

# Active owner program in practice

Human rights and labour supply chain



## Active Owner Program

We believe active ownership is where we can have an impact on changing company behaviour to improve investment returns for members. Environmental, Social and Governance (ESG) management is an integral part of our Active Owner Program, and is embedded across our investment decision-making process at three levels.



### ESG Integration

Assessing and integrating ESG risks and value drivers when choosing and managing investments



### Stewardship

Actively engaging with companies to influence and improve ESG practices



### Choice

Considering our members' values in our investment choices

## The labour supply chain is the chain of people that link the activities involved in the planning, sourcing of materials, and production of goods.

These activities can take place across a number of countries. For example, often clothing companies and retailers have a corporate office in one country while the sourcing of materials and production is outsourced to other companies in other countries.

Inadequate supply chain management can expose companies to a range of operational, financial and reputation risks.

Issues can arise when there's a lack of transparency on supply-chain practices, particularly where agents and subcontractors are used. These issues can include:

- › Child labour
- › Forced labour
- › Equality and discrimination
- › Freedom of association
- › Working conditions
- › Health and safety issues.

Human rights and supply chain issues impact the long-term value of a company from an investment perspective and AustralianSuper addresses them through its Active Owner Program.

## Integration

We integrate labour supply chain and human rights considerations into the equity investment process and identify sectors where these issues can materially affect value.

A good example of this is the consumer discretionary sector. We assess and score the companies in these sectors on the management of their labour supply chain. This assessment forms part of our decision to invest or not invest.

We monitor the integration of these issues by external fund managers who invest on our behalf. We review them on an ongoing basis regarding their management of various ESG issues, including labour supply chain risk.

## Property and infrastructure

When buying property and infrastructure investments, like toll roads, ports and airports, key elements of our ESG assessment are the occupational, health and safety (OHS) policies and record of the investment. We review OHS policies, the process to report and investigate accidents and management of contractors.

## Stewardship

As an active investor we exercise the rights and responsibilities of being a large shareholder – including voting and engaging with companies. We aim to effectively communicate our long-term investment interests to companies we invest in so that we can improve returns for our members.

### Company engagement

AustralianSuper has undertaken a long-term project to understand labour supply chain risks and improve the management of these risks in Australian retail companies.

We've also met with fund managers, brokers and Non-Government Organisations (NGOs) to understand labour trends and company practices offshore.

The information we've gathered from this analysis has led to us developing a multi-year engagement program with Australian retail companies. The program is designed to help us understand company practices and lobby for improved transparency and disclosure of their labour supply chain policies.

We monitor and audit practices on the basis that a sustainable supply chain will create better value over the long-term.

Over the course of this process AustralianSuper has observed some improvements in a number of Australian retail companies. The improvements have been in the areas of the disclosure of factory locations and audit processes.



## Choice

Labour supply chain and human rights issues are important issues for many members. We offer members the choice to invest in the Socially Aware option. It doesn't invest in shares of any company that's been flagged as having labour rights and human rights controversies. Find out more about this option at [australiansuper.com/sociallyaware](http://australiansuper.com/sociallyaware)

### Collaborative initiatives

We collaborate with industry investors and groups on labour supply chain and human rights risks.

AustralianSuper is a member of the Australian Council of Superannuation Investors (ACSI) and each year, ACSI selects key engagement themes and a list of target companies related to these themes.

Since 2012, ACSI has been engaging with a specific group of companies regarding labour and human rights risks in their supply chains.

Just as we've seen some improvements in the management of labour supply chains in Australian retail companies, ACSI also reports advances.

We also support the Principles for Responsible Investors (PRI) investor statement and ACSI's submission on the proposed Australian Modern Slavery Act. We're a signatory to the Workforce Disclosure Initiative which aims to improve transparency on workforce issues including how companies are managing modern slavery risks in their operations and supply chains.

The aim of the proposed Act is to improve transparency on how Australian companies are managing modern slavery risks in their operations and supply chains. There are estimated to be 21 million people in forced labour around the world, with children making up more than a quarter.

We also support the Share Action Workforce Disclosure Initiative, which aims to improve transparency on workforce disclosure including companies' global operations and supply chain structures.

## Find out more

Explore our Active Owner Program in Practice series:

- › Integrating ESG considerations into each asset class
- › Climate change
- › Gender diversity
- › Human rights and labour supply chain
- › Executive remuneration

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## We're here to help

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