



ALLIANCEBERNSTEIN®

Modern Slavery Risk: The Investor's View

How to Research It.
How to Reduce It.

Modern slavery is a clear risk to people—and a growing concern globally. Through comprehensive research and engagement with companies, investors can not only report on modern slavery risks but also strive to reduce them. This can drive better outcomes for investments and the world.

OCTOBER 2021



Modern Slavery: A Hidden Social Risk

Slavery was formally abolished in the US and Europe in the 19th century, but the abuse and exploitation of vulnerable people continues in many workplaces and other settings around the world today. Modern slavery—forced labor, debt bondage, forced marriage, slavery and slavery-like practices, human trafficking, and the worst forms of child labor—remains a critical issue of our time.

Forced Labor: A US\$150 Billion-Per-Year Industry

Because modern slavery is illegal, it's a covert activity supported by crime and corruption. This makes it hard to precisely measure the scale of the problem, but the International Labor Organization (ILO) and Walk Free Foundation estimated in 2017 that 40.3 million men, women and children had been victims of modern slavery on any given day during the previous year. That translates into one out of every 185 people on the planet, mostly

women and girls (71%). The research also estimated that forced labor generated US\$150 billion in profits annually.¹ Ending modern slavery by 2030—the year targeted by the United Nations (UN) Sustainable Development Goals—would require the freeing of more than 10,000 people a day.

Although modern slavery is seen as most widespread among emerging countries, it's an issue in many developed countries, too.

¹ Global Estimates of Modern Slavery, ILO and Walk Free Foundation, 2017.

How pervasive is modern slavery, and how challenging is the battle for investors to surface and address it? A simple trip to the store tells the tale of how easy it is for ordinary consumers to come into contact with products made by slave labor,² and how their purchasing decisions can make them unwitting beneficiaries of a crime (*Display 1*).

Most people drive to the store, and, depending on their car's make and model, could face connections to modern slavery as soon as they slide behind the steering wheel. At least four auto manufacturers—two from the US, one from Europe and another from Japan—have used Brazilian pig iron to make car doors. The pig iron supply chain starts with burning hardwood to make charcoal. In many cases, trees are cut down illegally to source the wood, and the charcoal is made by slave labor from camps in the Brazilian rainforest.³

The car's shiny paint finish may exact a human toll, too, if it includes mica, a silicate mineral. Mica has been linked to child labor and debt bondage in Indian mines—with some children as young as 10 years old. Keeping that car finish clean could come at the expense of exploited workers in car washes, an issue drawing a lot of attention in the UK.⁴

If the drive to the store is accompanied by streaming music on a cell phone, that mobile device might contain cobalt from the Democratic Republic of the Congo, where mining is widely linked to modern slavery and conflict minerals—natural resources originating from a zone of armed conflict. Even the store's parking lot might not escape the shadows of modern slavery: at least one Australian retail chain has discovered practices such as wage theft among contractors that supply workers—often immigrants—to collect shopping carts.

The weekly shopping list isn't free from risk, either. Berries grown in Australia may be suspect: in several reported cases, itinerant workers hired to pick fruit and other crops are being abused.⁵ Tomatoes may be suspect too: in Italy, foreign laborers who pick this staple food in the country's southern region reportedly face exploitation and discrimination.⁶ Fish from Thailand may be another source of exposure to modern slavery: while several companies in the country's fishing industry treat their employees fairly, there are many instances of other firms using slave labor.

DISPLAY 1: THE MODERN SLAVERY RISKS OF A TRIP TO THE STORE



² Martijn Boersma and Justine Nolan, *Addressing Modern Slavery* (Randwick, Australia: UNSW Press, 2019).

³ Marcy Murningham, "Pig Iron and Modern Slavery," *The Murningham Post* (August 12, 2010), <http://murninghampost.com/2010/08/12/pig-iron-and-modern-slavery>.

⁴ Alex Strangways-Booth, "Safe Car Wash app reveals hundreds of potential slavery cases," *BBC News* (April 7, 2019), <https://www.bbc.com/news/uk-england-47829016>; Simon Osborne, "What is the true human cost of your £5 hand car wash?," *The Guardian* (July 16, 2018), <https://www.theguardian.com/world/2018/jul/16/true-human-cost-5-pound-hand-car-wash-modern-slavery>.

⁵ Kath Sullivan and Eden Hynninun, "Seasonal workers program faces fresh scrutiny after 70 workers found living in one house," *ABC News* (February 13, 2020), <https://www.abc.net.au/news/2020-02-14/seasonal-worker-program-under-scrutiny-after-70-people-in-house/11960818>

⁶ Ayo Awokoya and Tobias Jones, "Are your tinned tomatoes picked by slave labour?," *The Guardian* (June 20, 2019), <https://www.theguardian.com/world/2019/jun/20/tomatoes-italy-mafia-migrant-labour-modern-slavery>; Tim Gore and Sabita Banerji, "The People Behind the Prices" (research study, Oxfam International, Oxford, England, February 2019), https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/file_attachments/rr-people-behind-prices-tomato-060219-en.pdf.

At-risk products are on the shelves of other types of stores, too. Rubber gloves from Malaysia have been associated with slave labor, and there are concerns that this practice continues today. Clothing and other items made from cotton may deserve scrutiny, especially if they're sourced from Turkmenistan, where alleged government support for modern slavery in the cotton industry has attracted censure from the US government.

These examples are all consumer-related, but modern slavery is very widespread in global industrial supply chains, too, including shipping, construction and mining. If there's one silver lining to the pervasive nature of modern slavery, it's the heightened media attention and public awareness that has prompted governments to act.

A Closer Look at Debt-Bonded Labor

One of the most common forms of modern slavery—though certainly not the only form—is debt-bonded labor. Debt bondage for immigrant workers is a notable example. The problem starts when a business that relies heavily on manual labor—maybe a brick kiln, rice harvester or fishery—faces a labor shortage. To fill the gap, the firm applies to the government for permission to hire migrant workers. Once the business receives a quota, it uses licensed, regulated recruitment agents to source workers brought into the country on temporary guest visas. Many of these migrant workers are from extremely poor countries and desperate for work—a power imbalance that makes them vulnerable to exploitation and the system vulnerable to corruption.

Recruitment fees are costly, so many firms knowingly allow agents to “sell” the jobs to workers in order to offset the cost. The corruption is sometimes exacerbated by kickbacks to government officials—bribes to ignore this illegal behavior. Desperate workers are forced to either sell their personal belongings or find another way to pay. Some workers pay recruiters an up-front fee, then agree with their employer to work off the rest of the cost of their “sponsorship,” only to find the cost rising or unmanageably high. Or workers' hourly wages may be so low that they would need years to repay the debt. Other workers take out loans to pay recruitment fees, travel costs and other charges. To make matters worse, lenders often charge rates as high as 30%–60%.

Once migrant workers have “paid” for their job and arrive in a new country, they often find that the terms and conditions of their employment have changed—they may be paid less than they originally agreed to, or they might not receive overtime pay or paid time off. Either way, they're trapped. They have a hefty loan to repay that could grow with unexpected medical bills or other unforeseen costs—and with a family to feed, they work as much as possible. Tragically, it's likely that neither the lenders nor employers ever really intended to release employees from their debt, and these workers may no longer leave their jobs of their own free will.

The Bottom Line: Modern Slavery Is a Risk to People

Investors shouldn't merely report on modern slavery risks—they should strive to reduce them. In our view, researching risks and proactively engaging with companies can drive better investment outcomes.

At AB, direct dialogue with global supply-chain managers enhances our fundamental research and encourages companies to evaluate modern slavery risks. Like many environmental, social and governance (ESG) issues, modern slavery carries financial risks associated with factors such as brand and reputation, litigation, employee strikes and supply-chain interruptions, and customer boycotts that may impair financial performance.

Tapping into company managers' knowledge and insights gives us a deeper understanding of this crucial aspect of a firm's strategy and operations. It also helps round out the viewpoints we form based on our conversations with board members, chief executive officers, chief financial officers, competitors and suppliers.

Even more important, the information we glean from supply-chain managers may ultimately help us determine whether or not we'll invest in a company. The connection is pretty clear to us: if a company can't manage modern slavery risk effectively in its global supply chains, it can't manage its global supply chains.

Assessing Modern Slavery Risk

We've adopted a [Global Slavery and Human Trafficking Statement](#) that addresses the issue of forced labor across our business operations and supply chain.

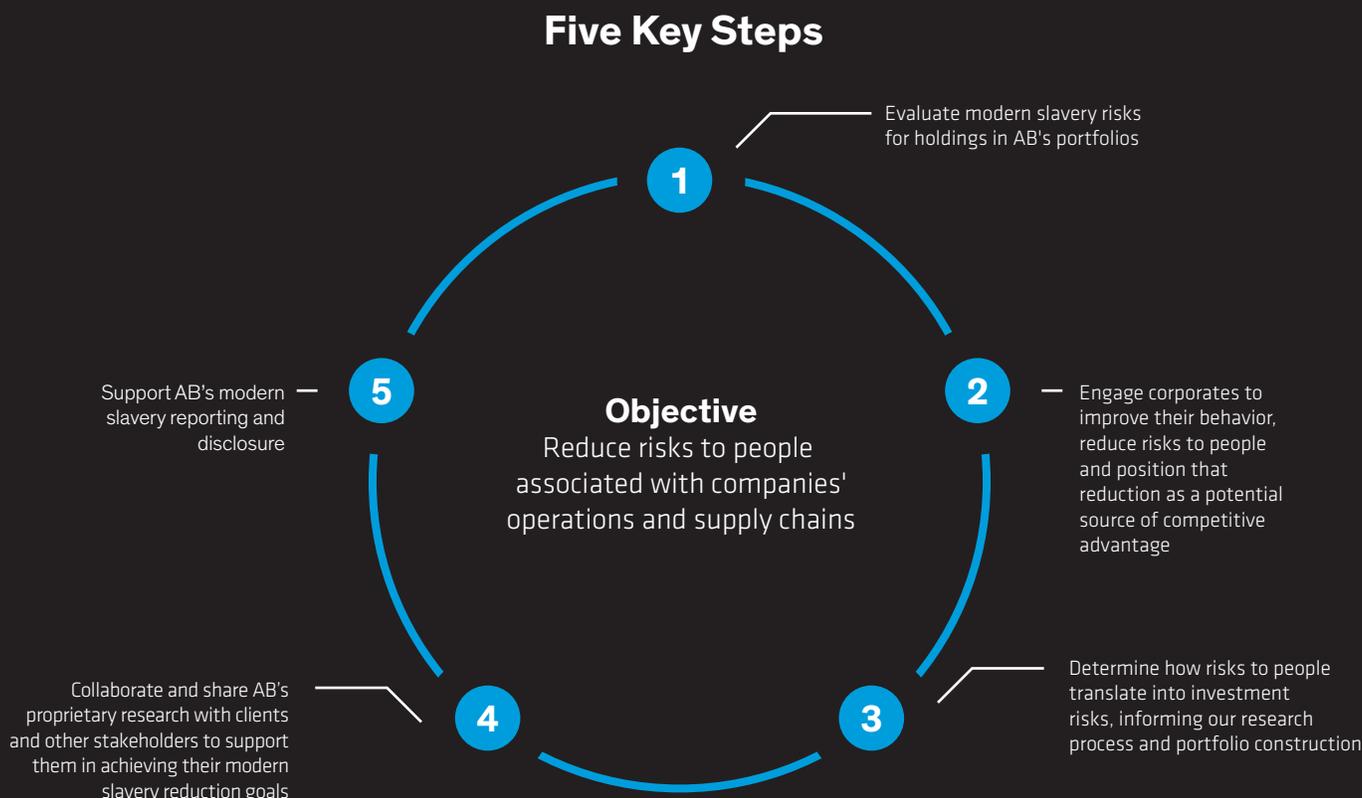
We've bolstered our vendor selection and management procedures and developed a Vendor Code of Conduct that addresses forced labor, among other topics. The procedures and codes cover fundamental business practices as well as issues including global slavery and human rights, diversity and inclusion, and environmental behaviors.

As we've advanced our efforts to address modern slavery in our operations and supply chain, we've asked the same of the companies we invest in.

Along the way, our objective evolved beyond applying research to assess risks to people; we're also actively helping reduce those risks—and potentially generating better insights. Enhancing research on modern slavery may also open pathways for companies to translate their risk-reducing efforts into a source of competitive advantage.

To better identify and assess forced labor as investors, we've developed a five-step research approach (*Display 2*) and trained investment professionals to apply it systematically. Each step is important, but the first two—evaluating risks in our portfolios and improving corporate behavior—determine how effective the remaining three will be.

DISPLAY 2: AN APPROACH TO MODERN SLAVERY RESEARCH



As of September 30, 2021 | Source: AB

Mapping Modern Slavery Exposure in Global Portfolios

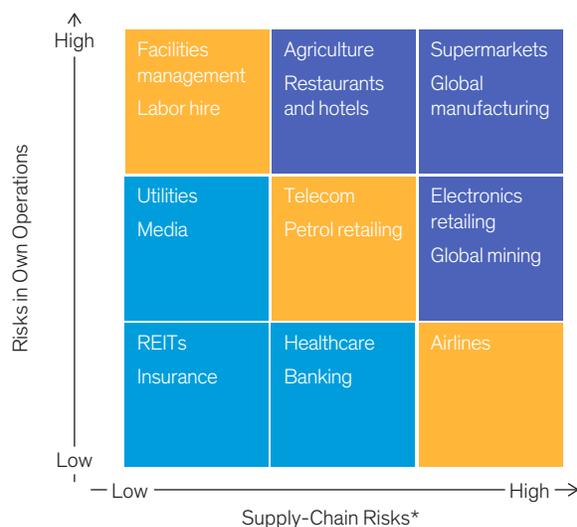
To evaluate risks to people in investment portfolios, it makes sense to start with a framework to help prioritize companies based on their potential modern slavery exposure. We apply the framework to current and former investments as well as investment candidates, focusing on four key risk factors:

- **Vulnerable Populations** (including migrant workers, minorities, those with linguistically diverse backgrounds)
- **High-Risk Geographies** (including those with history of abuses, conflict-affected zones, limited or weak judiciaries)
- **High-Risk Products and Services** (including raw materials, basic services, internal services, “sweat” shops)
- **High-Risk Business Models** (including outsourcing, fraudulent recruiters, seasonal demand peaks, franchises)

Incorporating our fundamental research into these risk factors and leveraging third-party information as a guide, we map companies across a matrix that suggests the level of modern slavery exposure—from low to high—in each company’s business operations and supply chains. The matrix measures only firms’ exposure to risk—not how effectively they’re managing it. In *Display 3*, we’ve assigned industries within the framework to illustrate how it’s used; in practice, individual companies would be plotted.

Companies in the purple squares have higher exposure in both their operations and supply chains, so we make them our highest engagement priorities—though not our only focus. Companies in the blue zone may be lower engagement priorities, but they’re not risk free: a domestic insurer, for example, might be exposed to modern slavery risk through migrant labor supplied by an office-cleaning contractor. This is a key point in assessing modern slavery risk: it must be a company-by-company exercise. Our research, for example, might single out a manufacturer from its peer group and assign it to a different square altogether.

DISPLAY 3: FRAMEWORK TO ASSESS HIGH-RISK-TO-PEOPLE ISSUERS



REITs: real estate investment trusts

* Supply-chain risks can include customers and extend to second- and even third-tier suppliers when the corporation’s behavior contributes to modern slavery risks. Tier-one suppliers are defined as a company’s direct suppliers, tier-two suppliers are the suppliers to a company’s tier-one suppliers and tier-three suppliers are the suppliers to a company’s tier-two suppliers.

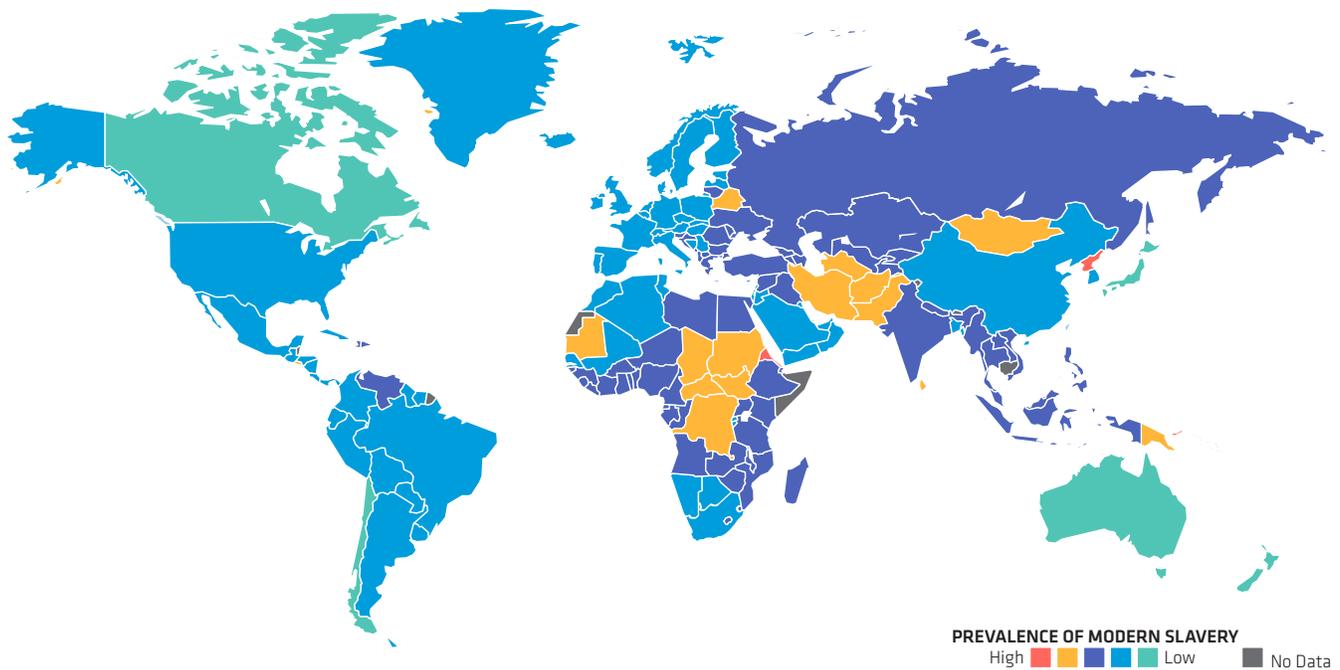
As of September 30, 2021 | **Source:** ACSI, company interviews, company reports, industry research and AB

Many third-party sources provide high-quality modern slavery research that's relevant to each of our four key risk factors. The Walk Free Foundation's Global Slavery Index, for example, ranks every population by the number of people in modern slavery, analyzes governments' responses and explains factors that make

people vulnerable.⁷ The data, presented as a map in *Display 4*, help us assess individual company exposures based on regions where they operate and/or source supplies (individual rankings are provided in the Appendix).

DISPLAY 4: A STAIN THAT COVERS HALF THE WORLD—AND CASTS AN EVEN BROADER SHADOW

Estimated Prevalence of Modern Slavery



Source: 2018 Global Slavery Index

⁷ Global Slavery Index (website), accessed September 30, 2021, <https://www.globalslaveryindex.org/>.

Modern Slavery: Where the World Stands

Countries and legislative bodies around the world recognize the threat modern slavery poses to people and companies. Despite slavery being illegal under international treaties, modern slavery remains a huge issue worldwide. In the past decade, multiple initiatives have been rolled out to address modern slavery, some focusing on corporate behavior and reporting and others on specific issues such as conflict minerals (*Display 5*).

The California Transparency in Supply Chains Act of 2012 aims to have large retailers and manufacturers educate consumers on their efforts to eradicate human trafficking and slavery within their supply chains. In 2015, the UK introduced the world's first Modern Slavery Act; many countries and multinational organizations followed suit. The G20 signed a declaration in 2017 to eradicate all forms of modern slavery. The French Corporate Duty of Vigilance Law of 2017 requires large companies to identify and prevent modern slavery risks within their own operations as well as the operations of their suppliers and subcontractors.

Passed in 2019, the Dutch Child Labor Due Diligence Law mandated that firms investigate and eradicate child labor in supply chains. Germany followed by putting in motion mandatory human rights due diligence legislation. More recently, the European Union (EU) proposed mandatory human rights due diligence legislation requiring regional human rights efforts. Firms would need to follow due diligence processes to identify and assess any human rights risks in their value chains—and could be held liable if they didn't. The EU already has due diligence laws for vulnerable sectors like conflict minerals and timber and forestry—and some EU countries already have their own laws, such as France's Duty of Vigilance Law and the previously mentioned Dutch Child Labor Due Diligence Law. This broader legislation, however, would expand these regulations to all business activities.

The US House of Representatives passed the Uyghur Forced Labor Prevention Act in 2020, which prohibits "the import of all goods, wares, articles, or merchandise mined, produced, or manufactures, wholly or in part, by forced labor from the People's Republic of China and particularly any such goods, ware, articles, or merchandise produced in the Xinjiang Uyghur Autonomous Region of China."

DISPLAY 5: MODERN SLAVERY LEGISLATION AND GUIDANCES

2012

- Section 1502 of the US Dodd-Frank Act on Conflict Minerals (Effective)
- California Transparency in Supply Chains Act (Effective)

2014

- Singapore Prevention of Human Trafficking Act (Effective)

2015

- UK Modern Slavery Act (Effective)
- Swiss Mandatory Human Rights Due Diligence Legislation (In Motion)

2016

- EU Non-Financial Reporting Directive (Effective)
- German National Action Plan to Implement the UN Guiding Principles on Business and Human Rights (Effective)

2017

- G20 Declaration to Eradicate All Forms of Modern Slavery
- French Corporate Duty of Vigilance Law (Effective)
- German CSR Directive Implementation Act (Effective)
- EU Conflict Minerals Regulation (Passed)
- Hong Kong Modern Slavery Bill (In Motion)

2018

- New South Wales Modern Slavery Act (Passed; Not in Force)
- Norwegian Modern Slavery Act (In Motion)

2019

- Australian Modern Slavery Act (Effective)
- Dutch Child Labor Due Diligence Law (Passed)
- German Mandatory Human Rights Due Diligence (In Motion)
- Norwegian Supply Chain Transparency Act (In Motion)

2020

- EU Mandatory Human Rights Due Diligence Law (In Motion)
- UK Parliamentary Inquiry into Forced Labor in UK Supply Chains
- Canadian Modern Slavery Bill C-423 (In Motion)
- US Slave-Free Business Certification Act (In Motion)

2021

- US Uyghur Forced Labor Prevention Act (Passed Senate)
- Australian Forced Labor Prevention Act (Passed Senate)
- UN Binding Treaty on Business and Human Rights (In Negotiation)

Data show that modern slavery is most prevalent in emerging markets, but that doesn't mean the developed world can be complacent: supply chains are global. *Display 6*, next page, shows some of the highest-risk products and their source regions. The takeaway? Many goods that flow into areas with low modern slavery risk come from areas with high modern slavery risk.

An understanding of the patterns of modern slavery risk at a global level provides investors with information on how companies are responding to the issue. For example, supermarket chains in Europe and the US have joined an initiative to help reduce risks to people in Thailand's fishing industry.⁸ Similarly, electronics, retail, auto and toy companies are working to support the rights and well-being of workers in their global supply chains through the Responsible Business Alliance, a industry coalition.

Best Practices: How Can Companies Reduce Modern Slavery Risk?

At AB, our primary objective in engaging with companies about modern slavery is to understand how effectively they're reducing modern slavery risk. In collaboration with certain firms, we've identified five criteria that, together, might be considered a benchmark for corporate best practices on modern slavery:

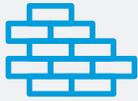
- 1. Governance Framework:** What steps are the board and senior management taking—through policies and procedures, culture and values—to align the business with the goal of reducing modern slavery risk?
- 2. Risk Identification:** The criminal and covert nature of modern slavery practices makes this a difficult and delicate task—but a critical one. How well does the firm understand the challenge, and how robust are the techniques and processes it uses to identify the risk?
- 3. Action Plan to Reduce Risks:** Is the plan a realistic solution to reduce risks to people within the company's operations and supply chains? Does the company appropriately and effectively train and empower employees and suppliers to identify and reduce risks?
- 4. Action Plan Effectiveness:** To what extent have the company's actions reduced risk, and how are the board and senior executives measuring progress? What procedures are in place to ensure that follow-up actions are implemented and monitored?
- 5. Future Improvement:** For many companies, the road to reducing modern slavery risk will be long and stretch through unfamiliar territory. The best firms will be able to evaluate their progress each step of the way and make changes with an eye toward continuously improving their performance against each of the four previous criteria.

We provide detailed examples of these criteria on the following pages. Not all of them will apply to every company equally in all situations, but they provide a helpful construct for thinking about how firms might respond to modern slavery risk—and for helping us engage them on the subject.

These criteria—future Improvement, in particular—recognize that best practices involve a process of continuous learning and improvement, with firms typically moving through four phases. From an initial "laissez-faire" attitude, they advance to acknowledging modern slavery as a risk that must be managed (primarily as a reputational issue). In the third phase, firms get involved in the cause through charitable activity. In the fourth and final phase, they accept that modern slavery risk in their supply chains goes to the heart of what they stand for as a company, and that reducing the risk should be part of their core values. In this phase, the battle against modern slavery becomes part of a firm's brand identity...and a source of competitive advantage.

⁸ Felicity Lawrence, "Walmart, Tesco and Costco among retailers responding to revelations of slavery in prawn supply chains," *The Guardian* (June 10, 2014), <https://www.theguardian.com/global-development/2014/jun/10/walmart-tesco-costco-retailers-respond-prawn-supply-slaves>.

DISPLAY 6: EXAMPLES OF HIGH-RISK PRODUCTS BY SOURCE REGIONS



Bricks:
South and Southeast Asia



Carpets:
North and South Asia



Cattle:
South America, West Africa



Coal:
East, North and South Asia



Cocoa:
West Africa



Cotton:
Central Asia



Diamonds:
Central Africa



**Electronics—Laptops,
Computers & Mobile
Phones:**
East, North and Southeast Asia



Fish:
East, North and Southeast Asia,
West Africa



**Garments—Apparel &
Clothing Accessories:**
South America and Asia



Gold:
Central Africa, East Asia,
South America



Brazil Nuts/Chestnuts:
South America



Rice:
South and Southeast Asia



Sugarcane:
South America, Caribbean



Timber:
East and North Asia,
South America

Corporate Best Practices on Modern Slavery Risk: Five Criteria

1

Governance Framework

- Action on modern slavery seen as an important corporate value and a potential source of competitive advantage
- Public commitment, with clear policy statements and codes of conduct available to stakeholders in relevant languages and consistent with legislation and global frameworks (e.g., the UN's Guiding Principles on Business and Human Rights)
- Focus on labor risks to people, not just risk to the entity
- Board takes accountability and has information to ensure that management is managing risks properly
- "Focus teams" or "ambassadors" who champion action on modern slavery within the business
- Evidence that senior management takes accountability, with clear consequences for inaction or failure, as well as evidence of improved outcomes (e.g., changes in supplier relationships)
- Accountability across the company's own operations, its value chain, joint ventures and assets that are owned by the company but operated by other entities
- Disclosure of relevant and timely targets for modern slavery and reports of violations

2

Risk Identification

- Robust process to identify risks and prioritize exposures across high-risk populations, geographies, products, services and business models
- Risks identified across the company's operations and supply chain where the company's own behavior may contribute to risks to people; analysis based on detailed supply-chain maps
- Frequent risk analysis that includes supplier audits, site visits, third-party assessments, safe whistle-blower hotlines, victim advocates, and working with industry groups and relevant experts (e.g., "Global Slavery Index" and US "Trafficking in Persons" report)
- A central registry of risks, and use of artificial intelligence to analyze financial transactions
- Operational and supplier audits include unscheduled visits, off-site worker interviews, broad worker consultation and assessment of worker housing
- Low-quality "tick-the-box" third-party audits are avoided and use of hotlines is ensured
- Company actively seeks to learn lessons from industry peers and other industries
- Company assesses risks beyond tier-one suppliers
- Risk assessment is disclosed, including the percentage of suppliers evaluated

3

Action Plan to Mitigate Risks

- Train employees and suppliers, in relevant languages, on the code of conduct, and how to identify, monitor and manage modern slavery risks
- Ensure that workers have a fair living wage, with fair terms and conditions, and ensure that they understand their rights and how to safely escalate grievances
- Ensure effective grievance resolution processes are in place
- Collaborate with relevant stakeholders (e.g., workers' rights organizations, corporates, industry bodies and local nongovernment organizations)
- Develop appropriate, timely and measurable action plans to manage risks and high-risk exposures. For operations and suppliers that violate policies, create corrective/development action plans to improve conditions
- Respond to allegations by engaging directly with affected stakeholders. Disclose findings, and, if required, take action to remediate and prevent recurrence
- Ensure action plans and their impact are appropriately disclosed, with the goal to improve outcomes. Where material change is required, lay the foundation for longer-term structural changes

4

Action Plan Effectiveness

- Management reports include timely key performance indicators and relevant metrics to evaluate progress and shortfalls against modern slavery operational targets
- Assessment extends across the company's own operations globally, including its supply chain and key service providers, such as recruiters
- Objective third-party analysis and verification of internal management reporting is performed. Company has ability to provide audit results to line management, "independent" executives and directly to the board
- Reporting of modern slavery successes, failures and risks, including where corrective actions have failed and what further steps are required
- Clear accountabilities for performance measurement and targets, with relevant linkage to incentives for C-suite and management in supply-chain human resources, operations and marketing
- Performance against modern slavery targets are appropriately disclosed
- Management of risks to people extends broadly across the supply chain, particularly to high-risk suppliers (tier two and lower)

5

Future Improvement

- Conduct analysis of company's approach to modern slavery versus best practices. Develop a strategy for continuous improvement and, where needed, a step change
- Focus on root causes, such as why certain people are more vulnerable to human trafficking
- Disclose strategy to enhance the company's approach to modern slavery
- Provide public response to material modern slavery violations, including remediation and recommendations to enhance the board and management's strategy to reduce future risks
- Shape corporate and, potentially, industry best practices.
- Integrate risks to people into strategy process. This practice, in one example, contributed to a company reconfiguring its factory network to reduce risks
- Engage in public-policy dialogue to enhance approach taken by a broad range of stakeholders within relevant industry and broader community

Engaging Firms on Modern Slavery: Case Studies

In-depth dialogues with companies generates information and insights that help us assess how they stack up on our best-practices criteria. We formalize this assessment in a detailed scorecard. In *Display 7*, we show the scorecards for five companies selected based on their respective progress on modern slavery risk. The left-hand display assigns the companies to our risk-assessment framework; the right-hand display summarizes how we've ranked them on our best-practices criteria after engaging with them. Note: these case studies are only summarized examples of the scope and depth of our company engagement and research on modern slavery.

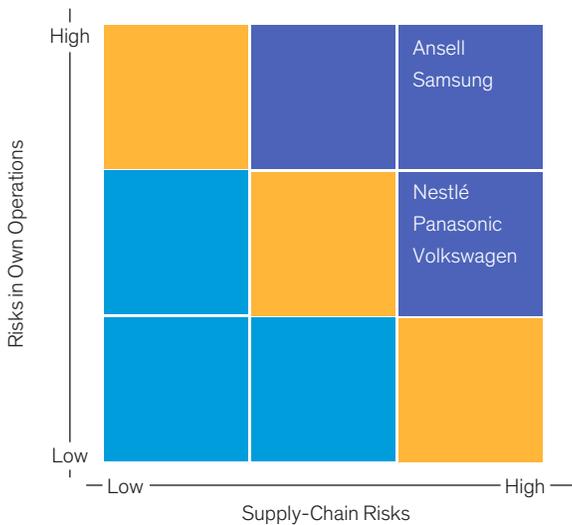
Ansell: Tightening Oversight of Labor Supply

As a manufacturer of personal protective equipment (PPE) with supply chains in Southeast Asia, Europe and South America, Ansell is exposed to high-risk products and geographies. Its labor practices have come under greater scrutiny as the global COVID-19 pandemic has increased demand for PPE worldwide.

During 2018, the company became aware of potential labor abuses by a supplier located in Malaysia. Since that discovery, Ansell's CEO and board have been very proactive in evaluating and managing this risk. A new program includes independent audits every two years at factories and tier-one suppliers. The firm has also implemented digital technology that monitors employees' working hours, ensuring they receive days off and holidays and aren't subject to excessive overtime demands. In 2019, Ansell closed three factories for strategic and operational reasons—actions we believe will help reduce modern slavery risk. A shift to more insourcing has reduced the firm's reliance on outside products to 40% of sales.

Ansell takes appropriate action on modern slavery but has room for improvement like nearly every other company tackling this issue. The company included an assessment of modern slavery risks in its most recent annual report, but we still see potential for Ansell to continue improving its suppliers' capabilities to manage modern slavery risk.

DISPLAY 7: FIVE AT-RISK COMPANIES AND HOW THEY ARE RESPONDING



| | Governance Framework | Risk Identification | Action Plan to Mitigate Risks | Action Plan's Effectiveness | Future Improvement |
|------------|----------------------|---------------------|-------------------------------|-----------------------------|--------------------|
| Ansell | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✓✓ | ✓✓ |
| Nestlé | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✓✓✓ |
| Panasonic | ✓✓ | ✓ | ✓ | ✓ | ✓ |
| Samsung | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✓✓ | ✓ |
| Volkswagen | ✓✓✓ | ✓✓✓ | ✓✓✓ | ✓✓ | ✓✓ |

Three ticks = very good progress; two ticks = good progress; one tick = developing progress

As of September 30, 2021 | Source: ACSI, company interviews, company reports, industry research and AB

Nestlé: Custom Supply-Chain Management

As a food and drink conglomerate, Nestlé has a supply chain exposed to many high-people-risk products, including sugar, cocoa, fish and other seafood. However, the company manages its supply chain effectively through customized programs. Its responsible sourcing program targets certain priority categories and the most important raw materials by volume.

In late 2020, the US banned imports from Malaysian palm oil giant Sime Darby—one of Nestlé's palm oil suppliers—over forced labor issues. Nestlé has since engaged with the US Customs and Border Protection to better understand the withhold release order. Nestlé is in the process of commissioning a third-party labor assessment of Sime Darby's Malaysian plantations.

Nestlé cares deeply about the issue of modern slavery. Biannually, the company conducts a materiality assessment focused on individuals and families, as well as communities and the planet. Nestlé has identified 11 human rights issues across its supply chain: freedom of association and collective bargaining, working time, workers' accommodation and access to basic services, safety and health, living wage, child labor, forced labor, land acquisition, access to water and sanitation, access to grievance mechanisms, and data privacy and protection.

Working with local organizations and auditors, Nestlé improved the traceability of its raw materials from priority categories to 76% of total volume in 2019, and the responsible sourcing of those materials to 70%. The company's 2020 target was 80% for both traceability and responsible sourcing.

Panasonic: Elevated Risk From Procurement Policy

In late 2019, ongoing monitoring of our position in Panasonic revealed news articles linking child labor in mica mining in Madagascar to a trading company supplying Panasonic. Our initial conversations with Panasonic revealed that it had questioned the supplier. The supplier assured Panasonic of its compliance with procurement guidelines that prohibit child labor, and that the mica supplied to Panasonic wasn't sourced from Madagascar.

We had hoped for a more comprehensive response, so we initiated a series of engagements with Panasonic about raw materials sourcing for both mica and cobalt, a much more significant input for Panasonic.

Our Director of Social Research and Engagement worked closely with AB analysts and portfolio managers to research and design the engagements. In 2020, we met with various officials in Panasonic's legal, procurement and corporate social responsibility areas.

While Panasonic's basic procurement policy was relatively comprehensive, our engagement revealed several areas for improvement. Escalated issues were shared within narrow silos at the firm, inhibiting widespread action. Incomplete supply-chain mapping focused auditing efforts only on first-tier suppliers. Also, those auditing procedures relied heavily on checklists and good faith instead of direct audits, third-party verification and conversations with workers offsite.

Based on these conversations, we perceived elevated investment risk in Panasonic; as a result, we reduced or sold positions across all portfolios. We continue to engage with Panasonic on these issues, and we're encouraging the company to take action to correct what we view as deficiencies.

Samsung: Recognition for Strong Practices

Samsung Electronics scores very well on the KnowTheChain scorecard, which reflects the KnowTheChain Investor Statement: Investor Expectations on Addressing Forced Labor in Global Supply Chains. The company has many strong practices to combat modern slavery, including a Global Labor Issue Committee that meets biweekly to discuss responses to current issues. Samsung also offers multiple channels for workers or others to report grievances, including online, offline, a hotline and an employee committee.

Samsung's 2,400 tier-one suppliers must complete a self-assessment as well as on-site auditing and third-party verification of their operations. Tier-one suppliers are also required to manage the working conditions of second-tier suppliers. Samsung also monitors its own sites: in 2018, four of the 11 audited sites received the highest recognition from the Responsible Business Alliance. Overall, we believe Samsung has good policies in place, but in our view, it would benefit from providing more information on how those policies are being implemented and what effect they are having.

Volkswagen: A Principled Approach

Volkswagen, with 774 controlled entities and more than 65,000 supplier locations worldwide, is another firm that rigorously assesses and reduces modern slavery risk in its operations and supply chain.

In managing operational risk, Volkswagen uses an established compliance management system (CMS) to implement business and human rights due diligence according to UN principles. Substantial overlap between the seven elements of the CMS and those of the UN principles enabled the company to implement the UN principles firmwide very quickly, without the need to devise a standalone CMS for human rights.

The company assesses human rights risk with a scoring model that analyzes and correlates business-model and country exposures for each entity. In 2020, only 33 of Volkswagen's 774 controlled entities surveyed were scored as high risk. The company follows up its assessment of each entity with a range of risk-reduction measures. They're based on how the entity ranks in integrating business and human rights principles into its operations, its compliance in putting those principles into practice, and the resources it dedicates to enabling compliance.

In managing modern slavery risk throughout its supply chain, Volkswagen applies three principles: prevent, detect and react. Prevention begins with getting all direct suppliers to agree to the company's code of conduct, covering environmental requirements, workers' rights, transparent business relations, fair market behavior and responsible sourcing of raw materials. Detection includes a sustainability rating that enables the company to embed sustainability in its sourcing decisions. The rating—required before a contract is awarded—is based on a self-assessment questionnaire validated by an independent third party and—if necessary—verified by on-site inspection. Detection becomes more challenging once it moves beyond the several thousands of direct suppliers to Volkswagen Group, each of which might, in turn, have multiple suppliers of its own.

Research: The Impact so Far

Shareholders are increasingly engaging with senior executives on modern slavery risk. This dialogue, and its results, will evolve over time. From our perspective as an asset manager, research and engagement on modern slavery can create positive change in two ways: by reducing modern slavery risk and by enhancing our research and investment process.



As responsible investors, we scrutinize the behavior of our supplier and the companies we analyze. As a responsible corporation, we continually turn the same lens on ourselves.”

—AB Global Slavery and Human Trafficking Statement and Report,
September 2021

For example, modern slavery's very nature and timeliness have broadened and deepened our conversations with companies—including those beyond our investment portfolios. We recently engaged with an Australian telecom company on modern slavery; as a result, senior management made the issue a priority on its own materiality map. We're also having conversations about modern slavery risk—and how to manage it—with a wider range of corporate officers, including global supply-chain managers. In 2020, we hosted a training module on modern slavery for investors, which more than 300 people attended.

Our experiences in engaging with companies on this issue have been overwhelmingly positive. One of the most heartening aspects has been discovering the shared conviction of boards and senior executives that modern slavery is indeed a social evil and a business risk, and that all of us—companies, investors and consumers—must do all we can to confront and eradicate it.

More robust modern slavery assessments have immediately enhanced our fundamental research capability, and we expect the benefit to grow along with our research and engagement efforts. In a few cases, we've removed issuers from our portfolios when our modern slavery risk assessment worked against our investment thesis. More commonly, we've established higher conviction in our issuer selection. We expect to generate more—and higher-quality—investment insights as we continue engaging with firms over the long term.

DISPLAY 8: MODERN SLAVERY LEGISLATION AND GUIDANCE

October 2019

Our Director of Social Research and Engagement joined the Financial Services Council (FSC) ESG working group and the FSC and Responsible Investment Association Australasia Modern Slavery working group (Australia)

May 2020

AB signed the KnowTheChain Investor Statement: Investor Expectations on Addressing Forced Labor in Global Supply Chains

June 2020

AB joined, as an observer, an engagement by the Interfaith Center on Corporate Responsibility and KnowTheChain, in collaboration with the Principles for Responsible Investment. The engagement, with apparel and footwear companies benchmarked by KnowTheChain, addressed their practices on addressing forced labor in supply chains as well as increased supply-chain forced labor and labor risks related to COVID-19

November 2020

AB signed the investor statement "Find It, Fix It, Prevent It," convened and resourced by the UK-based Churches, Charities and Local Authorities Association. AB joined the Investors Against Slavery and Trafficking Asia-Pacific initiative

July 2021

AB became a member of the Themis working group focused on developing a digital training module on modern slavery for the financial sector

The Path from Here

In the short term, the development path for our modern slavery research is clear: continue evaluating risk in our portfolios and engaging with companies while growing our knowledge base and analytical capabilities. The goal is to make more informed investment decisions on behalf of our clients and to satisfy our own modern slavery reporting requirements.

But over a longer time frame, we expect the environment to change and the scrutiny of modern slavery to intensify. The world will become more aware of it, better informed about it and increasingly driven to act. We shouldn't underestimate the potential for popular activism to have a broader impact on modern slavery, particularly given the influence of social media and the power of consumers at the point of sale through ethical-purchase mobile apps.

In fact, we believe that modern slavery could become a moral issue as expansive and urgent in the public consciousness as climate change is today. We're seeing companies and investors moving beyond the stage of "unaware and unaccountable," developing awareness and an understanding that modern slavery is a real threat to business sustainability. We're all on this journey, but the pace is accelerating. In our view, those who willingly embrace the challenge to collaborate, act and lead in the fight against modern slavery will be the most successful.

Appendix

DISPLAY 9: HIGHEST RISK FOR MODERN SLAVERY

Estimated Victims per 1000 of People According to Global Slavery Index

| | | | | | | | | |
|----|----------------------------------|-------|----|-----------------------|-----|----|----------------------|-----|
| 1 | North Korea* | 104.6 | 30 | Philippines | 7.7 | 59 | Lithuania | 5.8 |
| 2 | Eritrea | 93.0 | 31 | Timor-Leste | 7.7 | 60 | Zambia | 5.7 |
| 3 | Burundi | 40.0 | 32 | Nigeria | 7.7 | 61 | Venezuela | 5.6 |
| 4 | Central African Republic | 22.3 | 33 | Uganda | 7.6 | 62 | Haiti | 5.6 |
| 5 | Afghanistan | 22.2 | 34 | Madagascar | 7.5 | 63 | Egypt | 5.5 |
| 6 | Mauritania | 21.4 | 35 | Malawi | 7.5 | 64 | Russia | 5.5 |
| 7 | South Sudan | 20.5 | 36 | Guinea-Bissau | 7.5 | 65 | Moldova, Republic of | 5.5 |
| 8 | Pakistan | 16.8 | 37 | Liberia | 7.4 | 66 | Benin | 5.5 |
| 9 | Cambodia | 16.8 | 38 | Syrian Arab Republic* | 7.3 | 67 | Mozambique | 5.4 |
| 10 | Iran, Islamic Republic of | 16.2 | 39 | Angola | 7.2 | 68 | Armenia | 5.3 |
| 11 | Somalia | 15.5 | 40 | Djibouti | 7.1 | 69 | Uzbekistan* | 5.2 |
| 12 | Democratic Republic of the Congo | 13.7 | 41 | Kenya | 6.9 | 70 | Sierra Leone | 5.0 |
| 13 | Mongolia | 12.3 | 42 | Malaysia | 6.9 | 71 | Ghana | 4.8 |
| 14 | Sudan | 12.0 | 43 | Albania | 6.9 | 72 | Iraq* | 4.8 |
| 15 | Chad | 12.0 | 44 | Cameroon | 6.9 | 73 | Gabon | 4.8 |
| 16 | Rwanda | 11.6 | 45 | Togo | 6.8 | 74 | Indonesia | 4.7 |
| 17 | Turkmenistan* | 11.2 | 46 | Niger | 6.7 | 75 | Tajikistan* | 4.5 |
| 18 | Myanmar | 11.0 | 47 | Zimbabwe | 6.7 | 76 | Burkina Faso | 4.5 |
| 19 | Brunei Darussalam | 10.9 | 48 | Turkey | 6.5 | 77 | Vietnam | 4.5 |
| 20 | Belarus | 10.9 | 49 | Ukraine | 6.4 | 78 | Bulgaria | 4.5 |
| 21 | Papua New Guinea | 10.3 | 50 | Equatorial Guinea | 6.4 | 79 | Azerbaijan* | 4.5 |
| 22 | Lao People's Democratic Republic | 9.4 | 51 | Tanzania | 6.2 | 80 | Georgia | 4.3 |
| 23 | Thailand | 8.9 | 52 | Ethiopia | 6.1 | 81 | Romania | 4.3 |
| 24 | Swaziland | 8.8 | 53 | India | 6.1 | 82 | Cyprus | 4.2 |
| 25 | Macedonia | 8.7 | 54 | Croatia | 6.0 | 83 | Kazakhstan* | 4.2 |
| 26 | Congo | 8.0 | 55 | Nepal | 6.0 | 84 | Lesotho | 4.2 |
| 27 | Greece | 7.9 | 56 | Côte d'Ivoire | 5.9 | 85 | Kyrgyzstan* | 4.1 |
| 28 | Guinea | 7.8 | 57 | Montenegro | 5.9 | 86 | Cape Verde | 4.1 |
| 29 | Libya | 7.7 | 58 | Gambia | 5.8 | 87 | Dominican Republic | 4.0 |

* Estimates could be understated due to data limitations.

DISPLAY 9: HIGHEST RISK FOR MODERN SLAVERY (CONTINUED)

Estimated Victims per 1000 of People

| | | | | | | | | |
|-----|------------------------|-----|-----|----------------|-----|-----|-----------------------|-----|
| 88 | Kosovo | 4.0 | 115 | Algeria | 2.7 | 142 | Brazil | 1.8 |
| 89 | Latvia | 3.9 | 116 | Guyana | 2.6 | 143 | Netherlands | 1.8 |
| 90 | Israel | 3.9 | 117 | Jamaica | 2.6 | 144 | Austria | 1.7 |
| 91 | Cuba | 3.8 | 118 | Peru | 2.6 | 145 | Lebanon* | 1.7 |
| 92 | Bangladesh | 3.7 | 119 | El Salvador | 2.5 | 146 | Switzerland | 1.7 |
| 93 | Hungary | 3.7 | 120 | Portugal | 2.5 | 147 | Ireland | 1.7 |
| 94 | Estonia | 3.6 | 121 | Morocco | 2.4 | 148 | United Arab Emirates* | 1.7 |
| 95 | Mali | 3.6 | 122 | Italy | 2.4 | 149 | Finland | 1.7 |
| 96 | Botswana | 3.4 | 123 | Ecuador | 2.4 | 150 | Denmark | 1.6 |
| 97 | Singapore | 3.4 | 124 | Spain | 2.3 | 151 | Paraguay | 1.6 |
| 98 | Bosnia and Herzegovina | 3.4 | 125 | Suriname | 2.3 | 152 | Sweden | 1.6 |
| 99 | Honduras | 3.4 | 126 | Tunisia | 2.2 | 153 | Qatar* | 1.5 |
| 100 | Poland | 3.4 | 127 | Slovenia | 2.2 | 154 | Luxembourg | 1.5 |
| 101 | Serbia | 3.3 | 128 | Oman* | 2.1 | 155 | Kuwait* | 1.5 |
| 102 | Namibia | 3.3 | 129 | Bolivia | 2.1 | 156 | Hong Kong* | 1.4 |
| 103 | Yemen* | 3.1 | 130 | Sri Lanka | 2.1 | 157 | Argentina | 1.3 |
| 104 | Trinidad and Tobago | 3.0 | 131 | Iceland | 2.1 | 158 | United States | 1.3 |
| 105 | Slovakia | 2.9 | 132 | United Kingdom | 2.1 | 159 | Costa Rica | 1.3 |
| 106 | Guatemala | 2.9 | 133 | Panama | 2.1 | 160 | Uruguay | 1.0 |
| 107 | Nicaragua | 2.9 | 134 | Germany | 2.0 | 161 | Mauritius | 1.0 |
| 108 | Czech Republic | 2.9 | 135 | Belgium | 2.0 | 162 | Chile | 0.8 |
| 110 | South Africa | 2.8 | 137 | South Korea* | 1.9 | 163 | New Zealand | 0.6 |
| 111 | China* | 2.8 | 138 | Saudi Arabia* | 1.9 | 164 | Taiwan* | 0.5 |
| 112 | Barbados | 2.7 | 139 | Bahrain* | 1.9 | 165 | Canada | 0.5 |
| 113 | Colombia | 2.7 | 140 | Norway | 1.8 | 166 | Japan* | 0.3 |
| 114 | Mexico | 2.7 | 141 | Jordan* | 1.8 | | | |

* Estimates could be understated due to data limitations.

As of September 30, 2020 | Source: Global Slavery Index

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