Contents

Introductions
- Douglas Bryden, Travers Smith
- Sabine Hoefnagel, ERM
- Peter Hayward, ERM
- Alison Hampton, HgCapital

What we will cover in this session
- Introduction to modern slavery and how the modern slavery Act applies to the Private Equity Sector
- Overview of how to address modern slavery in the investment process
- Overview of what it means for PCs
- What must be contained in a modern slavery and human trafficking statement?
- What to do when you find modern slavery?
Modern Slavery Background and Context

What constitutes slavery?

There are many different characteristics that distinguish slavery from other human rights violations, however only one needs to be present for slavery to exist. Someone is in slavery if they are:

- **forced to work** - through mental or physical threat;
- **owned or controlled by an 'employer'**, usually through mental or physical abuse or the threat of abuse;
- dehumanised, **treated as a commodity** or bought and sold as 'property';
- **physically constrained** or has restrictions placed on his/her freedom of movement.

What is the relevance of slavery today?

The practice still continues today in one form or another in every country in the world. From children and adults forced to work in agriculture, domestic work, or factories and sweatshops producing goods for global supply chains, the illegal practice still blights contemporary world.

What sectors are affected?

Modern slavery occurs in many sectors but some are higher risk than others e.g. food and agriculture (e.g. fruit and vegetable picking, fishing, cocoa, cotton, etc.), textile and clothing manufacturing, domestic work, construction, electronics.
Exposure to Modern Slavery

Nestle Accused of Putting Fish From Slave Labor in Cat Food

Bed maker that supplies retailers including John Lewis and Next 'used Hungarians as slave labour paying them £2 a day and forcing them to live in inhumane conditions'

Workers who collected Freedom Food chickens 'were trafficked and beaten'

The Guardian

The world's leading sustainability consultancy
Modern Slavery is prevalent around the world

The world's leading sustainability consultancy
Overview of the Modern Slavery Act

Background

- Core offences: (i) slavery / servitude and (ii) human trafficking and the new transparency statement
- Effective from Oct 2015, transitional provisions for corporate transparency obligation
- “New wave” regulation and industry drivers

What is required?

- Qualification
  - Commercial organisation
  - Goods or services
  - UK presence
  - £36m annual turnover
- Publish a statement annually
Addressing Modern Slavery in the Investment Process

Applicability to Private Equity firms

- Which supply chains?
- Upstream v downstream
- UK v global operations

Applicability to PC companies

- Subsidiaries can qualify in own right
- Multiple statements?
- How much control should GPs and Managers take?
Addressing Modern Slavery in the Investment Process

Challenges during diligence

- Move from asset-based liabilities to considering business and supply chain risk
- Extent of diligence?
- New policies / training
- Ongoing monitoring / targets
- ‘Race to the top’
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Addressing Modern Slavery in the Investment Process

The UN Guiding Principles on Business and Human Rights (UNGPs) specify that due diligence processes should ‘include assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed’.

PE houses often make commitments to avoid child and forced labour in ESG polices (e.g. KKR, 3i). PE’s are also making enquiries of supply chain to protect their reputation in certain high-risk sectors (e.g. food and beverages, agriculture, apparel, construction).

Investment risk awareness is rising with investor led global initiatives such as Principles for Responsible Investment (PRI). PE’s investing in Emerging Markets are also referencing IFC Performance Standards.

High level risk assessment in the investment process:

• Review compliance/compliance plan for Modern Slavery Act in UK
• Management Q&A to identify current policies, systems and processes in place and how potential issues are dealt with
• Given the business context (e.g. risk profile of the sector, and nature of their supply chain), assess whether these are fit for purpose
What does ‘Good’ supplier management look like?

**Risk management**
- Risk exposure in own business supply chain
- Mapping of high risk country/sector focus areas
- Identify potential gaps
- Action Planning

**Supply chain management**
- Code of Conduct
- Supplier questionnaires
- Supplier audits
- Supporting resources
- Continuous improvement
- Trend analysis

**Raising awareness**
- Engagement
- Training
- Capacity building and coaching

- Assurance mechanisms in place
- Risks identified and managed
- Improved supplier performance
Publishing a statement

Content of statement

- Nothing compulsory, but reputational significance
- NGO pressure
- Home Office guidance
  - Business and supply chain structure
  - DD processes
  - Training
  - Underlying policies and procedures
- Requires director signature
What do you do when you find slavery issues?

The Transparency in Supply Chain Practical Guide suggests “Any incidence of modern slavery should be dealt with appropriately and relevant remedies made available to potential victims”.

- Due diligence considerations
- Ongoing risk and reporting management
What do you do when you find slavery issues?

**Crisis response**

- Any policy procedures?
  - Robust and defensible position

- NGO management
  - Rapid and thought-out response

- Disclosure to regulator?
  - Have ‘core’ offences been committed and possible self-reporting considerations

- Possible defences and reputation management
Questions?

Any Questions?
For more information and support…

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Sabine is the Managing Partner for ERM in the UK and Ireland. She has 20 years’ experience in social performance management, human rights, sustainable finance and international development.

Sabine works with clients to assist them to identify issues, to set policy and develop procedures and tools that respond to both business needs and stakeholder expectations and to consistently improve performance. She also leads ERM’s internal Global Human Rights and Business Network.

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**Peter Hayward**  
Principal Consultant, ERM

Peter is a Principal Consultant at ERM based out of the Manchester office. Peter has over 12 years’ experience in environmental, health and safety (EHS) and social management and compliance.

Peter is an experienced auditor and works with clients both at the Corporate strategy and operational level. He has worked with clients in identifying risks within the supply chain and developing and managing programmes to mitigate supply chain risks through audits and supplier engagement/capacity building.

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Doug is a partner in the Corporate Department at Travers Smith. He heads the Operational Risk Group, which specialises in UK, EU and international Environment, Regulatory and Product & Trade law.

Doug’s transactional, advisory and contentious practice focuses on a range of compliance and risk management issues, including business ethics, anti-bribery and corruption, human rights and corporate transparency.

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Thank you