Rathbones Group Plc

Votes Against Slavery: investor action on supply chain transparency

March 2022

Rathbones
Look forward

Introduction

At Rathbones, we see it as our responsibility to be good, long-term stewards of our clients' wealth, as outlined in our responsible investment policy. It is in the best interests of our clients that the companies we invest in adopt best practice in managing environmental, social and governance (ESG) risks. This provides each company with a framework for managing its operations in the long-term interests of its shareholders and wider society.

It is important that we maintain a dialogue with the companies we invest in - to use our voice, on behalf of our clients, to influence companies towards better, more sustainable long-term performance. We believe that dialogue can deliver benefits to our clients in a number of ways, not least in its ability to gain the disclosure of better information on ESG risks. We also note academic evidence that engagement with companies on ESG issues can lead to better investment outcomes.

As a group we aspire to meet the requirements of the UK's Stewardship Code, principle 4 of which calls on investors to 'identify and respond to market-wide and systemic risks to promote a well-functioning financial system'. We consider modern slavery to be the widest ranging and significant social risk to our portfolios.

Votes Against Slavery (VAS) was set up in 2019 to coordinate the response of the investment community on the issue and to provide the necessary accountability for compliance with the UK Modern Slavery Act.

2021 delivered a much broader collaboration in terms of the number of supporting investors, but also the number of target companies engaged with. The ongoing effects of the COVID-19 pandemic contributed to the significant increase in non-compliance, as several target companies furloughed the employees responsible for reporting. We also noticed an uplift in the number of outdated statements, signalling that some companies saw reporting as a 'one-off' box tick event. We were pleased to report that by the year end, 59 out of the 61 target companies were compliant and that the remaining two companies became compliant in January 2022.

The project shows the benefits of a collaborative approach between business, government and the investment community. We have partnered with other organisations that are committed to responsible investment, sustainable development and social justice. Collaboration with these organisations has increased our ability to drive change. We believe that it is only through such an approach that we can deliver the systemic change necessary to eradicate modern slavery.

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Project leads

Matt Crossman
Stewardship Director

Matt Crossman is the stewardship director for Rathbones, responsible for oversight of Rathbones' stewardship policy, proxy voting and engagement on governance issues.

He is a graduate of the University of Bristol where he studied law, with a particular interest in the administration of environmental law, and also has postgraduate qualifications in sustainable development theory and practice. He has over 18 years' experience in responsible investment theory and practice.

Archie Pearson
ESG and Voting Analyst

Archie joined Rathbones in 2018 as a voting and governance analyst. He supports the stewardship team, ensuring informed proxy voting and corporate engagement activities as part of Rathbones' stewardship policies, and helping to promote the integration of ESG within the investment process.

Prior to Rathbones, Archie worked for Oikocredit in their UK & Ireland office. During his time there, he worked as a client executive, tasked with generating capital from individuals and institutions. Archie graduated in 2015 from the University of Edinburgh with a Masters in Theology.

Background

Modern slavery is defined by the UK Government as the recruitment, movement, harbouring or receiving of children, women or men through the use of force, coercion, abuse of vulnerability, deception or other means for the purpose of exploitation. Modern slavery is a pervasive risk to society and supply chains, affecting millions of people globally. It is to be understood as an illicit trade which affects all sectors of the economy, and is therefore considered to be a systemic risk with impacts on our portfolios.

- At any given time in 2016, an estimated 40.3 million people were in modern slavery, including 24.9 million in forced labour and 15.4 million in forced marriage.
- This means there were 5.4 victims of modern slavery for every 1,000 people in the world.
- 1 in 4 victims of modern slavery are children.
- Out of the 24.9 million people trapped in forced labour, 16 million were exploited in the private sector such as domestic work, construction or agriculture; 4.8 million in forced sexual exploitation, and 4 million in forced labour imposed by state authorities.
- Women and girls are disproportionately affected by forced labour, accounting for 99% of victims in the commercial sex industry, and 58% in other sectors[1]

Business has a huge role to play in eradicating modern slavery, and the UK's landmark 2015 Modern Slavery Act sought to bring the business community into the fight. In a landmark piece of legislation, section 54 (S54) of the Act created a duty for all companies to investigate and report on modern slavery in their supply chains. However, despite good intentions, the S54 modern slavery reporting regime was left lacking in specific enforcement powers. After reviewing the implementation of the act in early 2020, it was clear that compliance was patchy and lacking in depth.

In this vacuum of enforcement, investors have a crucial role in advancing protection for fundamental human rights. Having previously had success on an individual basis, in 2021 Rathbones convened an investor collaboration with £7.8 trillion in assets under management to challenge FTSE 350 companies that had failed to meet the reporting requirements of S54 of the Modern Slavery Act 2015.

'Votes Against Slavery' is now in its third year.

[1]https://www.ilo.org/global/publications/books/WCMS_575479/lang--en/index.htm

Victim case study

As long-term investors, we have an obligation to hold our investee companies to account when they fall short of the reporting requirements of the Act. This is because modern slavery represents an external risk to a company's reputation and operations. It is a systemic societal challenge facing all companies globally. However, it can sometimes be hard to imagine the reality of modern slavery and how it can operate beneath the surface of modern society.

We have provided a real-life example of the types of activities which can surface in a company's supply chain and which represent considerable reputational, operational and legal risks to shareholders. These are the types of illegal activities that we are trying to address through this engagement.

We are grateful to the Welsh government, supported by BAWSO - an all-Wales voluntary organisation, providing specialist services to victims and people affected or at risk of by domestic abuse and all forms of violence; for supplying the following case study.

Case study

Jack lived with his long-term partner, he is very hardworking and made a good living. Unfortunately his relationship with his partner broke down and Jack took the break up very badly, causing him to suffer from mental health issues. He suffered from depression and anxiety and soon started to lose focus and things got from bad to worse. At first he lost his job, then his flat and very soon found himself homeless. While on the streets, he was approached by a male who took sympathy on Jack and offered him work and a place to stay. Without hesitation he took on the offer and was informed that he would be working as a driver and a labourer and that he would be living on site in a caravan provided by them. Jack wasn't provided with a written contract, it was all agreed verbally.

At first things were fine and he loved the work he was doing, but it wasn't long until he started to notice that the work load was increasing and he was made to work longer hours without any increase in his pay. If Jack asked for more money he would be verbally abused or told he wasn't doing a good enough job. It wasn't long before the verbal abuse turned physical and Jack found himself in a difficult position and felt very vulnerable. Jack was controlled by his employers, his workload now included working on a construction site and being on-call 24 hours a day. His physical work was anything up to 10-12 hours a day, seven days a week.

As the abuse increased the pay started to decrease and eventually stopped. Jack wanted to leave, but felt trapped. He worked a further three years and then one day he decided he could no longer work in these conditions so he planned his escape. Shortly after this, Jack fell ill and was admitted to hospital. Jack's employer's found out and waited for him to be discharged, then abducted him from outside of the hospital and took him back to the caravan. Once Jack was fully recovered he was back working but this this time felt even more vulnerable and trapped without any hope of being free from his situation.

Theory of change

'Votes Against Slavery' calls on members to use their strongest power of censure - voting against the report and accounts, an aspect of stewardship which is under-used. We believe we were the first investor coalition to focus narrowly on general AGM voting with regards to a social risk when the project was launched in 2019.

AGM voting; The forgotten weapon

We theorised that investors wield greater power than they realise through engaging on standard AGM outcomes. We could have taken the approach of co-filing specific and tailored resolutions at the target companies, at a cost of significant time and effort. Instead, we continue to make creative use of our existing powers, which in turn highlights that ESG risks are not 'special interests' but are instead fundamental to a businesses' purpose and licence to operate. That is why the investor group continues to focus on opposing the approval of the annual report and accounts to express our concern.

Further, the annual report and accounts and its adoption at the AGM form the cornerstone of corporate accountability. Any issues around transparency and reporting are due for attention on the item. To a degree, the quality of company reporting on traditional financial and broader ESG matters is determined by investor demand.

Link with Find It Fix It Prevent it

The 'Votes Against Slavery' project is focused narrowly on disclosure. It should be seen as complementary to work conducted under a different investor collation called 'Find it, Fix it, Prevent it', which is encouraging companies to discover modern slavery within their supply chains and to provide the appropriate care and remedy. CCLA and Rathbones are mutually supportive of each other's efforts. Rathbones have been pleased to accept a position on the supervisory board of 'Find it, Fix it, Prevent It', and CCLA are a key stakeholder in the Votes Against Slavery project.

FTSE350 compliance with S54

S54 reporting requirements of the Modern Slavery Act 2015

Companies that fall under the reporting threshold of the Act must meet and demonstrate that they have met the following minimum legal requirements:

1. **Update your modern slavery statement every year:** The Home Office statutory guidance states that you should do this within six months of your organisation's financial year-end.
2. **Publish your modern slavery statement on your UK website:** Place the link on a prominent place on your homepage.
3. **Get approval from the board of directors:** The statement should clearly state that board approval has been given with the date of approval.
4. **Get sign off from a director:** Include their name, job title and the date. You do not need to include a physical signature, but you should still clearly state that it has been signed.

State of play Q1 2021

Business & Human Rights Resource Centre (BHRRC) research

Before starting each annual round of the project, we needed to be sure of the level of compliance with S54 among FTSE350 companies generally. The initial research was undertaken by the BHRRC. After carrying out further analysis and creating a database of non-compliance, we found that there were a number of companies in the FTSE 350 which failed to meet one or more of the reporting requirements of Section 54 of the Modern Slavery Act 2015. This detailed analysis produced a highly focused target list, providing greater efficiency in the ultimate engagement.

Following 2020, we had anticipated a much smaller group of target companies than the 21 identified in that reporting year. Sadly, the new research showed that the list of non-compliant companies had expanded significantly.

Target list

We found the following 61 companies to be non-compliant:

4im print Group Plc	International Consolidated Airlines Group SA
Ashmore Group Plc	IP Group Plc
Ashtead Group Plc	Jupiter Fund Management Plc
Assura Plc	JD Sports Fashion
Aston Martin Lagonda Global Holdings Plc	John Laing Group
AVEVA Group Plc	Kainos Group Plc
Beazley Plc	Lancashire Holdings Limited
Big Yellow Group Plc	Law Debenture Corporation Plc
Bodycote Plc	Marks & Spencer Group Plc
CLS Holdings Plc	M&G Plc
Coca-Cola HBC AG	Moneysupermarket.Com Limited
Computacenter Plc	Pennon Group Plc
Cranswick Plc	Petropavlovsk Plc
easyJet Plc	Phoenix Group Holdings Plc
Electrocomponents Plc	Playtech Plc
Energean Oil & Gas Plc	Polymetal International Plc
Entain Plc	Premier Foods Plc
Euromoney Institutional Investor Plc	Primary Health Properties Plc
Evraz Plc	PZ Cussons Plc
Frasers Group Plc	Redrow Plc
Grafton Group Plc	RSA Insurance Group Plc
Hays Plc	Sainsbury (J) Plc
Helios Towers Plc	Savills Plc
Hikma Pharmaceuticals	Telecom Plus Plc
Hiscox Limited	The Renewables Infrastructure Group Limited
Hilton Food Group Plc	Ultra Electronics Holdings
HSBC Holdings Plc	Unite Group Plc
Ibstock Plc	Wetherspoon (JD) Plc
ICG Enterprise Trust Plc	Workspace Group Plc
IMI Plc	
Inchcape Plc	
Indivior Plc	

We classified non-compliant companies into the following categories:

No board approval = Aveva Group, Bodycote, Cranswick, Indivior, Phoenix Group Holdings

No explicit board approval = Aston Martin Lagonda Global Holdings, Beazley, Grafton Group, Hays, Helios Towers, Hilton Food Group, Ibstock, Inchcape, JD Sports Fashion, John Laing Group, Primary Health Properties, Savills, Unite Group, Wetherspoon (JD)

No director sign off = CLS Holdings, Frasers Group, M&G, Premier Foods, RSA Insurance

Not on homepage of website = Coca-Cola HBC AG, Entain, Evraz, HSBC Holdings, IMI, Jupiter Fund Management, Kainos Group, Law Debenture Corporation, Petropavlovsk, Playtech, Polymetal International, PZ Cussons, Sainsbury's, Ultra Electronics Holdings, Workspace Group

No explicit board approval and no director sign off = Marks & Spencer Group, Pennon Group

No director sign off and not on homepage of website = Energean Oil & Gas, IP Group

No explicit board approval and not on homepage of website = Computacenter, Electrocomponents, Lancashire Holdings Limited, Redrow

No explicit board approval and out of date = Big Yellow Group, Euromoney Institutional Investor, IAG Group, Moneysupermarket.com

No director sign-off and out of date = 4imprint Group, Ashtead Group, easyJet, ICG Enterprise Trust

Not on homepage of website and out of date = Ashmore Group, Assura, Telecom Plus, The Renewables Infrastructure Group Limited

No explicit board approval, not on homepage of website and out of date = Hikma Pharmaceuticals, Hiscox

Building a coalition

Once the target list had been produced, we wrote a short background paper and posted our engagement proposal on the Principles for Responsible Investment (PRI) Collaboration platform.

The PRI - which Rathbones has been a member of since 2009 - is a global investor initiative on responsible investment whose members are committed to promoting better ESG management and disclosure among investee companies. Partners were asked to endorse the aims of the coalition and to add their names to the relevant letters to companies. They also committed to consider applying the findings to their voting activities.

PRI collaboration

We were pleased to welcome 97 investors with £7.8 trillion in assets under management to the coalition in 2021. The coalition has grown considerably in size from 2020, where 20 investors supported with £3.2 trillion assets under management.

Impact assessment

Of 61 companies in the FTSE350 identified as non-complaint, as at 13 December 2021 59 companies have become compliant as a direct result of our engagement - a 'hit' rate of 97%. The two remaining companies became compliant in January 2022.

Case studies

Our engagement is a systematic endeavour targeted at FTSE350 companies. The names mentioned below do not indicate a preference for investment by Rathbones, nor are all companies mentioned below included in client portfolios. Investors are encouraged by the 2020 Stewardship Code to engage on systemic issues across a wide range of market participants, and this engagement is an expression of such an economy wide engagement.

Electrocomponents: The company's 2020 modern slavery statement was not loaded onto the homepage of the website and it was not explicitly clear if board approval had been given. The company was grateful for our letter and immediately made the changes to their 2021 statement. The new statement clearly showed that board approval had been given and was uploaded to the homepage of their website. We had a follow up call with their vice president of social responsibility and Sustainability to discuss the content of their statement. In our meeting, the company cited examples of working with a problematic supplier in India to improve their practices, rather than cutting ties and walking away. We commended the approach taken which helped prevent this problematic supplier from making their way straight into the supply chain of another company.

Pennon Group: There was no director sign off or explicit board approval on the company's 2020 modern slavery statement. The company was grateful that we brought this to their attention. They confirmed that the board approved their current modern slavery and human trafficking statement in September 2020 and that their statement does comply with requirements of the Act. Having checked their website, they noted however that the latest statement had not been uploaded to the website. The company was quick to rectify this. In September 2021, the company sent through the new 2021 modern slavery statement which met all the reporting requirements. We were encouraged to see the company renew its collaborative membership of Slave-Free Alliance and refresh their whistleblowing service, making it easier for employees and stakeholders to voice concerns.

Phoenix Group: The company's 2020 modern slavery statement was not approved by the board. The company responded to our letter saying they take modern slavery very seriously and outlined where we can access their statement on their website, however they had not made the changes requested in the initial engagement letter. We followed up saying a sentence explicitly signposting board approval is needed to meet the requirements. The company responded saying that the new 2021 statement would be ready in May of that year and would incorporate the change required. We were sent the new statement in May which clearly showed that board approval had been given, however it had been signed off by the chief investment officer who is not a director on the board. We notified the company who rectified this by updating to show that director sign-off had come from the chief executive . We organised a follow up call with the head of investor relations (IR), their sustainability and climate change expert and commercial partnerships director to discuss the content of their statement. The company have brought in a training partner to improve the quality of training for employees on human rights risks. We were impressed by the company's new set of standards for suppliers - gold, silver and bronze - which has set clearer expectations of high standards of compliance in its supply chain.

Sainsbury's: The company's 2020 statement was not uploaded to the homepage of the website. The chair of the board responded to our letter saying they have always had a compliant statement on their customer-facing websites and feel they should be deemed compliant. We responded saying that this has not been published in a visible location on the homepage. We appreciated that it can be found by going to the 'About Sainsburys' section of the UK website and looking under 'Useful Information'. It could be argued though that this is not an obvious location to find this statement. We encouraged the company to load this either directly onto the homepage or via an obvious drop-down menu on the homepage of the website. The personal assistant to the chair apologised as the letter was sent out before they had completed changes to their customer facing websites. They had intended to send the letter once all changes had been implemented. The link to the 2021 modern slavery statement can now be found at the bottom of the homepage on all customer facing websites. We had a meeting with the group social sustainability and communities manager and the head of investor relations to discuss their statement. In our meeting the company provided an in-depth review of the most high-risk areas in their supply chains and the auditing process of suppliers. We were impressed with the risk tool which is updated every 12 months to identify global issues and trends and what might be driving modern slavery in their supply chain.

Insights from target company feedback

As we intend to run this engagement over multiple years, we sent a short feedback survey to all companies with whom we had conducted meaningful engagement.

We appreciate that the sample size is relatively small, and hence we do not present these findings as anything more than suggested helpful insights.

The main takeaways from this process were as follows:

- 13/20 respondents indicated an increased awareness of investor concern on the topic following the engagement.
- Of those companies responding, 75% reported limited requests for information from investors prior to the engagement.
- Of those companies responding, where requests had been made, the majority had come from shareholders. Two target companies reported previous requests for improved reporting from the regulator and two target companies saying requests had come from non-governmental organisations (NGOs).
- 8/20 respondents viewed modern slavery as a greater issue of concern to their business post engagement.

Future actions and policy recommendations

We plan to run another version of Votes Against Slavery in 2022. Outside of this specific project, there are a number of key issues which we shall be focusing on in 2022:

- The lack of quality data currently available for investors, when compared to gender and climate. We believe that more needs to be done to improve the accessibility of data which would benefit investors and wider stakeholders.
- Aligning the efforts of investors with those of the UK government, which amounts to one of the biggest procurers in the UK economy.

Government supply chain contracts often set the tone for corporate compliance levels. Without alignment with government's own supply chain standards, our engagement is likely to be less effective. Investors need to work with the government to identify the most high-risk areas and sectors and to improve overall transparency in supply chains.

- Increased investor co-ordination on how to improve compliance with S54. Investors need to do more when it comes to holding companies to account for poor reporting or a failure to comply with S54 of the Modern Slavery Act.
- Urgent action by the UK Home Office to strengthen S54. The UK Government ran a public consultation into the Modern Slavery Act which concluded in September 2019. The recommendations from this consultation have not yet been implemented, some 27 months later. Corporate transparency efforts like S54 require oversight from government if investees are to take them seriously. Our work has shown that the reporting requirements are not yet delivering all of the positive change in UK corporate practice that they could. Implementing the findings of its own review would be a very welcome move for investors as it would raise the bar on corporate supply chain transparency even further.

Appendix

We would like to thank the following 97 investors who have supported our engagement in 2021

Aargauische Pensionskasse (APK)
Arabesque Asset Management
ASR Nederland N.V
ATISA Personalvorsorgestiftung der Tschümperlin-Unternehmungen australianethical
Aviva Investors
Bernische Lehrerversicherungskasse
Bernische Pensionskasse BPK
BMO Asset Management
Boston Common Asset Management
Brunel Pension Partnership
Caisse Cantonale d'Assurance Populaire – CCAP
Caisse de pension du Comité international de la Croix-Rouge
Caisse de pension Hewlett-Packard Plus
Caisse de pensions de l'Etat de Vaud (CPEV)
Caisse de pensions du CERN
Caisse de pensions du personnel communal de Lausanne (CPCL)
Caisse de pensions ECA-RP
Caisse de prév. des Fonctionnaires de Police & des Etablissements Pénitentiaires
Caisse de Prévoyance de l'Etat de Genève CPEG
Caisse de Prévoyance des Interprètes de Conférence (CPIC)
Caisse de prévoyance du personnel communal de la ville de Fribourg
Caisse de prévoyance du personnel de l'Etat de Fribourg (CPPEF
Caisse de prévoyance du personnel de l'Etat du Valais (CPVAL)
Caisse intercommunale de pensions (CIP)
Caisse paritaire de prévoyance de l'industrie et de la construction (CPPIC)
CAP Prévoyance
CCLA
Church Commissioners
Church of England Pensions Board
CCIEPP - Caisse Inter-Entreprises de Prévoyance Professionnelle AP Prévoyance
CCLA
Church Commissioners
Church of England Pensions Board
CIEPP - Caisse Inter-Entreprises de Prévoyance Professionnelle
ECO Advisors
Ecofi Investissements
EQ Investors Limited
ESG Portfolio Management
Etablissement Cantonal d'Assurance (ECA VAUD)
Ethos Foundation, Switzerland
Fondation de la métallurgie vaudoise du bâtiment (FMVB)
Fondation de prévoyance Artes & Comoedia
Fondation de prévoyance du Groupe BNP PARIBAS en Suisse
Fondation de prévoyance professionnelle en faveur de AROMED
Fondation Interprofessionnelle Sanitaire de Prévoyance (FISP)
Fondation Leenaards
Fondation Patrimonia
Fonds de Prévoyance de CA Indosuez (Suisse) SA
Fonds interprofessionnel de prévoyance (FIP)
FUTURE SUPER
Gebäudeversicherung Luzern
Gebäudeversicherung St. Gallen
Grandeur Peak Global Advisors
ISGAM
LAPFF
LGIM
LGPS Central
Luzerner Pensionskasse
Man Group
Mercy Investment Services Inc
Nest Sammelstiftung
Pension Protection Fund
Pensions Caixa 30
Pensionskasse Römisch-katholische Landeskirche des Kantons Luzern
Pensionskasse AR
Pensionskasse Bank CIC (Schweiz)
Pensionskasse Basel-Stadt
Pensionskasse Bühler AG Uzwil
Pensionskasse Caritas
Pensionskasse der Basler Kantonalbank
Pensionskasse der Stadt Winterthur
Pensionskasse Pro Infirmis
Pensionskasse Schaffhausen
Pensionskasse SRG SSR
Pensionskasse Stadt Luzern
Pensionskasse Stadt St. Gallen
Pensionskasse Unia
Personalvorsorgekasse der Stadt Bern
Prévoyance Santé Valais (PRESV)
prévoyance.ne
Profelia Fondation de prévoyance
Prosperita Stiftung für die berufliche Vorsorge
Quilter Cheviot Investment Management
Rentes Genevoises
RP - Fonds institutionnel
Secunda Sammelstiftung
St. Galler Pensionskasse
Stiftung Abendrot
SVA Zürich
Terre des hommes Schweiz
Unfallversicherungskasse des Basler Staatspersonals
Université de Genève (UNIGE)
USS
Vanguard
Verein Barmherzige Brüder von Maria-Hilf (Schweiz)
VERVE SUPER
VidaCaxia
Vorsorge SERTO
West Midlands Pension Fund

Important information

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