ISSUE AT HAND

Modern slavery thrives in the private sector. Almost two-thirds of all forced labour cases—some 63% of the 27.6 million total—occur in this part of the economy.¹ Major companies are exposed to risk, often through their global value chains, which are typically extensive, complex and opaque. The negative externalities of modern slavery are predominately borne by individual workers and their families, but a shift is taking place. Increasingly, companies are being held to account for failures to address human rights violations associated with their operations and business relationships. Executives should take note, especially as the number of people in forced labour in the private economy has risen from an estimated 16 million in 2016 to 17.3 million in 2021, according to the International Labour Organisation (ILO). Moreover, forced labour is disproportionately represented in both the construction and manufacturing sectors and the two were ranked within the top three industries that account for the largest shares of forced labour in surveys by the ILO.²

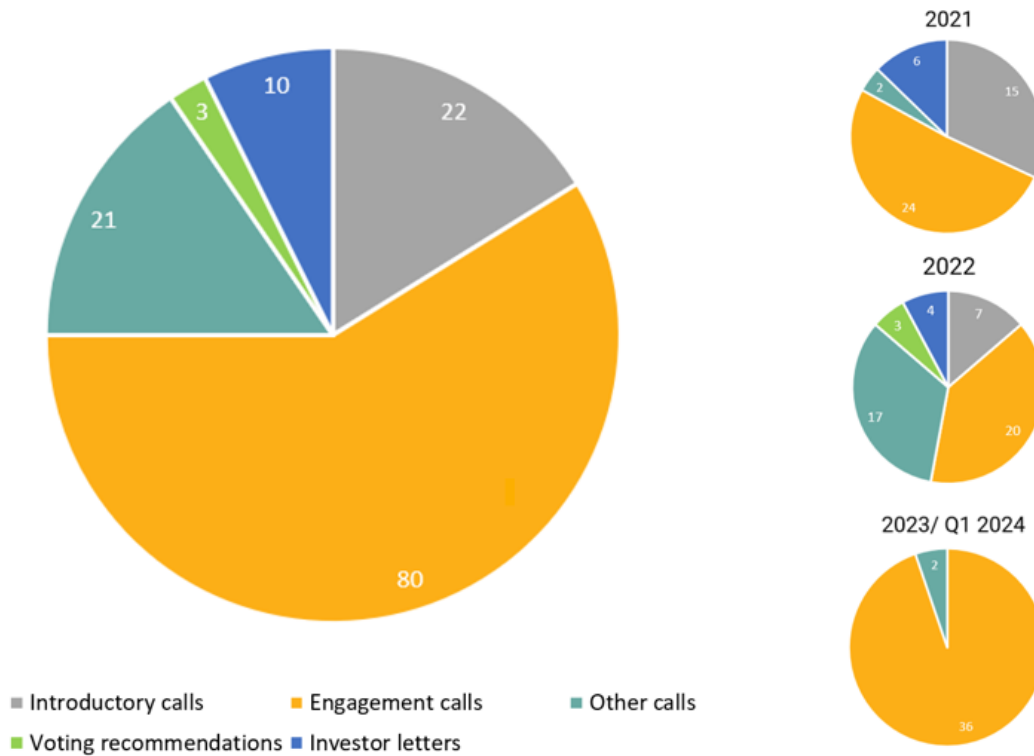
Investors have become increasingly perturbed that their portfolios may be exposed to modern slavery risks. Accordingly, in 2021 Morningstar Sustainalytics launched a three-year collaborative investor engagement in an attempt to address this. The objective was ambitious. We aimed to encourage companies to adopt fit-for-purpose strategies to effectively tackle the risks. Specifically, this covered six key areas of performance, comprising: governance and disclosure; responsible purchasing practices; living wages; stakeholder collaboration; worker empowerment; and rigorous auditing and grievance mechanisms. The engagement focused on construction and apparel, the latter being a sub-sector of manufacturing. Investors were closely involved in the selection of issuers. In total, 16 companies across the two sectors participated in the engagement. SDG goals five, eight, ten and 16 have been mapped to the thematic engagement.



ENGAGEMENT RESULTS

This is the final report on the progress of this thematic engagement, which started in 2021. The purpose of this document is to provide a summary of our engagement activities over the three-year period. In total, Sustainalytics invited 42 companies to participate in the dialogue. 16 firms took part. The total

Total Stewardship Activities 2021-2024



number of meetings over the duration was 123, comprising 80 substantial exchanges (i.e., based on an agenda), 22 introductory calls and 21 other interactions (e.g. attendance at our roundtable or a company stakeholder forum). Ten investor letters were sent to non-responsive companies and voting recommendations made against three firms’ election of relevant directors. 1,592 emails were also exchanged.

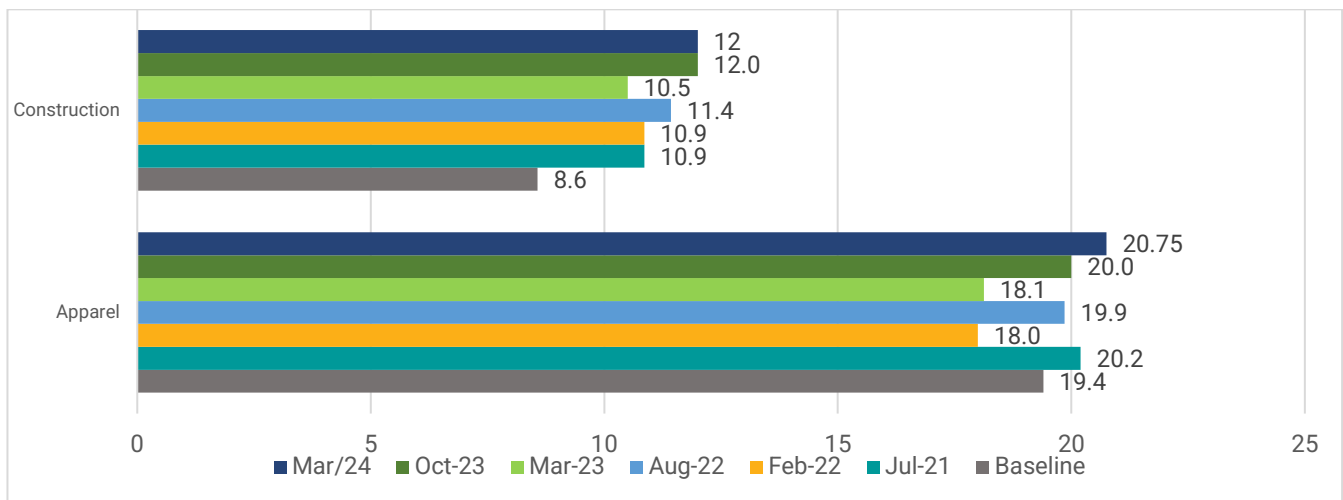
The initial priority of the engagement was to build constructive relationships and understand general approaches to address risk. The first dialogues took place while the COVID-19 pandemic was ongoing, and in which supply chain apparel workers were severely impacted after global brands abruptly cancelled orders (garment workers are still owed USD millions in unpaid salary, according to one study by a labour rights group).³ Consequently, the first dialogues reflected these concerns. Early into the engagement, trends, similarities and differences quickly become apparent. Most companies had not identified forced labour, many companies (mostly apparel) had established policies and programmes in place, and for others, modern slavery was a nascent focus (though often not a priority). Where relevant, we emphasized the importance of key policies, particularly in relation to responsible

recruitment and the employer pays principle (where recruitment costs are paid by the employer and not the employee).

In December 2022, Sustainalytics hosted a roundtable bringing together experts to discuss the systemic challenges the industry faces, with a specific focus on advanced economies. The event was attended by over 40 people, with representatives from eight major construction companies and nine institutional investors. The forum was moderated by an investor client and speakers included a Member of the European Parliament and industry experts.

In 2023, we continued to probe processes, explain the hidden nature of risk, stressed compliance measures were often not enough and urged deeper action. Several best practice toolkits were shared with companies to support efforts.

Overall score per company (maximum possible score is 54)



NB: Average scores are based on the total number of companies in the engagement over each period. This has changed since the baseline and therefore direct comparisons are not always possible. In March 2024, October 2023 and March 2023, there were 16 companies. In August and February 2022, the number was 14 companies. In the baseline and July 2021 reports, there were 12 companies.

FINAL CONCLUSIONS

The engagement ends with the average company score of 16 out of 54. All companies need to do more to ensure greater resiliency in managing exposure to modern slavery risks and many are working on plans to drive progress in multiple areas, e.g., governance, purchasing practices and grievance mechanisms. Progress clearly takes time, but persistency and a strategic approach do deliver results. Although action has sometimes lacked momentum and some companies have presented more challenge than others, we have seen many others adopt measures that reflected the engagement priorities. This is not to claim that these steps were a direct result of the dialogues but, perhaps recognition of the influencing role investor collaborative engagements can have. There are several points to bear in mind when evaluating the overall results:

1. The engagement goal has been demanding, requiring companies to address many of the structural drivers behind modern slavery i.e., responsible purchasing practices, freedom of association and *actual* payment of living wages.
2. Scores have improved mostly marginally in each biannual period, which is a reflection of the challenging goal. Average scores are partly explained by the low starting point as many companies did not consider modern slavery to be a relevant risk and/or have only recently begun to give attention to this area.
3. The scores do not always reflect progress. Many companies have taken measures to strengthen their due diligence, but the points do not necessarily reflect this due to the scoring methodology.
4. In the case of four companies the engagement period was less than three years.
5. In 2023, Morningstar Sustainalytics made recommendations to all companies which reflected areas where we considered more focus should be placed and gaps addressed. Based on the penultimate and final dialogues, many companies explained plans to achieve greater progress. It is therefore anticipated due diligence efforts of several companies will be strengthened.
6. Intangible outcomes of the engagement cannot be easily measured. For example, where investor engagement led to more informed internal discussions and actions that followed this.

CONSIDERATION FOR FUTURE ENGAGEMENTS

Investors that wish to continue engaging with companies can use the recommendations and also the final meeting minutes, if there are specific areas planned to be discussed with any of the 16 companies (or, indeed, other issuers). Suggested questions for board include:

- Do boards challenge management teams results, e.g. why they have not identified forced labour?
- Are they familiar with stakeholder concerns about the effectiveness of due diligence tools, like auditing (and the implications of this)?
- Do they engage with affected stakeholders and human rights experts?
- If modern slavery is not considered a relevant risk, why is this, especially where the sector is heavily exposed?

Sustainalytics will be holding two roundtables on human rights in April and June 2024 in order to develop the next human rights stewardship programme. These will explore the human rights risk landscape, investor concerns and priorities and seek to identify sector interest. The output of the roundtables will inform the strategy of the next multi-year human rights stewardship programme. Please do contact Sustainalytics if you would like to know more, and you are interested in joining.

ENDNOTES

- ¹ A total of 17.3 million adults and children are in forced labour in the private sector, excluding commercial sexual exploitation. This represents nearly two-thirds of all forced labour. “Global Estimates of Modern Slavery: Forced Labour and Forced Marriage.” International Labour Organisation (ILO), Walk Free Foundation and International Organisation for Migration (IOM). September 12 2022. <https://www.ilo.org/global/topics/forced-labour/publications/index.htm>
- ² Global Estimates of Modern Slavery: Forced Labour and Forced Marriage.” International Labour Organisation (ILO), Walk Free Foundation and International Organisation for Migration (IOM). September 12 2022. <https://www.ilo.org/global/topics/forced-labour/publications/index.htm>
- ³ This found that from its investigation in which nine out of ten factories were visited after the Covid pandemic there were wage claims up to USD 71 million. “Big Fashion and Wall Street Cash in on Wage Theft”, February 2023 [FTH Report Cover FINAL \(globallaborjustice.org\)](#)