

Institutional ESG Investing Program

2Q10

ESG Investment Update

On the Environmental, Social and Governance (ESG) front, we'd like to discuss one of the most prevalent global issues today: the exploitation of labor rights. In particular, one of the fastest growing problems afflicting workers around the world, including the U.S., is human trafficking, forced labor and modern-day slavery.

According to a recently published report¹ by the non-governmental organization Verité, an estimated 12 to 27 million people are currently victims of modern-day slavery and other forms of forced labor around the world. In the U.S. alone, more than 10,000 people are forced to work at any given time. This report addresses current labor broker practices and the subsequent effects on the lives of the estimated 200 million international migrant workers involving 161 countries that serve as a source, a transit point or a destination for human trafficking.

In the Verité report, the key findings highlight the intersection of brokers, migrant workers and slavery. For example, in the Indian domestic garment manufacturing industry, juvenile girls may be forced to work 12-15 hour or 24-hour shifts under three-year contracts for a lump-sum payment of \$750, all the while being exposed to hazardous chemicals and other safety risks, isolated from their families and the outside world. Another example is in the U.S. agricultural sector, where Guatemalan, Mexican and Thai migrant workers, both documented and undocumented, are regularly trapped into forced labor through exorbitant broker fees, threats of violence and wages below the legal minimum.

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In examining causes of the proliferation of labor exploitation overseas, poor governance and corruption are seen as key issues in trade and business operations.² In a World Bank study, six measures of country-level governance were analyzed with regard to the impact on the economy: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and the control of corruption.³ Poor governance has been cited to have contributed to labor strikes or work stoppages, which, as noted in a World Bank study on Bangladesh, could cost the country \$60 million each day and cost the government 3-4% of GDP each year.⁴

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¹ “Help Wanted: Hiring, Human Trafficking and Modern-Day Slavery in the Global Economy,” www.verite.org.

² Citigroup Global Markets, Inc. Economic and Market Analysis: “Bangladesh 2007: Economy Holding Up Despite Politics”, 12 April 2007.

³ “Measuring Governance Using Cross-Country Perceptions Data,” Kaufmann, Kraay and Mastruzzi, The World Bank, August 2005.

⁴ See Citigroup.

PORTFOLIO MANAGER COMMENTARY



Given the rise of globalization and international expansion, many of our portfolio companies will often outsource a portion of their labor needs and be indirectly involved with factory labor through their supply chain.

As investors, we can work directly with our companies to increase the transparency and reporting around labor practices and sourcing policies. We can ask companies about their recruitment and hiring practices and whether or not they conduct audits of their factories and monitor the enforcement of standards. Equally important in our view, we can ask companies about their remediation process in cases where violations are discovered.

For over a decade, in our ESG Investment Program, we have funded research on sweatshop and forced labor practices at the companies in our investment universe. [Please contact us for a copy of our current screening guidelines on Sweatshop and Child Labor Issues.] The results of the research have been both positive and challenging in that much progress has been made in the various sectors that source factory and low-wage workers with regard to human rights and labor standards. However, as the recent Verité report has shown, there is much more work to be done across the globe to improve fair labor conditions and end modern slavery.

As always, thank you for your support of our ESG Program.

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