

BRIEFING

IFM Investors' engagement with Woolworths: Responsible Sourcing

July 2018

LISTED EQUITIES

Briefing background

A key principle in IFM Investors' Responsible Investment Charter is to protect the rights of working people. IFM Investors put this principle into action in October 2016 when it initiated an engagement process demanding improved human rights management in the fresh food supply chain, particularly relating to labour hire practices. Two of its primary targets were supermarket chain owners Woolworths Group Ltd. (ASX: WOW) and Wesfarmers Ltd. (ASX: WES).

IFM Investors called for i) greater disclosure of human rights and labour management risks in the supply chain; and ii) an industry-led pre-qualification process for labour hire companies supplying workers to agricultural companies.

Since IFM Investors' initial engagement with Woolworths Group and Wesfarmers there has been significant activity around the issue of supply chain human rights and labour risk, including:

- Queensland, South Australian and, most recently, Victorian state governments' legislative changes to reduce exploitation

of workers and bring greater integrity to the labour hire industry; and

- Shareholder resolutions made during last year's AGM season aimed at Woolworths and Wesfarmers requesting annual disclosure on management of human rights risks within the supply chain. The resolutions were ultimately withdrawn with both companies agreeing to greater disclosure and stronger controls to manage supply chain human rights and labour issues.

Woolworths Group engagement update

IFM Investors recently hosted a supply chain and sustainability briefing by Woolworths Group (Woolworths).

Representatives from the company gave an overview of their group sustainability strategy, focusing on improvements and changes to their responsible sourcing policy and management approach.

Woolworths representatives included Fiona Walmsley, Senior Manager Group Sustainability; Alex Holt, General Manager

Quality, Sustainability & Health; and Paul Van Meurs, Investor Relations Manager. A number of asset owners and the Australian Council of Superannuation Investors (ACSI) also attended.

Woolworths' responsible sourcing approach – a good start

Woolworths has made good progress on a number of issues to confront the human rights management challenges its businesses face. The company has established a Steering Committee to work with suppliers on a group-wide approach to establishing practices and controls to ensure compliance with labour standards and law.

Progress has been made across several areas, including:

- **Updated Responsible Sourcing Policy**
The updated Board-approved Responsible Sourcing Policy, applies to all suppliers. It includes a clear commitment to United Nations Guiding Principles on Business & Human Rights, the International Labour Organisation's Fundamental Principles and Rights at Work, grievance mechanisms and remediation, and mutual recognition of audits.
- **Updated Responsible Sourcing Standards**
These standards are applicable to own-brand suppliers and are benchmarked against international and industry standards including United Nations Global Compact (UNGC), and International Labour Organisation (ILO), and the Ethical Trading Initiative Base Code. The standards will be reviewed annually to ensure ongoing relevance.
- **Framework for policy and protocol development**
In addition to Responsible Sourcing Policy and Standards, the framework for policy and protocol development also includes a set of procedures for "how" Woolworths conducts business and assesses supplier compliance to the Standards. Suppliers can access supporting resources including guidelines, templates and training materials.
- **Responsible Sourcing Supplier Roadshows**
The first step in Woolworths' supplier engagement and education is the Responsible Sourcing Supplier Roadshows. These will run from July-October across key sites in Asia, Australia and New Zealand. In July, 300 suppliers from higher risk categories received a full day responsible sourcing training in Thailand, Shenzhen and Shanghai. Sessions in Australia and New Zealand are scheduled for September and

October 2018.

- **Mutual Recognition Scheme for supplier monitoring and audit**

Woolworths' Mutual Recognition Scheme requires Tier 1 suppliers to belong to one of six global industry programs for monitoring and auditing suppliers. The decision to allow suppliers to choose their own scheme recognises the variance in industry-relevance from scheme-to-scheme. Schemes include:

- amfori BSCI
- Supplier Ethical Data Exchange (Sedex) and SMETA
- Social Accountability (SA) 8000
- International Councils of Toy Industries (ICTI) Ethical Toy Program
- Worldwide Responsible Accredited Production (WRAP)
- GLOBALG.A.P. Risk Assessment on Social Practice (GRASP)

- **Due diligence risk assessment**

Woolworths' new risk assessment and segmentation process uses a risk-based and leverage-driven approach to classify its own-brand suppliers into one of four priority groups, each with its own targeted engagement program to manage and mitigate risks. The methodology combines information on inherent sourcing risk (i.e. country, sector) with business leverage to optimise program impacts.

- **Grievance mechanism and remediation approach**

Woolworths' new grievance and remediation framework applies to its own operations and its supply chain. This common framework is for internal stakeholders and external suppliers to identify issues, review allegations and consistently grade issues; it also includes defined remediation expectations and timelines.

- **Collaboration drives change**

Woolworths believes a holistic and collaborative industry approach is required to drive meaningful change in supply chain human rights management. A key initiative in this area includes the Woolworths-initiated Retail Roundtables that commenced in March 2018 with other retail representatives, suppliers, NGOs and investors to discuss migrant workers in Australian horticultural supply chains. The second Roundtable session was held in Hong Kong in July on the topic of intractable challenges in supply chains in Asia. Woolworths continues to collaborate with the National Union of Workers (NUW) on horticultural labour hire issues.

Woolworths publicly releases new Responsible Sourcing Policy and Standards, July 2018

On 10 July 2018 Woolworths publicly announced its new Responsible Sourcing Policy and Program. The company acknowledges supply chain management continues to be top of mind for customers and stakeholders and has sent a letter to all suppliers advising of the new program.

The company states on its website, "While our operations and supply chains are complex, our aim is to ensure that human rights issues are understood, respected and upheld. We expect our business partners to adhere to ethical business conduct consistent with our own, and are committed to working with them to fulfil this common goal, and proactively address human rights."

Learn more at www.woolworthsgroup.com.au.

Ongoing action required to maintain momentum

IFM Investors believes significant risks relating to Woolworths' domestic supply chain remain for workers and investors. This is due to the disparate legislative requirements across Australia to manage a huge number of suppliers over large and diverse geographies, combined with the limited resources of the Fair Work Ombudsman to investigate claims. Woolworths and fresh food grocery chains have a responsibility to ensure robust mechanisms for oversight and management of these risks in their own supply chain. Further, given their size and national reach, they are also best placed to help drive positive change in managing these issues across the sector.

IFM Investors was pleased to hear Woolworths' plan for oversight and management of human rights issues in their domestic supply chain. Now that the company has publicly announced their Responsible Sourcing Program, it is important that they have the required resources to roll it out and embed the standards throughout their Tier 1 supplier group.

Woolworths acknowledged that 63% of their Tier 1 farms in Australia and 61% in Asia have a Sedex Member Ethical Trade Audit (SMETA) in place. We believe that work is required to improve penetration of these monitoring and auditing schemes throughout Tier 1 suppliers and build out the program and standards to Tier 2 and 3 suppliers.

We urge Woolworths to continue discussions with NUW about the pre-qualification program for labour hire firms and look forward to an update on progress. Further, we would encourage the engagement with other community based NGO's to be engaged in this process.

IFM Investors will continue to work both directly and with ACSI to pursue conversations with Woolworths, Wesfarmers and other companies regarding adverse human rights and labour issues in the supply chain.

Further information will be disclosed in Woolworths' 2018 Group Sustainability Report. " "



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