

# Contents

Australian Ethical's approach at a glance	3
About us and our approach to human rights	5
Who we are	6
Our approach to human rights	7
Our structure, operations and supply chains	9
Risks of modern slavery practices in our operations and supply chains	11
Identifying risks	12
Actions taken to assess and address modern slavery risks	16
Investments	17
Procurement	22
Foundation	25
Remediation and grievance mechanisms	28
Effectiveness	29
Our advocacy	31
Commitment	34



# Australian Ethical's approach at a glance

Mitigating risks

Lending our voice

Australian Ethical areas of influence	Actions taken in FY20 relating to human rights and modern slavery	Going forward	Measuring effectiveness – potential indicators
<h2 data-bbox="161 395 452 450">Investments</h2>	<ul data-bbox="712 395 1030 542" style="list-style-type: none"> <li>• Improved our investment assessment process</li> <li>• Engaged with 17 companies</li> <li>• Excluded 10 companies</li> </ul>	<ul data-bbox="1227 395 1585 598" style="list-style-type: none"> <li>• Finalise the updated human rights framework</li> <li>• Use external ESG research data to implement updated framework</li> <li>• Improve tracking of assessments and engagements</li> </ul>	<ul data-bbox="1742 395 2105 625" style="list-style-type: none"> <li>• % and number of our portfolio investments/companies assessed for human rights risks</li> <li>• % and number of engagements and changes</li> <li>• % and number of exclusions or divestments</li> </ul>
<h2 data-bbox="161 683 474 737">Procurement</h2>	<ul data-bbox="712 683 1093 853" style="list-style-type: none"> <li>• Improved our supplier assessment and selection process</li> <li>• Updated contract clauses</li> <li>• Engaged with high-risk or influential suppliers</li> </ul>	<ul data-bbox="1227 683 1608 909" style="list-style-type: none"> <li>• Develop internal guidelines to help identify where a supplier may not be aligned with the Charter</li> <li>• Educate our people about the guidelines</li> <li>• Set up internal processes to monitor application of the guidelines</li> </ul>	<ul data-bbox="1742 683 2128 957" style="list-style-type: none"> <li>• Completion and implementation of procurement guidelines</li> <li>• % and number of suppliers assessed for human rights risks</li> <li>• % and number of engagements and changes</li> <li>• % and number of contracts including modern slavery clauses</li> </ul>
<h2 data-bbox="161 1013 542 1067">Our Foundation</h2>	<ul data-bbox="712 1013 1070 1212" style="list-style-type: none"> <li>• Updated our Memorandum of Understanding</li> <li>• Updated our Community Grants application</li> <li>• Continued to fund Human Rights Watch</li> </ul>	<ul data-bbox="1227 1013 1635 1193" style="list-style-type: none"> <li>• Continue implementation of modern slavery clauses and declarations in all funding arrangements with charities</li> <li>• Continue funding leading charities addressing human rights, and leverage their expert human rights knowledge</li> </ul>	<ul data-bbox="1742 1013 2094 1165" style="list-style-type: none"> <li>• % and number of charities assessed for human rights risks</li> <li>• Number of charities funded and dollars donated to supporting the advancement of human rights</li> </ul>
<h2 data-bbox="161 1268 497 1323">Our Advocacy</h2>	<ul data-bbox="712 1268 1120 1449" style="list-style-type: none"> <li>• Supported shareholder resolutions around informed consent and cultural heritage sites</li> <li>• Supported investor engagements on human rights due diligence, vulnerable workers and living wage</li> </ul>	<ul data-bbox="1227 1268 1608 1348" style="list-style-type: none"> <li>• Continue to leverage our influence as investors to advocate for people, animals and the planet</li> </ul>	<ul data-bbox="1742 1268 2116 1468" style="list-style-type: none"> <li>• Number of shareholder resolutions supported in relation to human rights risks</li> <li>• Number of engagements and changes</li> <li>• Number of public policy submissions</li> </ul>

A close-up, high-resolution photograph of a person's eyes, looking downwards. The skin is fair and has a natural, slightly dewy texture. The eyelashes are dark and well-defined. The text 'About us and our approach to human rights' is overlaid in a white, serif font, centered over the bridge of the nose and the upper part of the eyes.

About us and  
our approach to  
human rights

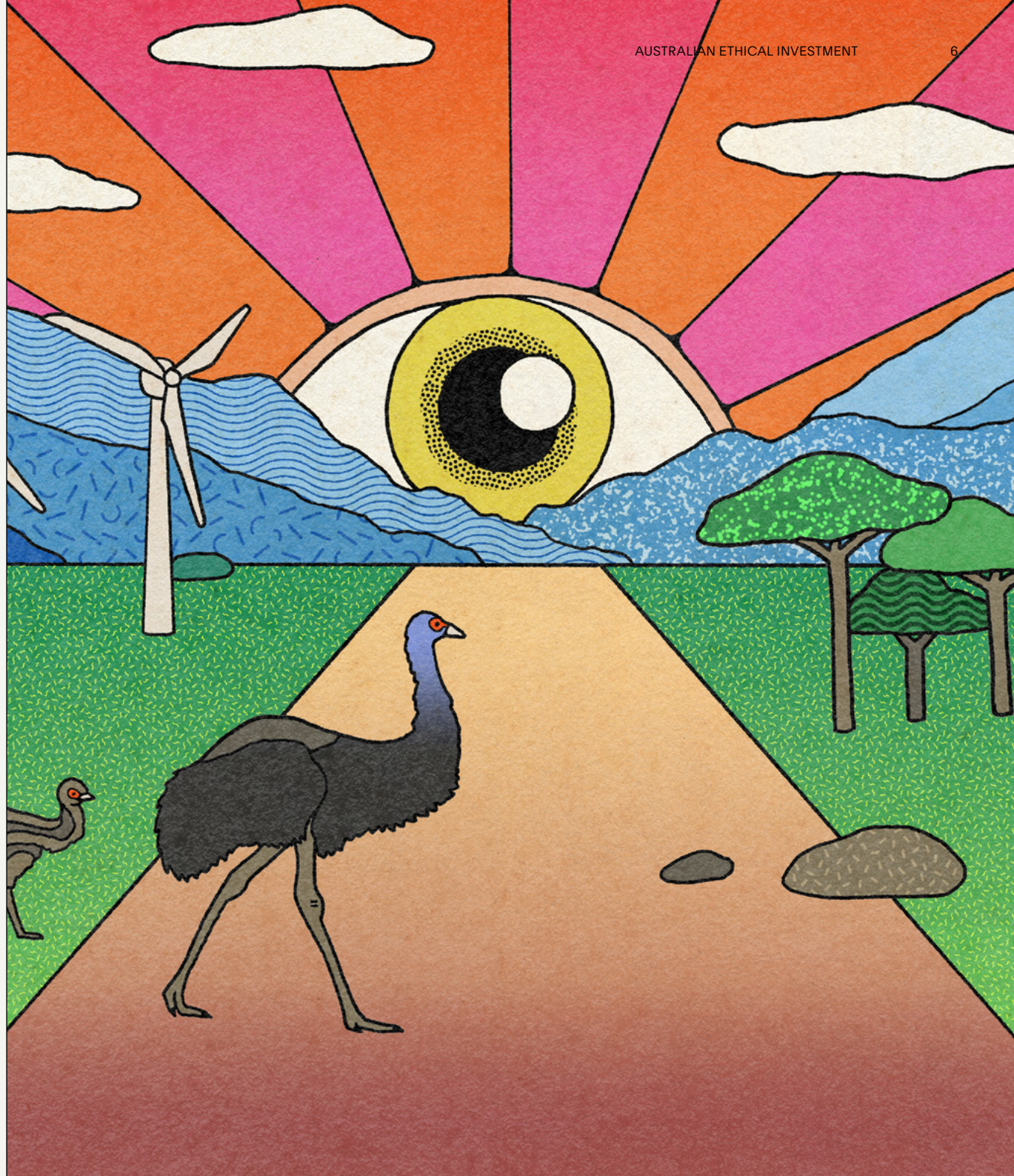
# Who we are

Australian Ethical Investment Ltd  
(ABN 47 003 188 930) ('Australian Ethical')  
is an Australian Public Company listed  
on the ASX.

We are one of Australia's leading ethical investment managers, providing super-annuation and managed investment products.<sup>1</sup> Since 1986, we have provided investors with wealth management products that align with their values and deliver strong returns. Australian Ethical is also certified as a B Corporation and was the first company listed on the ASX to receive the B Corporation certification.



<sup>1</sup> <https://www.australianethical.com.au/about/awards/>



# Our approach to human rights



Our investments and business activities are guided by the Australian Ethical Charter which is set out in the company constitution, shapes our ethical approach and underpins our culture and vision.

It directs that Australian Ethical:

will order its affairs so as to provide for and to support:

- (a) the development of workers' participation in the ownership and control of their work organisation and places;  
...
- (h) activities which contribute to human happiness, dignity and education;  
...
- (k) the alleviation of poverty in all its forms [and] will order its affairs so as to avoid activity which is considered to unnecessarily:
  - (ix) exploit people through the payment of low wages or the provision of poor working conditions; or
  - (x) discriminate by way of race, religion or sex in employment, marketing, or advertising practices; or
  - (xi) contribute to the inhibition of human rights generally.

Human rights are basic entitlements that belong to all people – regardless of who they are, what they look like, where they come from, what they think or believe or their abilities. Businesses have a responsibility to respect the human rights of all people in all aspects of how they do business.

The UN Guiding Principles on Business and Human Rights is a global standard of expected conduct to respect human rights for all business enterprises regardless of their size, sector, operational context, ownership and structure. It exists independently of countries' abilities and/or willingness to fulfil their own human rights obligations and it exists over and above compliance with national laws and regulations protecting human rights. Business responsibility for human rights and how it should be actioned is complex, but at a high level it requires businesses to:

- Avoid causing or contributing to adverse human rights impacts through their own activities, and address such impacts when they occur; and
- Seek to prevent or mitigate adverse human rights impacts that are directly linked to their operations, products or services by their business relationships, even if they have not contributed to those impacts.

These core obligations represent **"Business Responsibility for Human Rights"**.<sup>2</sup>

<sup>2</sup> More information at <https://www.ungpreporting.org/resources/the-ungps/>

Australian Ethical acknowledges this responsibility and commits to taking genuine actions to meet it. We expect our business partners to do the same. Australian Ethical's philosophy, as embodied in the Australian Ethical Charter, is that businesses should be a force for good, including with respect to protecting human rights and dignity.

Accordingly, we are committed to actively seeking to protect and promote human rights and to, where we can, influence others to do the same. We seek to do this through:

---

The investments we make on behalf of our members

---

Our advocacy including shareholder voting, company engagement and contribution to public policy

---

Our active participation in our investment industry

---

Our procurement

---

Our treatment of employees and contractors

---

The actions of our employees and contractors

---

The causes and organisations we support through the Australian Ethical Foundation

---

“Australian Ethical’s philosophy... is that businesses should be a force for good, including with respect to protecting human rights and dignity.”

Australian Ethical also acknowledges the impact of COVID-19 on operations and supply chains globally, as well as the likely increase of individuals at risk of entering into modern slavery as a result of the disruptions caused by the pandemic. Where relevant, we have kept the impact of COVID-19 in mind when assessing and engaging with our stakeholders (our case study on Doorstep Organics on page 24 is one example).

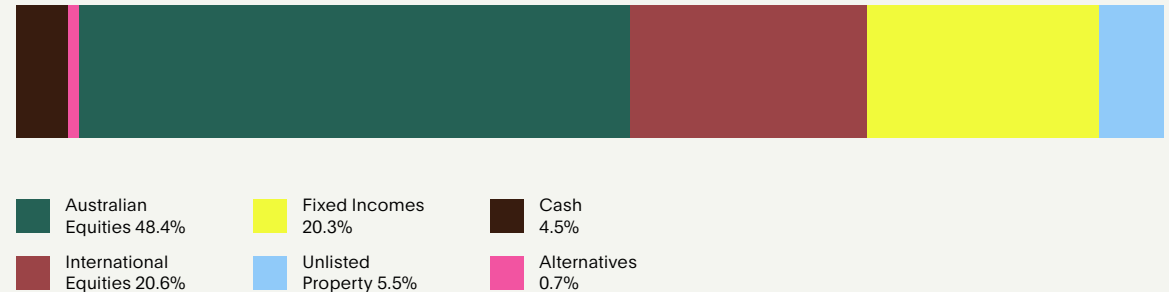


# Our structure, operations and supply chains

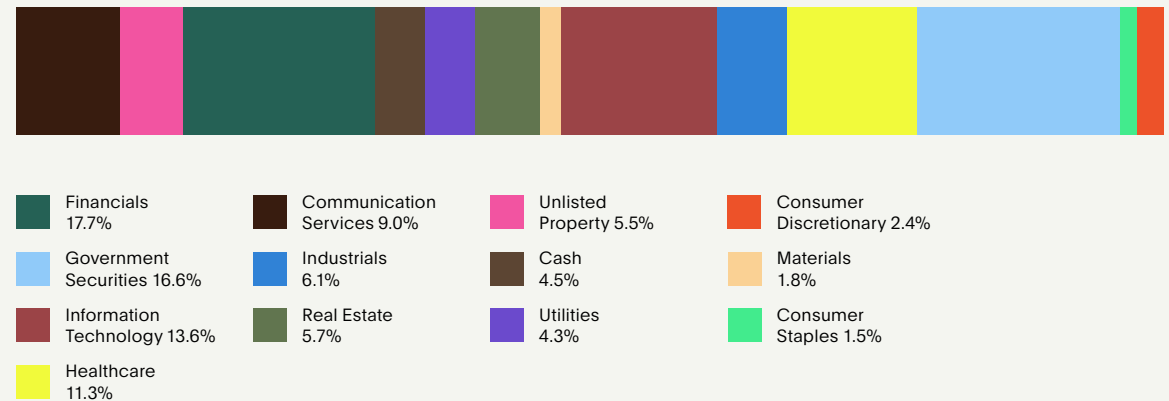
Australian Ethical is the investment manager and responsible entity for the Australian Ethical managed funds (8 managed investment schemes as at 30 June 2020). In addition, Australian Ethical has a wholly owned subsidiary, Australian Ethical Superannuation Pty Ltd (ABN 43 079 259 733) ('AES') which is the Trustee of the Australian Ethical Retail Superannuation Fund (ABN 49 633 667 743) ('Super Fund'). Australian Ethical is also the primary investment manager for the Super Fund.

As at 30 June 2020 we had 65 employees and managed \$4.05 billion for over 57,000 clients (\$1.33 billion in managed funds and \$2.72 billion in superannuation and pension funds).<sup>3</sup> Since then this has grown to over \$5 billion funds under management. We internally manage our investment in listed companies (both domestic and international) and fixed income investments. A small proportion of our funds are invested through external fund managers in real estate, infrastructure and venture capital.

## Our investments by asset type

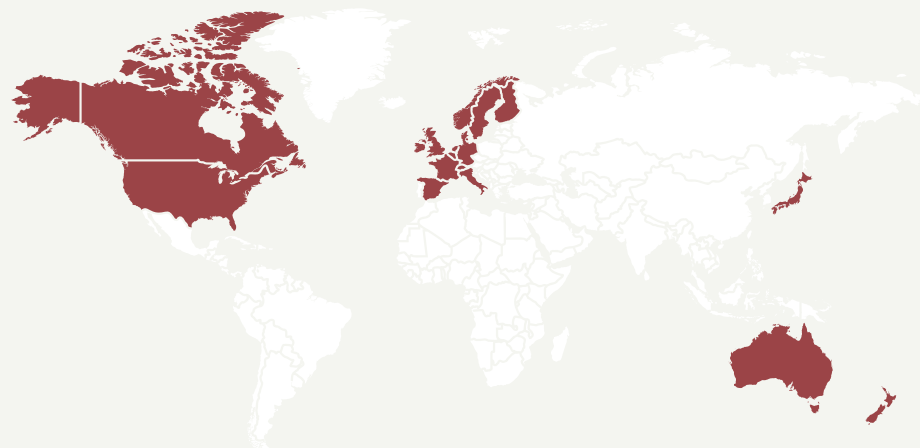


## Our assets by sector



<sup>3</sup> Pages 12, 13 Australian Ethical FY20 Shareholder Presentation

**Our investment portfolio by country**



<b>North America</b>	<b>14.7%</b>
Canada	1.3%
United States	13.4%

<b>Western Europe</b>	<b>4.8%</b>
Austria	0.1%
Denmark	0.1%
Finland	0.1%
France	1.1%
Germany	0.9%
Italy	0.2%
Netherlands	0.1%
Norway	0.2%
Spain	0.3%
Sweden	0.4%
Switzerland	0.5%
United Kingdom	0.9%

<b>Pacific Rim</b>	<b>80.5%</b>
Australia	71.9%
Hong Kong	0.4%
Japan	1.9%
New Zealand	6.0%
Singapore	0.3%

We also seek to leverage our position as an investor to advocate for people, animals and the planet. As an investor we use a number of tools at our disposal including shareholder resolutions (both for companies we invest in, and companies we have ruled out for investment where we use a nominal advocacy holding), direct engagements, collaborative engagements with other investors or non-governmental organisations, and submissions to government.

Australian Ethical is also the founder and sole member of the Australian Ethical Foundation Ltd ('the Foundation') (ABN 14 607 166 503503) which is a charity registered with the ACNC. Every year, as mandated by the Constitution of Australian Ethical, 10 per cent of our profits (after tax and before bonuses) is distributed to charitable organisations and social and environmental impact initiatives through the Foundation. In FY20, \$1.33 million was donated through the Foundation, funding a range of social and environmental issues through our Community Grants and Strategic Grants programs.<sup>4</sup> Several grant recipients are directly addressing human rights issues in Australia and overseas.

Our supply chain includes standard corporate and operational procurement such as marketing, IT and other office equipment, insurance broking services, customer relationship management or CRM software, property and building services and office food and beverages.

Types of procurement unique to our business activities include custodian services, managed fund and super-annuation administration services, ESG research services and proxy voting services.

In preparing this statement we have also considered the operations and supply chains of Australian Ethical's subsidiaries, Australian Ethical Superannuation Pty Ltd ('AES') and the Foundation. Our risk identification working group (described below) includes individuals involved in relevant activities for the Foundation and AES, and the Statement has also been reported to the AEI, AES and Foundation Boards for their consideration.

While the day-to-day screening and management of risks (including human rights and modern slavery risks) is undertaken by people in the respective parts of the business, all decisions are underpinned by our Australian Ethical Charter, described under *Our approach to Human Rights*. The Board is responsible for protecting and furthering the aims of the Australian Ethical Charter, as well as approving the appointment of material service providers and having oversight of the performance of, and reporting provided by, each provider.<sup>5</sup> Australian Ethical will continue to explore opportunities to strengthen the governance of modern slavery and other human rights-related risks in the context of our existing governance, management and compliance processes.

<sup>4</sup> Page 36 Australian Ethical 2020 Annual Report

<sup>5</sup> Page 3 Australian Ethical Investment Board Charter

# Risks of modern slavery practices in our operations and supply chains

# Identifying risks

To identify the risks of modern slavery practices in our operations and supply chains, and actions we can take in response to these risks, we convened a working group that included people from each of the following parts of the business:

---

**Ethics Research** (responsible for reviewing all our investments for alignment with the Australian Ethical Charter)

---

**Customer** (responsible for functions including customer communication and marketing)

---

**People and Culture** (responsible for recruitment, the culture and performance of our workforce and general office procurement)

---

**The Foundation** (responsible for selecting recipients of our charitable and social and environmental impact funding)

---

**Legal** (relevantly responsible for reviewing contracts with suppliers)

---



“The working group considered the risk that we are *causing* or *contributing to* human rights harm to be low.”



The working group also consulted with people from the Projects, Finance and Risk teams.

The working group considered our business operations, stakeholders and external relationships. The working group considered the risk that we are *causing* or *contributing to* human rights harm (including modern slavery) to be low. The working group identified the following moderate and high risks:

- We may be *directly linked* to modern slavery and other human rights harm through our **investments**
- We may be *directly linked* to modern slavery and other human rights harm through our **procurement**
- We may be *directly linked* to modern slavery and other human rights harm through our support of **charities and social and environmental impact initiatives**.

These conclusions were also shared with the Board and the Senior Management Team.

Day-to-day responsibility for assessing and managing modern slavery risks and impacts is shared across the business:

- Head of Ethics Research for risks and impacts related to our investment activities
- Heads of business units for procurement undertaken by those units
- People and Culture Manager for recruitment and the culture and performance of our workforce
- Head of Foundation for risks in our Community Grants and Strategic Grants programs.

## Investments

As at 30 June 2020, we were invested in about 400 entities. Because of the application of the Australian Ethical Charter, we tend to be underweight (relative to the benchmark) in sectors that are high risk for human rights harm, including modern slavery. For example:

- We are underweight in the mining sector. We have only two investments in this sector: Pilbara Minerals and Orocobre. They are Australian lithium miners with operations in Australia and Argentina. We invest in them because lithium will play an important role in enabling the transition from fossil fuel power to renewables.
- We are underweight in discretionary consumables, like clothing and consumer electronics, as well as agriculture, food processing/manufacturing and food retailing. We do not rule out investment in these sectors but in applying the Australian Ethical Charter, we have criteria and performance standards which result in many companies in these sectors being screened out.

Notwithstanding our comparatively lower risk exposure and our screening processes for human rights harm, we recognise that there will inevitably be human rights breaches including modern slavery in some of the operations and supply chains of the hundreds of entities we invest in. It is not possible for companies to guarantee that breaches will not occur, and it is not possible for us to have oversight over the operations and supply chains of all the entities we invest in.

## Level of risk for each part of our business

---

### All parts of our business

Low risk of Australian Ethical causing or contributing to human rights harm (including modern slavery).

---

### Investments

Moderate to high risk of Australian Ethical being directly linked to human rights harm (including modern slavery) occurring in the operations and supply chains of investee companies.

---

### Procurement

Moderate to high risk of Australian Ethical being directly linked to human rights harm (including modern slavery) through the operations of our direct suppliers and their own supply chains.

---

### Support of charities and social impact initiatives

Low to moderate risk of Australian Ethical being directly linked to human rights harm (including modern slavery) through the operations and supply chains of the organisations we support through the Foundation.

---

### Staff

Low risk of Australian Ethical causing, contributing to or being directly linked to human rights harm (including modern slavery) given nature of workforce (educated and skilled).

---

### Members and Shareholders

Low risk of Australian Ethical being directly linked to human rights harm (including modern slavery) in relation to our members or shareholders. We do not consider that we are directly linked to their actions.

---



### Procurement

During the reporting period, we procured goods and services from over 800 suppliers. Most of these suppliers are providers of professional services considered to be low risk for modern slavery. For example, providers of insurance, legal, marketing, public relations, audit, recruitment, managed fund and superannuation administration and custodian services. However around 5% (by number) are in, or sourced from, sectors that are considered high risk for modern slavery such as IT and other electronic equipment, food and beverage, and office cleaning providers. We have limited oversight of the operations and supply chains of these providers. Mercer (superannuation administrator) and Metlife (insurer) are significant suppliers for AES but are considered to be low risk from a modern slavery perspective.

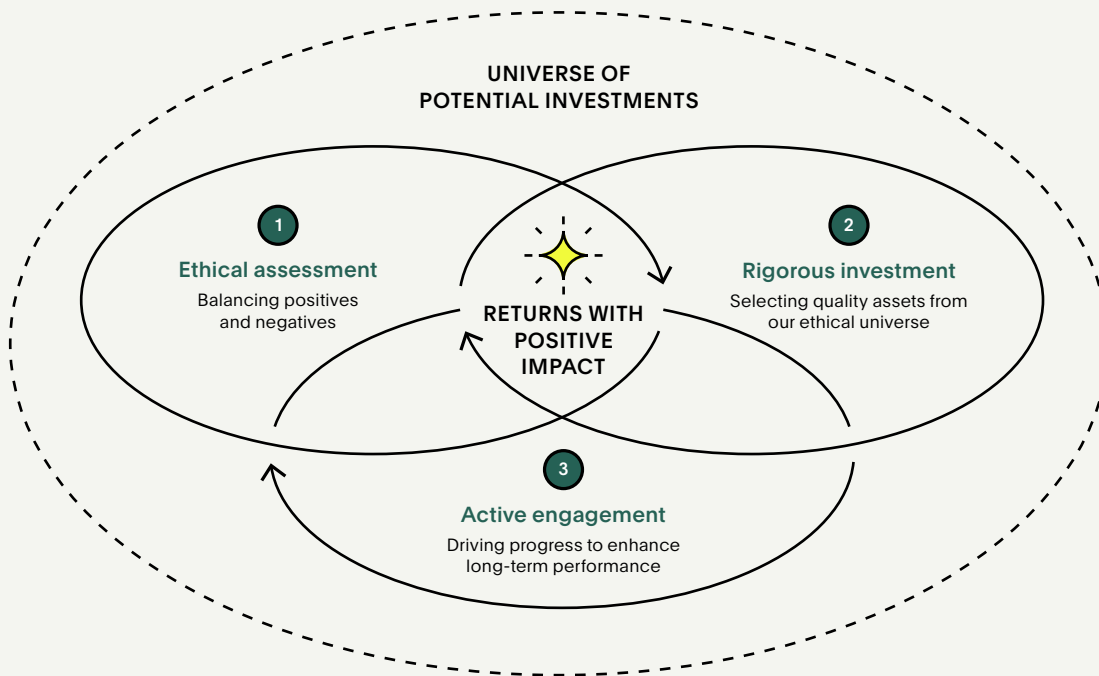
### Support of charities and social and environmental impact initiatives

During the reporting period, we supported 42 charities working on a range of social and environmental initiatives, both in Australia and overseas. These organisations may also unwittingly have modern slavery in their operations, particularly if operating overseas in high risk countries and working directly with children or using a vulnerable workforce. We have reasonable oversight of the operations of these organisations because of the close relationships we build with recipients of Foundation grants. The charities we work with have a strong commitment to positive social change and subsequently we believe are low risk for modern slavery issues. We have implemented a series of actions to mitigate any issues that may be present and to educate and raise awareness for charities on the risk of modern slavery within their activities.

# Actions taken to assess and address modern slavery risks



# Investments



## Our process for assessing investments

All our investments are assessed by our Ethics Research team for alignment with the Australian Ethical Charter. If a potential investment is assessed to be aligned with the Australian Ethical Charter, it forms part of the investable universe which our funds may invest in. Companies within the investable universe are reassessed by the Ethics Research team periodically. If an actual or potential investment is assessed to not be aligned with the Australian Ethical Charter, then we cannot invest. The assessment by the Ethics Research team does not consider the financial characteristics of the investment opportunity (such as past or prospective financial performance or value). Financial factors are considered independently by our Investment team (in relation to those investments that have passed the ethics screen).

The principles of the Australian Ethical Charter are applied by the Ethics Research team using a series of ethical frameworks and policies. New and revised frameworks and policies are approved by our Chief Investment Officer and Head of Ethics Research. The Board of directors has oversight of our ethical research process with quarterly reporting to the Board of changes to frameworks and critical ethical issues.

Our Ethics Research team monitors existing and emerging ethical issues and risks (including those relating to human rights) using diverse company, industry, government, responsible investment, scientific, civil society and news sources. There are also occasions where we are alerted to issues by our members and social media followers. The Ethics Research team will assess whether new information or developments require review of our existing ethical assessments, frameworks or policies.

We have a human rights framework that guides the application of the Australian Ethical Charter to companies operating in countries with oppressive regimes, or where there is evidence of human rights abuses. We also have ethical frameworks for different industry sectors, and some address specific action we expect companies to be taking to protect against adverse human rights impacts in their operations and supply chains.

For example, when we assessed investment in Australian lithium mining companies, we looked at the impacts of each company's practices on people, animals and the environment including the protection of the rights of local indigenous and other communities, as well as health and safety management in both mining and processing. We screen out companies in the electronics and clothing sectors where we are concerned they are not doing enough to address the risk of human rights harm in their supply chains.

## Industry collaboration

“We are a member of the Responsible Investment Association Australasia’s (RIAA) Human Rights Working Group. The RIAA Human Rights Working Group is a forum where investors and other businesses operating within the responsible investment sector share and discuss approaches to addressing human rights risks. The RIAA Human Rights Working Group also seeks to build relationships with civil society groups.”



## Actions taken during the reporting period

### Improving our investment assessment process

Our current human rights framework guides the application of the Australian Ethical Charter, focusing on companies operating in countries with oppressive regimes, or where there is evidence of human rights abuses. Given the prevalence and nature of modern slavery and other forms of human rights harm, we decided the approach set out in our existing human rights framework was not enough.

During the reporting period we progressed a new human rights framework to assess companies for alignment with the human rights elements of the Australian Ethical Charter. It is important that we evolve our approach for assessing companies’ human rights performance given:

1. The persistence of modern slavery all around the world including in countries like Australia
2. Modern slavery is often hidden and so may exist undetected within the operations and supply chains of companies
3. A growing focus on companies’ human rights influence and responsibility has increased the information and tools available for companies and investors to assess and manage their human rights impacts.

While not yet finalised, our new approach informed our company assessments during the year, and is based on the following principles:

- 
1. We will avoid investment in companies that are not making genuine efforts to discharge their Business Responsibility for Human Rights.
- 
2. A company will be considered to not be meeting this requirement if:
    - 2.1. The company's risk management efforts fall below our expectations of the company given the company's size and risk of exposure to human rights breaches. Risk of exposure is determined by looking at several factors including industry sector and location of operations.
- 
- 2.2. There is evidence of a company directly causing or contributing to adverse human rights impacts. For example, evidence of a company exploiting vulnerable workers; taking or claiming ownership of natural resources without free prior and informed consent of traditional owners or inhabitants; knowingly providing products or services to a third party that supports that party's abuse of human rights; acting against human rights defenders; or lobbying against human rights protections.
- 
- 2.3. The company fails to respond appropriately to an identified human rights breach in its operations or supply chains.
- 

The fact that identified human rights breaches have been connected to a company is not necessarily indicative that the company is not taking seriously its Business Responsibility for Human Rights. One of the goals of modern slavery reporting is for companies to seek out, identify, disclose and respond to cases of modern slavery in their operations and supply chain. We do not want to penalise companies that are doing this. Conversely, the fact no human rights breaches have been detected or reported in connection with a company is not necessarily indicative that the company is taking seriously its Business Responsibility for Human Rights.

During the reporting period we have been testing the application of the new framework and looking at ways to include data provided by ESG researchers, as well as credible benchmarks and ratings, in some parts of the assessment process.

### Company engagements

We tested the application of the human rights framework as we were conducting our periodic ethical reviews of companies. Where we had concerns about a company, we generally sought to engage with them and ask targeted questions about their approach to human rights. During the reporting period we engaged with 17 companies in relation to human rights.

## CASE STUDY: COSTA GROUP

In February 2020, it came to light that over 70 people who were recruited to pick berries for horticulture company Costa Group were living in a five-bedroom house in Tasmania, in 'slum like' conditions, and each paying up to \$130 per week in rent. The workers were not contracted by Costa directly but by a labour hire company which was responsible for providing the accommodation.

Media reports stated that Costa had issued a breach-of-contract notice with the labour supplier and apologised to the workers. We engaged with Costa to obtain more information about how Costa was responding. Specifically, we asked Costa whether it was:

- reviewing its due diligence of labour hire companies to understand the reason this issue had not been identified by Costa
- reviewing its grievance mechanism to identify the reason affected workers did not report the issue to Costa
- considering working with relevant NGOs to identify other ways to give vulnerable workers a safe channel for expressing concerns
- reassessing its relationship with the labour hire company or working with them to effect change in their operations
- providing a remedy to the affected workers.

Costa confirmed it does undertake due diligence, including auditing, of its labour hire companies to ensure they are paying the workers their legal entitlements and that all services they are required to provide under the Seasonal Worker Scheme, including accommodation, are of an acceptable standard. Costa acknowledged there was a failure in its processes and said it was addressing this by putting in place a requirement that inspections are undertaken not just at the start of the fruit picking season, but also at regular intervals during the season.

Costa also took steps to make it clear to all workers that if they have any concerns about their working and living conditions, they can raise them with Costa without fear of retribution from Costa or their direct employer. Costa confirmed that outside its standard grievance mechanism it does explore alternative channels for obtaining information from workers about their conditions, such as through local churches and sporting clubs. However, it acknowledged that perhaps this did not happen to the same extent in Tasmania as it does in Costa's other locations.

Costa was also reassessing its relationship with the labour hire company (subject to following the due process provisions in its contract with them).

Finally, Costa took steps to ensure that the workers were subsequently provided acceptable accommodation.

Overall, we think Costa demonstrated it does make genuine efforts to discharge its Business Responsibility for Human Rights. We hope that going forward Costa's improved processes will mean that it is more likely to detect these issues directly and earlier.

*Could Costa have done more?* Yes, we think so. We think Costa could improve its approach to providing a remedy by ensuring the people affected were refunded the rent they paid for the sub-standard accommodation, as part of compensating them for the harm that was already done. But we also recognise that most companies must learn how to respond better to human rights issues – as we are – and change takes time.

## Company screening

Our ethical screening process typically rules out over 50 percent of listed companies in the share markets we invest in. When assessing a company's management of human rights impacts, we look for opportunities to engage and positively influence the company to change, rather than rule it out for investment.

During the year we ruled out more than 10 higher risk companies due to concerns that they were not discharging their Business Responsibility for Human Rights. However, we do not have the resources to engage with every company and we prioritise engagements based on the severity of human rights risk and our ability to influence the company.

“During the year we ruled out more than 10 higher risk companies.”

**CASE STUDY:  
BEACON LIGHTING**

Beacon Lighting Group is a specialist retailer of lighting, ceiling fans and light globes. At the time we were assessing them, the company did not provide any information about its supply chain but previous research we commissioned suggested at least some of its products are manufactured in China. Electronics from China are on the US government's list of goods potentially 'produced by child labour or forced labour'. The company had no publicly available human rights policy and provided no information publicly about human rights risks and management.

In September 2019 we asked Beacon for information about its policies and practices to address the risk of human rights issues in its supply chain. Beacon responded that it cannot disclose this information. Accordingly, we did not have any evidence that the company takes its Business Responsibility for Human Rights seriously.

In February 2020 we wrote to the company to advise them of our conclusion that the company is not investable under the Australian Ethical Charter, but that we would look out for their reporting under the *Modern Slavery Act*.

## Going forward

Our proposed next steps for the current year to address the risk that we are directly connected to human rights harm through our investments include:

---

Finalising our updated human rights framework

---

Using external ESG research data to assess whether companies satisfy certain aspects of the requirements of the human rights framework

---

Improving tracking of our assessments and engagements

---

# Procurement



## **Our process for assessing suppliers**

Large service providers (those paid over \$50,000 per year) are generally screened by the Ethics Research team to determine their alignment with the Australian Ethical Charter. For example, we have looked at offshore outsourcing arrangements for some of our IT and administration service providers. We also seek to preference suppliers that are certified B Corps or (where relevant) Fairtrade. However, outside of large procurements, we don't have explicit guidelines or processes to assess the way suppliers manage their human rights responsibilities.

We recognise that there can still be significant risk of human rights harm from both small and large procurements, not least because the risk of human rights harm depends less on contract value and more on factors like the nature of the goods or services acquired and relevant supply chains. However, given the types of things we procure as an investment manager, at this stage we use contract value as the trigger for our more formal human rights assessment process, including because higher contract values often indicate higher capacity for influence.

## Actions taken during the reporting period

### Improving our supplier assessment and selection process

During the reporting period, people from Ethics Research, Legal, Finance, People and Culture and Projects worked together to better understand how procurement decisions are made and to develop a plan for improving our processes. The main challenge we faced is that a large variety of procurement decisions are made across the business with no one person or team responsible for assessing alignment with the Australian Ethical Charter (other than in the case of major suppliers). We developed an action plan, described on the next page to address this challenge.

One of the benefits of this consultation is that people became more aware about the prevalence of modern slavery.

We also developed template modern slavery clauses and have started rolling them out, with the aim of including them in supplier contracts in FY21. We recognise that on their own, contractual clauses of this nature can have limited effectiveness. Further, we are not always able to negotiate terms and conditions with our suppliers. However, where we can use them, the clauses are an important part of communicating to suppliers our commitment to addressing modern slavery and provide a basis on which to terminate supplier contracts in circumstances where it comes to light that a supplier is involved in modern slavery.

During the reporting period we began engaging with certain suppliers we identified as either being high risk or in a position to influence better business practices, and included questions relating to modern slavery in our request for tender documents.

“One of the benefits of this consultation is that people became more aware about the prevalence of modern slavery.”

## CASE STUDY: DOORSTOP ORGANICS

We use Doorstep Organics to provide food for the office kitchen, including fruit, condiments and bread. Agricultural supply chains are high risk from a human rights perspective. In Australia the risk is exacerbated because some labour hire companies operating in the sector exploit migrant workers who may not speak English and do not understand their rights, and who are often working in very remote locations.

Doorstep Organics sources products that are certified by the Australian Certified Organic Standard and the company relies on this as a guarantee that workers in its supply chain are not exploited. However, our assessment is that the standard is primarily focussed on environmental impacts. It contains few requirements related to human rights issues which in our view are not comprehensive and not well enforced. For example, audits are regular but announced, whereas unannounced audits are considered best practice in the human rights context.

We raised these concerns with Doorstep Organics in June 2020. As a food delivery provider (to both business and residential customers) demand for Doorstep Organics soared because of coronavirus lockdowns, while at the same time it needed to introduce new operational processes and manage supply chain disruptions. The business was under a lot of pressure and so understandably could not commit to any immediate changes to address the issues we raised. However, our engagement put the issue on the company's radar and sparked several internal discussions. We decided to give Doorstep Organics more time to consider our concerns and propose to resume the conversation when it is under less pressure.

## Going forward

We developed the following action plan for improving our processes to assess whether procurement decisions are aligned with the Australian Ethical Charter:

---

Develop internal guidelines to help people across the business identify where there is a risk the company may not be aligned with the Australian Ethical Charter

---

Educate people across the business about the guidelines

---

Set up internal processes to monitor application of the guidelines

---



# Foundation

## **Our process for assessing charities and social and environmental impact initiatives**

All charities that receive a donation from the Foundation are reviewed against our Impact Assessment Framework. The framework assesses whether the charities we support have, among other things:

- Strong governance
- An experienced team
- A clear impact methodology
- Effective and efficient deployment of funds
- Robust impact measurement
- A meaningful collaborative approach with partner groups.

The review process also draws information from each charity's public reporting documentation, such as their annual impact and financial reports, as well as compliance with national regulators, such as the Australian Charities and Non-Profit Commission. Throughout the review process, we assess how professional a charity is and how its values and commitment to an issue are reflected in its work, staffing and outcomes. A controversies search and review process are also conducted on all charities prior to funding. However, we do recognise there is a limit to the extent we can unearth and understand a charity's entire operational process and its connections with other groups and people, particularly in relation to any human rights abuses. As such, we have implemented some actions to help mitigate any issues and to raise awareness of modern slavery risks for charities. We see opportunities for us both to educate and to learn about better human rights risk management through our interaction with charities.



# Actions taken during the reporting period

## Memorandum of Understanding Clauses

Every charity that receives financial support from the Foundation agrees to a Memorandum of Understanding (MOU), that stipulates a set of terms for funding. Notably, this includes reporting standards on the work conducted and the outcomes and impacts achieved. During this reporting period, for all new grantees, a modern slavery clause was included in all MOU's. The clause asks charities to confirm they're in compliance with our modern slavery and human trafficking due diligence requirements. It also provides a voluntary option for charities to report to the Foundation on modern slavery risks, alongside their impact reporting. The clause, and subsequent discussions and engagements pertaining to it, has served to help charities evaluate the modern slavery risks that may be present in their operations, which on the whole are considered low risk.

## Community Grants Application Form

Every year the Foundation runs a community grants funding round, open to Australian based charities with activities in Australia or overseas. As a part of the application eligibility criteria in 2020, charities had to confirm they were not committing or complicit in any modern slavery or human trafficking issues. In 2020, there were over 400 charities who applied for funding.

## Direct funding of human rights charities

Since 2018, we have been directly funding Human Rights Watch, a global leader in human rights investigative research and advocacy campaigns. Its work is often exposing modern slavery and human trafficking abuses in supply chains around the globe. Our funding for Human Rights Watch work continued in 2020.



## Going forward

The Foundation will continue to include modern slavery clauses and declarations in all funding arrangements with charities. Additionally, we will continue to raise awareness of modern slavery risks with charities. We will also continue our funding towards leading charities addressing human rights issues in Australia and overseas.

Furthermore, we will look to engage more deeply with and leverage expert human rights knowledge and insights from the charities we work with. We endeavour to incorporate these insights into future funding efforts, as well as our ethics screening processes relating to human rights issues.

# Remediation and grievance mechanisms

Australian Ethical has assessed the risk of being *directly linked* to human rights harm (including modern slavery) to be higher than the risk of *causing or contributing to* human rights harm. While the responsibility of remediating any adverse impacts falls to the entities that *cause or contribute* to them, we acknowledge we can still play a role in the remediation process. Where we discover we are directly linked to modern slavery or other human rights harm, Australian Ethical will look to leverage our business relationship with the entity to prevent further harm or future recurrences. If we consider engagement to be unsuccessful and the modern slavery or other human rights harm is not appropriately remediated, we will consider exiting the business relationship.

Our Whistleblowing Policy outlines how directors, employees, former employees, contractors and service providers and their employees can disclose instances of reportable conduct, and the support and protections available.<sup>6</sup> The policy is available on our website and contains contact information for individuals wishing to disclose reportable conduct, including concerns related to modern slavery or other human rights issues.

<sup>6</sup> [Australian Ethical Whistleblowing Policy](#)



# Effectiveness

Going forward, we will explore being able to measure the effectiveness of our actions to address modern slavery in the following ways:

## Investments

- Tracking how many companies are assessed for human rights risk, engaged with in relation to human rights, or ruled out for investment because of human rights concerns, during the reporting period.
- Tracking how many of those engagements resulted in meaningful change.

## Procurements

- Tracking how many suppliers are assessed against the guidelines during the reporting period, were engaged with in relation to human rights, or were ruled out as a provider because of human rights concerns, during the reporting period.
- Tracking how many of the engagements related to human rights concerns resulted in meaningful change.
- Tracking how many contracts included modern slavery clauses, and any instances of when those clauses were enforced.

## Foundation

- Tracking how many charity assessments raised modern slavery concerns, and their severity.
- Tracking how many charities engaged with our modern slavery due diligence requirements (through community grants and MOUs).
- Continuing to track charities funded and dollars donated directly to supporting the advancement of human rights, including safeguarding against modern slavery and human trafficking.



# Our advocacy

“We seek to leverage our influence as investors to advocate for people, animals and the planet using the different tools at our disposal including

- Voting
- Shareholder resolutions
- Direct engagement
- Collaborative engagements with other investors or NGOs
- Divestment
- and submissions to government.”

For example, in 2017 we made a submission to the Australian Government supporting the introduction of a Modern Slavery Act in Australia that mandated reporting in relation to modern slavery and the recommendations of the *Inquiry into the Labour Hire Industry and Insecure Work*. In 2018, we spoke at the “Kids off Nauru” rally in Canberra. Other parts of the business also engage in advocacy and engagement. For example, our Customer team will often seek to leverage our ethically aligned customer base and social media followers in support of issues affecting people, animals and the planet.



During the reporting period we engaged in the following advocacy on issues relating to human rights:

---

We don't invest in fossil fuel company Origin Energy, but we used a nominal advocacy holding of Origin shares to support four shareholder resolutions (arranged by the Australasian Centre for Corporate Responsibility) including one calling for the company to review the process for informed consent from native title holders for Origin's unconventional gas exploration in the Northern Territory.

---

We engaged with insurers QBE, IAG, Suncorp and Allianz in relation to the insurance industry's support of a NSW government proposal to raise the walls of the Warragamba Dam. The raising of the dam walls is intended to mitigate flood risk downstream, but will mean sites sacred to the Gundungarra people, who already lost so many of their sacred sites when the dam was first built, will be inundated during high rainfall events. We are concerned that the insurance companies supporting this proposal (either directly or indirectly through their industry body, the Insurance Council of Australia) have not properly considered this and other negative impacts. After the reporting period several insurers and the Insurance Council have dropped their support for the proposal. They have encouraged investigation of alternative strategies, including strategies we expect to be lower impact and more effective at managing flood risk.

---

Together with other investors, we supported letters to 95 companies that received the lowest score on human rights due diligence in the latest Corporate Human Rights Benchmark.<sup>7</sup>

---

We supported a collaborative investor engagement with apparel company Gildan, urging the company to support vulnerable workers in its supply chain and help them survive the economic disruption caused by Covid-19.

---

We supported a statement on living income and living wages that was sent to the CEOs and Chairs of more than 40 food and food retailing companies globally.

---

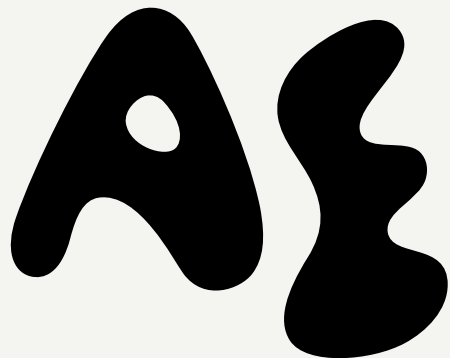
<sup>7</sup> <https://www.corporatebenchmark.org/>

# Commitment

This statement constitutes our voluntary Modern Slavery Statement for the financial year ending 30 June 2020, in accordance with the Australian Modern Slavery Act (2018). The Statement has been approved by the Board and is issued on behalf of Australian Ethical Investment by John McMurdo, Chief Executive Officer and Managing Director on 31 March 2021, and has been submitted to the Australian Border Force as a voluntary statement.



John McMurdo  
Chief Executive Officer and Managing Director  
31st March 2021



Report image credits  
Cover: Papaioannou Kostas, Unsplash  
Page 3: Heiko Otto, Unsplash  
Page 5: Maria Orlova, Pexels  
Page 7: Jack Redgate, Pexels  
Page 12: CottonBro, Pexels  
Page 13: Stocksy  
Page 15: Kristian Angelo, Unsplash  
Page 22: Stocksy  
Page 25: Elianne Dipp, Pexels  
Page 27: Stocksy  
Page 28: Ono Kosuki, Pexels