Principles for Responsible Investment

SUSTAINABILITY IN SUPPLY CHAINS

A guide for private markets investors

SEPTEMBER 2025

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE SIX PRINCIPLES

PREAMBLE TO THE PRINCIPLES

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1 We will incorporate ESG issues into investment analysis and decision-making processes.

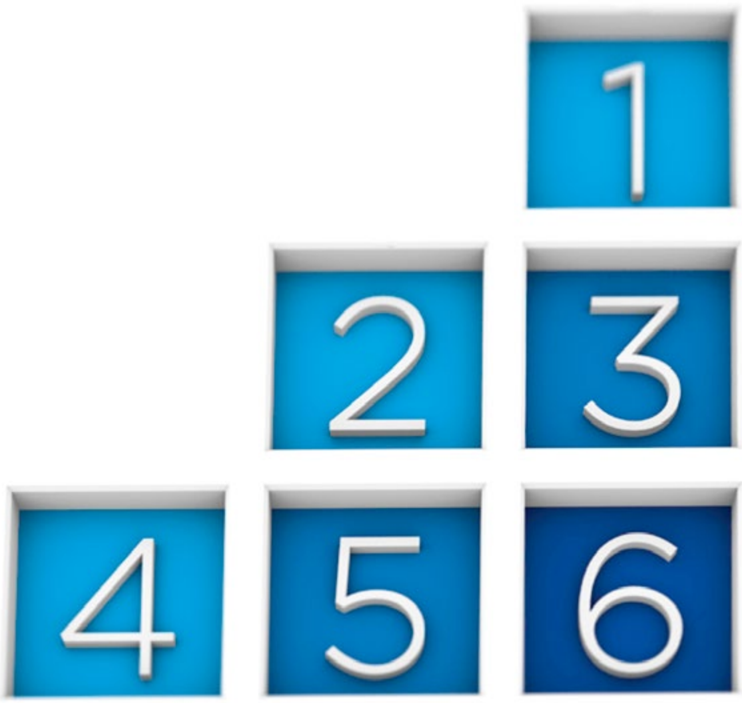
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.



PRI's MISSION

We believe that an economically efficient, sustainable global financial system is a necessity for long-term value creation. Such a system will reward long-term, responsible investment and benefit the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by: encouraging adoption of the Principles and collaboration on their implementation; fostering good governance, integrity and accountability; and addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

FOREWORD

Our private markets signatories continue to make meaningful strides in advancing their responsible investment practices. We are encouraged by the high levels of collaboration and innovation across this community, reflected in the engagement of more than 200 investors in the development of this guide.

The business case for responsible investment must be resilient amid an evolving geopolitical and regulatory landscape. Our conversations with investors throughout this project have reaffirmed that the rationale remains robust, namely that incorporating financially material sustainability risks and opportunities is part of fulfilling fiduciary duty.

Regulatory developments are increasingly reshaping investor responsibilities regarding investee supply chains and associated sustainability due diligence. Investors are now expected to take a more holistic view of investee companies, delving deeper into their supply chains to uncover and manage hidden risks and identify long-term value creation opportunities. At the same time, shifting trade policies are reconfiguring global supply chains, introducing new uncertainties that require thoughtful navigation.

These changes come as private markets signatories are undergoing a broader transition from a primary focus on risk mitigation to one that seeks to generate and capture value through sustainability. We hope this guide supports our private markets signatories in evolving and advancing their thinking and practice, helping to embed effective risk management alongside value creation by fostering more transparent, sustainable and resilient supply chains among portfolio companies.

As we face today's complex and dynamic challenges, it is more important than ever for the responsible investment community to stay connected – sharing insights, fostering dialogue and championing best practice. I extend my sincere thanks to all the signatories who participated in the survey, interviews and workshops that underpin this guide. Your openness and commitment are essential to the continued advancement of responsible investment globally.

I am also grateful to LRQA and Travers Smith for their valued support in the production of this guide.

David Atkin
CEO, PRI

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1. EXECUTIVE SUMMARY

The current environment makes it more critical than ever for companies and investors to understand the detail and structure of supply chains and the associated sustainability risk and opportunity. As geopolitical and regulatory shifts continue – creating conflict and uncertainty – having visibility into and a deep understanding of supply chains can enable the identification of points of leverage and the flexibility needed to ensure their resilience.

This guide explores why and how private markets investors might approach sustainability risks in the supply chains of investee companies. It addresses the regulatory, operational and financial implications for private markets investors and corporate stakeholders.

Our findings underscore that embedding supply chain visibility requirements and due diligence, both preinvestment and during ownership, is no longer optional but is a strategic driver of value creation and protection and an enabler of exit readiness. Firms that proactively assess and manage supply chain risks can safeguard assets, enhance financial performance, unearth opportunities and strengthen long-term resilience. This guide offers leading practices and practical guidance for integrating due diligence into investment processes, equipping investors and portfolio companies with a roadmap to navigate regulatory complexities while unlocking new growth opportunities.

Its key takeaways are:

- There is a clear business case for supply chain due diligence. Failing to identify or manage human rights and environmental impacts in the supply chain creates exposure to financial, operational and reputational harm. Real world cases illustrate these business risks and the corresponding economic impacts.

- Supply chain due diligence can be embedded across all investment stages. While many investors have responsible investment policies and conduct initial high-level sustainability risk screening, a more rigorous assessment of portfolio companies' supply chain risks and management practices should form a core part of due diligence. This deeper evaluation is particularly critical for companies operating in or sourcing from high-risk countries and industries and can enhance investors' ability to monitor, engage with and incentivise performance improvements across the entire investment cycle.

- Mapping out supply chains can uncover hidden risks and opportunities. Limited supply chain visibility remains a major challenge for businesses, often masking critical risks such as forced labour or poor working conditions. Companies and leading investors are addressing this by integrating supply chain mapping exercises into due diligence – starting with tier 1 suppliers and extending deeper in high risk areas. Not doing so limits the ability of investors and portfolio companies to exert leverage to mitigate risk.

- Risks in the supply chain vary across regions and industries and can be mitigated when portfolio companies have mature risk management processes. Sound due diligence identifies and prioritises human rights and environmental risks, followed by evaluation and ongoing performance monitoring of the portfolio company's supply chain risk management capabilities.

- To protect and create value, portfolio companies should establish robust supply chain frameworks and processes. These include supply chain mapping, targeted risk assessments and focused due diligence, as well as risk-based mitigation measures such as supplier training and continuous performance monitoring.

To support active engagement, this guide discusses key practices across the investment cycle, from early screening and investment decision-making, to exit and re-investment. It offers practical insights on:

- industries with high exposure to human rights and environmental risks in the supply chain;
- key considerations for general partners, limited partners and portfolio companies when assessing supply chain sustainability;
- critical questions for integrating supply chain topics into early investment screening and due diligence;
- varying approaches to engaging with companies on supply chain risk management, based on investors' leverage;
- managing subcontracting risks.

ACKNOWLEDGEMENTS

This guidance document was developed in collaboration with LRQA, a risk and assurance advisory firm appointed by the PRI. We are also grateful to Travers Smith and the Responsible Contracting Project for their valuable contributions to key sections of the guide.

The PRI would like to extend thanks to its Private Equity Advisory Committee for feedback throughout the development of this guide. As of June 2025, its members included:

- Aware Super
- Blackstone
- Blue Wolf Capital Partners
- British International Investment
- Carlyle
- EQT
- FountainVest
- Healthcare of Ontario Pension Plan (HOOPP)
- Helios Investment Partners
- IG4
- KKR
- Kohlberg & Company
- New York City Office of the Comptroller
- OPTrust
- PGGM
- Samara Capital
- San Francisco Employees' Retirement System (SFERS)
- StepStone Group
- Verod Capital

Our special thanks to the following organisations for their contributions:

- Adenia
- Actis
- Alterra Capital
- BC Partners
- Coller Capital
- Goldman Sachs Asset Management
- IK Partners
- Inspired Evolution
- Nextalia
- PAI Partners
- Permira
- Skandinaviska Enskilda Banken (SEB)
- Seviora Group

The opinions, recommendations, findings and conclusions in the guide are those of the PRI alone and do not necessarily represent the views of the contributors.

ABOUT THIS GUIDE

This guide sets out the business case and provides practical guidance for private markets investors to assess and manage sustainability risks in the supply chains of investee companies, both before investment and during the holding period.

General partners (GPs) can use the guide to inform their supply chain due diligence and ongoing management processes, while limited partners (LPs) can use it to better understand their GPs' approaches to sustainable supply chains. It also provides guidance applicable to private markets investors' portfolio companies.

The guide is intended for investors and portfolio companies at different stages of maturity and practice on sustainable supply chains.

- For those new to or less familiar with the topic, it provides a general introduction to the importance of supply chain sustainability risks and breaks down the different elements of conducting sustainability diligence and ongoing management of supply chains.
- For those with an existing supply chain due diligence process, the guide can be used to review and benchmark their current processes against leading industry practices and learn from peers using the case studies and examples provided throughout the document.

The content in the guide was developed based on:

- 20 in-depth interviews with a diverse set of GPs and LPs;
- five workshops, involving more than 200 private markets investors across Asia, Europe, Africa, Latin America and North America;
- a global survey of private markets investors;
- LRQA expert insights;
- desk research.

The PRI collaborated with LRQA, a global risk and assurance advisory firm with expertise in supply chain sustainability and resilience, to produce the research and this guidance. The PRI's Private Equity Advisory Committee provided inputs throughout.

2. INTRODUCTION

In the context of this guide, supply chain due diligence refers to the processes used by companies and investors (both pre- and post-investment) to identify and address potential and actual negative impacts on people and the environment occurring within their supply chains. These impacts are linked to issues such as forced labour, poor working conditions, environmental violations and governance failures, and they vary across industries and geographies. Conducting thorough supply chain due diligence and understanding the associated business risks not only helps mitigate such impacts but also supports key business objectives of risk management and value creation.

Global uncertainty and recent developments in geoeconomics have prompted a deep review of supply chains and the rethinking of sourcing strategies, requiring investors to ensure portfolio companies can adapt quickly and mitigate exposure. For private equity-backed businesses, this means supply chain due diligence can no longer be treated as a deliberate, compliance-driven process. It must be immediate, agile and tightly integrated with commercial decision-making. A diverse and flexible supply chain has become essential not only to maintain business continuity but also to safeguard against regulatory, reputational and operational shocks. Embedding sustainability into procurement strategies can further enhance this resilience, helping companies to future-proof operations and adapt more effectively to evolving market and policy expectations.

RISK MITIGATION THROUGH REGULATORY COMPLIANCE AND SUPPLIER DIVERSIFICATION

Supply chain due diligence helps businesses avoid legal repercussions and reputational damage linked to non-compliance, especially in an evolving regulatory environment where supply chain accountability is increasingly mandated by law. Over the past decade, there has been a shift from voluntary guidelines to legally binding regulations on human rights due diligence, enhancing corporate responsibility along supply chains, as we discuss in section 3.2.

In addition to mitigating legal risk, effective supply chain due diligence can also help to enhance supplier visibility and diversification, reducing the potential for operational disruption due, for example, to delivery delays or limited availability of inputs. By assessing suppliers' financial stability and sustainability practices, businesses can evaluate alternative options for sourcing that meet compliance and sustainability standards, thereby reducing dependency on any single region or supplier.

VALUE CREATION THROUGH COMPETITIVE ADVANTAGE AND OPERATIONAL EFFICIENCIES

Supply chain due diligence also presents opportunities for value creation. Companies that prioritise visibility over and resilience of their supply chains can attract clients seeking well-managed partners who can meet specific expectations, secure valuable contracts and demonstrate a better asset value. As consumer and regulatory expectations rise, businesses with strong sustainability and governance practices can position themselves as preferred partners and investments.

Supply chain due diligence can improve operational efficiencies and create cost savings. By identifying potential disruptions early, companies can optimise logistics, reduce waste and improve supplier performance. Companies that help their supplier base maintain compliance with international standards are less vulnerable to sudden regulatory changes or trade restrictions.

In addition, a growing number of companies, government agencies and development finance institutions require suppliers and project sponsors to demonstrate strong human rights and environmental due diligence before agreeing contracts, providing those with robust risk management systems a competitive advantage in tendering processes.

This guide explores guidance for human rights and environmental supply chain due diligence (Section 4) and provides practical guidance on how to integrate supply chain considerations into the investment cycle (Section 4.1) and on portfolio companies' risk management and responsible sourcing approaches (Section 4.2). Further reading and useful resources are included in section 5.

DEFINITION:

WHAT IS SUPPLY CHAIN DUE DILIGENCE?

Supply chain due diligence refers to an extended scope of risk assessment and management activities, which includes a company's supply chain. It is an extension of both the wider corporate due diligence that a private markets investor will carry out on a potential acquisition pre-investment and active monitoring and engagement conducted post-investment.

A supply chain generally refers to the system of people and things that are involved in creating and delivering a product or service, from the raw materials involved to the ultimate buyer. While a value chain refers to all stages of a product or service's lifecycle, from design, production and use to end-of-life and disposal, the term supply chain focuses on the 'upstream' sourcing and production phases, from the production of the raw material, usually over multiple manufacturing and refinement processes, to the delivery of the sourced good, product component or service to the sourcing company.

For the final production of a good or provision of a service, a company usually sources from multiple suppliers, who in turn get their product components from multiple suppliers, who in turn get materials for these product components from multiple suppliers, and so on. These are referred to as supply chain tiers, with suppliers being differentiated between first-tier suppliers (closest to the company, with direct contractual relationships) and second-, third- and n-tier suppliers (indirect suppliers who supply to first-, second-, third-tier suppliers etc.).

Visibility of company suppliers, including what, where and how they produce, can vary significantly across the different tiers of a supply chain, often making it challenging for companies to monitor and manage risks effectively.

DIRECT SUPPLIERS (TIER 1)

Tier 1 suppliers are typically the direct suppliers of a company, providing the finished goods or key components that companies integrate into their products, or supporting services or products such as IT equipment or office cleaning services.

Due to the proximity to the end buyer (the company), transparency regarding tier 1 suppliers is generally the highest. Many companies know their first-tier suppliers, where they are based and which products or services they supply. In turn, companies can more easily audit and assess these suppliers' operations, ensuring compliance with ethical, environmental and labour standards.

However, it can nonetheless be challenging for companies to have full visibility of their tier 1 suppliers' labour conditions, sustainability practices and the broader impact of their operations, and manage the associated data, especially in complex global supply chains and when sourcing from hundreds or thousands of first-tier suppliers.

INDIRECT SUPPLIERS (TIERS 2, 3 AND BEYOND)

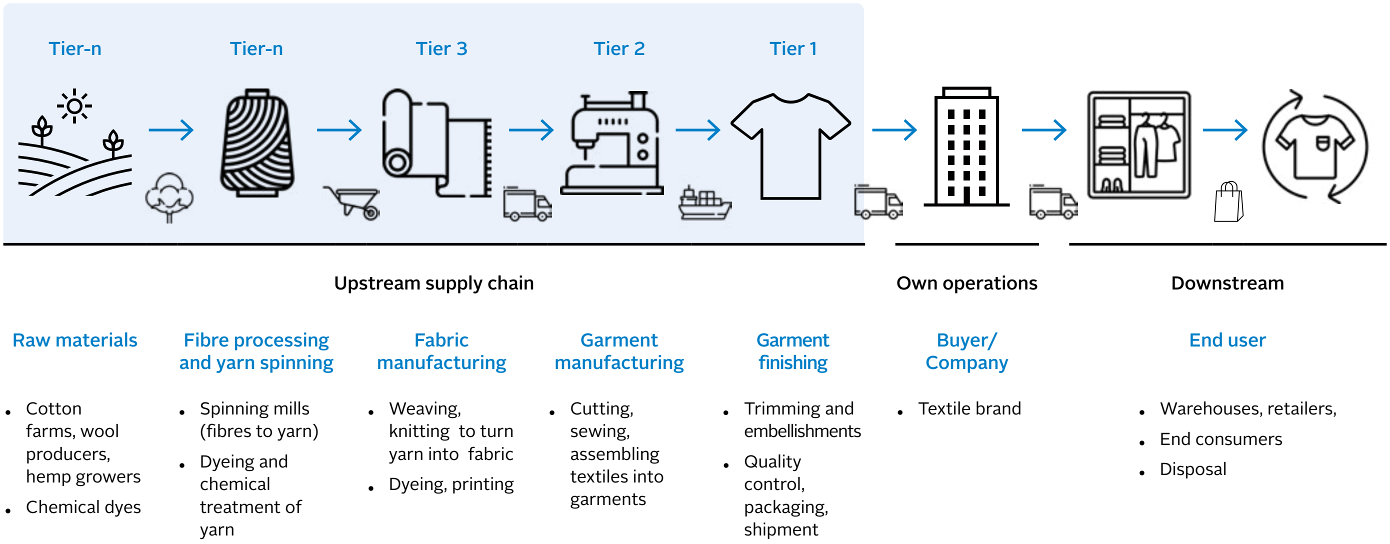
Indirect suppliers at tier 2, tier 3 or beyond supply product components, raw materials or services to the previous tier of suppliers. Direct suppliers to tier 1 are considered tier 2, direct suppliers to tier 2 are considered tier 3, and so on.

The more upstream the supplier in the supply chain, the further removed it is from the end buyer, and the more difficult it becomes to assess those less visible suppliers' sustainability exposure and practices. This is particularly the case for suppliers located in regions with less stringent regulations or oversight or which are involved in processes that are more prone to health and safety issues or exposed to the risk of child and forced labour.

Tier-n suppliers can be several steps removed from the final buyer, making it nearly impossible for companies to directly identify, monitor or audit these operations. Visibility and transparency at the higher tiers of the supply chain can require extensive collaboration with first-tier suppliers and below to improve visibility.

The example below details the value chain of a textile brand, with a focus on its upstream supply chain.

Figure 1: The value chain of a textile brand



3. THE BUSINESS CASE FOR SUPPLY CHAIN DUE DILIGENCE

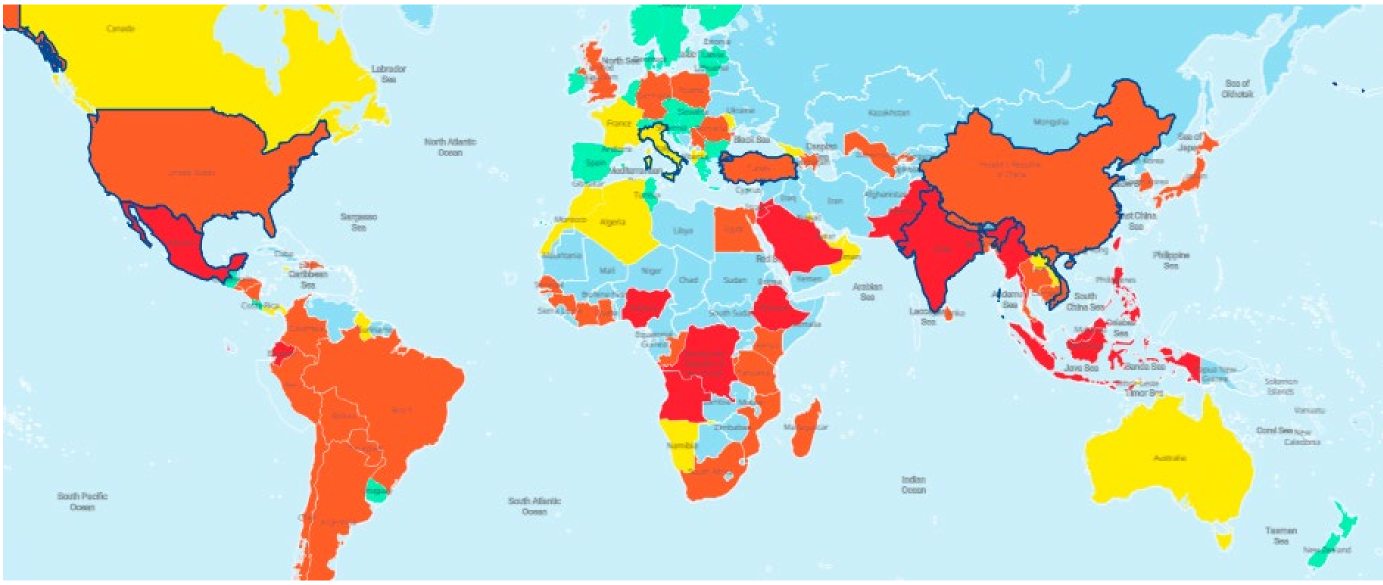
Human rights and environmental supply chain due diligence can be of strategic importance for private markets investors, especially given the degree of leverage they have over their portfolio companies. Exposure to sustainability risks varies across sourcing regions, industries and manufacturing activities, while inadequate due diligence can lead to financial, operational and reputational risks and impacts. An evolving regulatory landscape and key human rights and environmental due diligence requirements are shaping corporate accountability and investment decision-making.

3.1 HUMAN RIGHTS AND ENVIRONMENTAL RISKS IN GLOBAL SUPPLY CHAINS

To get a better picture of sustainability risks within supply chains, many companies use third-party software products to support them in their supply chain due diligence and risk management. These can, among other things, help identify which regions and sectors are particularly exposed to specific risks, helping companies to focus their scrutiny.

According to data from LRQA, at least 60% of the 362 sourcing regions it covers (both at the national and subnational level) are at high or extreme risk relating to the treatment of labour, health and safety, the environment, business ethics and management systems.[1] Figure 2 shows the global risk landscape as per LRQA data, indicating its overall risk score per geography, aggregating risk scores across five pillars (labour, health and safety, environment, business ethics and management systems). This data is derived from nearly 30,000 onsite audits per year.

Figure 2: Global landscape of overall sustainability risk level. Source: EiQ



Risk key: Extreme High Medium Low

1. LRQA (2024), 2025 Supply Chain ESG Risk Outlook Report

This data identifies the following key risks and trends:

- **Forced labour:** At least 28 million people are subject to forced labour,[2] with LRQA data revealing that at least 20 regions have shown rising forced labour risk since 2024. Countries like India, Vietnam, China, Indonesia and even the United States and Mexico show high or extreme risks of forced labour. These are key manufacturing and sourcing countries for companies in sectors such as electronics, textiles and garments, pharmaceuticals, seafood and agriculture.

  LRQA data indicates that at least 57 countries/regions, representing more than 55% of assessed geographies, were judged to be at high or extreme risk of forced labour in 2025, with more geographies at extreme risk for forced labour issues than any year prior.

  While issues of forced labour can occur across all sectors and tiers of a supply chain, the extraction of raw materials and production of primary commodities, such as in agriculture, fishing or mining, for example, are typically linked to high-risk exposure. Forced labour also persists in many processing industries – including in companies' own operations, if left unchecked. The textile and apparel industry remains a major culprit but, in reality, the challenge is much more widespread.

- **Migrant workers:** Migrant workers are more than three times as likely to be in forced labour situations than non-migrant workers.[3] They face greater exploitation due to issues such as language barriers, lack of awareness of their rights and lack of access to resources, making it difficult for them to seek help or report abuses. This risk is particularly pronounced in countries with weaker labour protections, high levels of corruption and unregulated markets with less oversight, but it occurs in all markets with migrant workers.

- **Child labour:** UNICEF estimates that 160 million children are victims of child labour worldwide.[4] LRQA data shows that at least 46 geographies are at high or extreme risk of child labour violations in 2025, including regions such as India, where exposure to child labour issues has risen significantly since 2024.

- **Working hours:** While forced labour and child labour remain at the forefront of salient issues threatening supply chain integrity and responsible sourcing, excessive working hours is another common violation that masks the real costs associated with suppliers. Supply chain sites assessed by LRQA for one Western retailer and its suppliers showed at least 25 factories where employees worked more than 90, and sometimes even more than 100, hours per week, with corresponding pay violations concealing the true cost of production.

- **Health and safety:** LRQA data shows at least 54 countries/regions at high or extreme risk of health and safety violations in 2025, encompassing issues like building safety, machine safety, fire safety and workplace injuries. Key sourcing regions at high or extreme risk include Pakistan, Bangladesh, India, Vietnam, Turkey and Mexico – regions that all play a central role in global manufacturing and raw material extraction. These risks, associated with unsafe factory conditions, exposure to hazardous chemicals and lack of proper protective equipment, are prevalent in – but not limited to – sectors such as textiles, electronics, construction materials and mining.

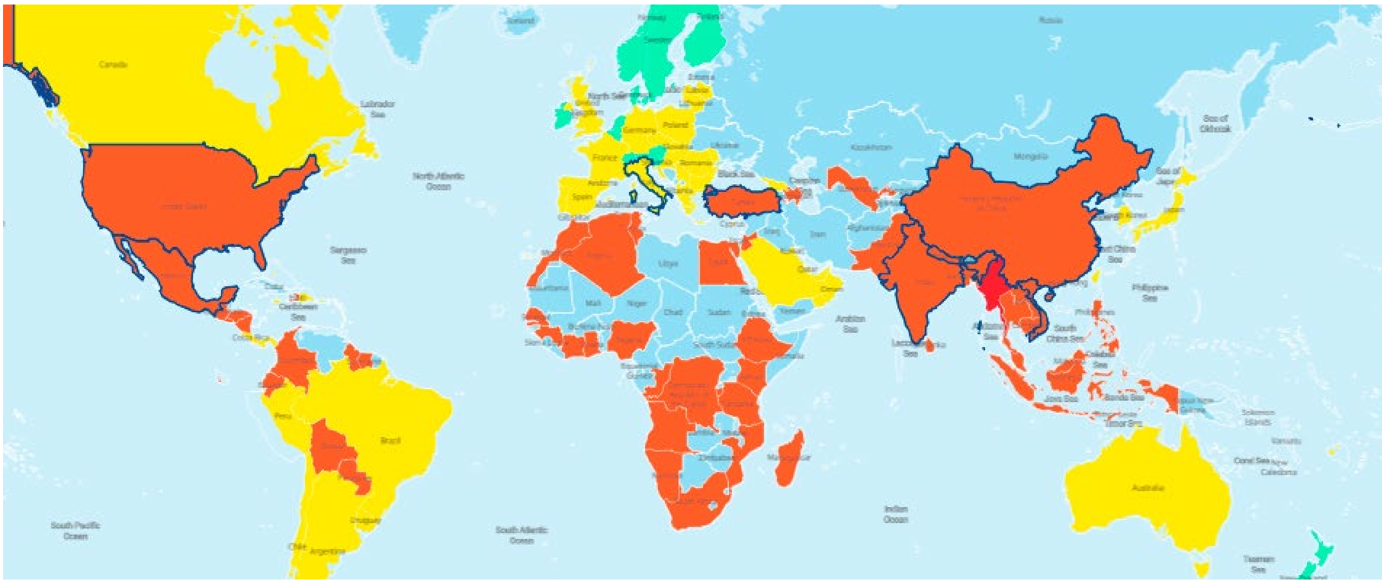
  Importantly, unsafe working conditions may often go undetected, as sporadic audits may not provide a true reflection of a site's conditions. Addressing these vulnerabilities requires comprehensive strategies, including robust legal protections, targeted health and safety training, accessible reporting mechanisms and efforts to integrate migrant workers into local communities.

- **Environmental violations:** At least 46% of sourcing markets exhibit high or extreme risk of environmental violations. This highlights a gap in how sites manage critical environmental issues, such as wastewater treatment, hazardous waste disposal and the establishment and enforcement of emissions targets. In addition to site-level environmental issues, broader environmental and climate related impacts – such as flooding or extreme heat events – pose direct risks of operational disruptions in supply chains.

2. ILO (2022), Global Estimates of Modern Slavery: Forced Labour and Forced Marriage, 3. UN News (12 September 2022), 50 million people in modern slavery: No justification for 'fundamental' human rights abuse 4. UNICEF (undated), Action Against Child Labour

- **Biodiversity loss and deforestation:** Biodiversity and ecosystem loss pose escalating risks to supply chains, particularly where raw material extraction, agricultural expansion and forest-risk commodities are involved; industries most exposed include agriculture, food and beverage, timber, paper, palm oil and mining. Deforestation hotspots include Brazil, Indonesia, the Democratic Republic of Congo, Malaysia and Côte d'Ivoire.[5] Regulations such as the EU Deforestation Regulation (EUDR)[6] and the EU Battery Regulation[7] are compelling companies to assess and mitigate environmental impacts in their supply chains: without visibility and transparency of information, capturing the data these regulations require is a formidable task.

Figure 3: Global landscape of supply chain forced labour risks. Source: EiQ



Risk key: Extreme High Medium Low

The risk of adverse social and environmental impacts occurring in supply chains is not uniform but is rather industry and country-specific. Depending on the industry and product or service provided, a company may rely on suppliers from a range of different sourcing countries, each presenting varying levels of social and environmental risk exposure.

The level of risk exposure is also influenced by the nature of products or services provided, the input materials and components required, and the underlying manufacturing processes. For example, the following factors can suggest higher risk:

- reliance on detailed, repetitive or manual labour, which may be more susceptible to child and forced labour;
- small-scale farming, family-run businesses and informal manufacturing activities, due to the challenges of enforcing labour laws;
- dependence on seasonal and labour-intensive work;
- reliance on high-risk commodities with a documented history of child and forced labour violations.

As a result, supply chain risks should be assessed and addressed based on geographical sourcing patterns and industry dependencies. The spotlight below provides a non-exhaustive overview of different high-risk industries, the sourcing countries that are typically involved and related key social and environmental risk issues in their supply chains.

5. Global Canopy (2025), Companies profit, forests fall: everyone pays the price - Forest 500 Report 2025, 6. European Union (2023), Regulation (EU) 2023/1115 on products associated with deforestation and forest degradation, 7. European Union (2023), Regulation (EU) 2023/1542 of the European Parliament and of the Council of 12 July 2023 concerning batteries and waste batteries

SPOTLIGHT:

EXAMPLES OF SELECTED INDUSTRIES WITH HIGH-RISK EXPOSURE TO ADVERSE HUMAN RIGHTS AND ENVIRONMENTAL IMPACTS IN THEIR SUPPLY CHAINS

Figure 4: Examples of industries with exposure to selected human rights and environmental risks (LRQA, 2025)

Industry	Common sourcing countries (not exhaustive)	Child labour	Forced labour (e.g., bonded labour, human trafficking)	Low wages (below living wage standards)	Excessive working hours	Wage theft (non-payment or underpayment)	Unsafe working conditions (occupational health)	Gender discrimination (e.g., unequal pay, harassment)	Exploitation of migrant workers	Lack of labour rights (e.g., union suppression)	Community displacement (e.g., land grabbing)	Indigenous Peoples' rights	Conflict financing	Water consumption	Water pollution	Greenhouse gas emissions/Energy consumption	Air pollution	Soil pollution/Soil erosion	Deforestation	Biodiversity loss	Chemical pollution	Waste generation and management issues
		Social impact topics of increased attention (not exhaustive)												Environmental impact topics of increased attention (not exhaustive)								
Apparel and footwear	China, Vietnam, Bangladesh, India, Indonesia	■	■	■	■		■	■		■				■	■	■					■	■
Automotives and components/parts	China, Mexico, Germany, Japan, United States	■	■	■			■		■								■					■
Battery storage and associated metals	Democratic republic of Congo China, Chile, Indonesia	■	■				■				■	■	■	■	■	■		■	■	■		■
Chemicals and materials such as polyvinyl chloride (PVC)	United States, China, Germany, France, Japan		■				■			■						■	■				■	■
Food and beverages (e.g. seafood, beef, soy, cocoa, palm oil)	Brazil, Indonesia, West Africa, Southeast Asia	■	■	■				■		■	■	■		■	■		■		■	■		
Forestry and logging	Brazil, Canada, Russia, China, Indonesia, Malaysia			■			■					■						■	■	■		
Mining and quarrying	Chile, China, Australia, India, Brazil, Chile, Peru	■	■				■		■			■	■	■	■	■	■	■	■	■		■
Renewable energy (wind, solar)	China, Malaysia, Japan, Germany		■				■									■						■
Services sector (e.g. facilities mgmt., IT, call centres, hospitality)	Global			■	■			■	■							■						■

3.2 A CHANGING REGULATORY LANDSCAPE

A growing number of laws and regulations around the world are creating requirements on companies to conduct due diligence, or similar obligations, anywhere within the supply chain. These laws generally require businesses to identify and/or act to prevent human rights or environmental impacts, or explain these actions, including regulations that apply across sectors and those that are sector/impact specific. Law firm Travers Smith has undertaken a review of these laws for the PRI, highlighting the following trends.

Emerging global regulatory requirements: The OECD Guidelines for Multinational Enterprises on Responsible Business Conduct and the United Nations Guiding Principles on Business and Human Rights (UNGPs) are central pillars of many emerging global regulatory requirements for supply chain diligence and behaviours, particularly 'horizontal' measures without any specific sector or product focus. The EU's Sustainable Finance regulatory framework, including the Sustainable Finance Disclosure Regulation (SFDR)[8] and the Taxonomy Regulation,[9] both incorporate them by reference; the SFDR includes breaches of the principles, or lack of monitoring of compliance with them, as a 'principal adverse impact' or PAI indicator, and the Taxonomy Regulation requires that any entity claiming its economic activity as sustainable within the meaning of the regulation must conduct its business in alignment with the OECD Guidelines and the UNGP.

Primarily aimed at providing transparency to facilitate flows of sustainable finance, the inclusion of responsible business conduct frameworks are indicative of the holistic view that many investors take of sustainability.

The EU CSDDD: The EU Corporate Sustainability Due Diligence Directive (CSDDD),[10] represents the highwater mark of active due diligence obligations, applying across sectors and to a broad range of actors regardless of their country of domicile. It uses concepts from international frameworks to determine involvement with or proximity to (and therefore liability for) human rights and environmental impacts, which are themselves determined by reference to international conventions and standards. In this way, the EU is seeking to drive higher standards of conduct by international companies doing business in its territory, even where the impacts in question occur in other parts of the world where such behaviours may be more common and where the relevant international convention or conventions may not be applicable.

With that said, as of mid-2025, the CSDDD was subject to a proposal by the European Commission to revise it by somewhat weakening the diligence obligations. The EU has also delayed the introduction of due diligence requirements in respect of certain products linked to deforestation by 12 months via a last-minute amendment to its Deforestation Regulation. The EU nonetheless remains a global leader in respect of supply chain laws, having both horizontal and sector-specific measures available to it, and with due diligence becoming a more common feature as it revisits some existing legislation (such as the Batteries Regulation).

Product-specific regulation: A number of jurisdictions have introduced regulations targeting products presenting particular risks. This is most evident in respect of forestry products, where several Asian countries have legislation addressing the management and traceability of products to combat illegal logging and deforestation. Similarly, Brazil has a regulation requiring certification of diamonds in line with the Kimberley Process to ensure that they are conflict-free. Conflict-free minerals have been the focus of a number of measures, including in the US and the EU, with regulation seeking to promote responsible sourcing practices and improve the transparency and accountability of mineral supply chains.

Some supply chain laws have a specific geographic focus. This may be expressed as a core part of the legislation, for example in the US Uyghur Forced Labor Prevention Act (UFLPA).[11] It creates a presumption that products imported from the Xinjiang region of China are created with forced labour.

8. European Union (2019), REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector; 9. European Union (2020), REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088; 10. European Union (2024), Directive (EU) 2024/1760 on corporate sustainability due diligence; 11. United States Congress (2021), Public Law 117-78 – An Act to ensure that goods made with forced labor in the Xinjiang Uyghur Autonomous Region of the People's Republic of China do not enter the United States market, and for other purposes, 2021; 12. European Union (@017), REGULATION (EU) 2017/821 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 May 2017 laying down supply chain due diligence obligations for Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas

Alternatively, laws may provide for subsequent identification of high-risk areas. For example, the EU's Conflict Minerals Regulation required the European Commission to establish a list of conflict-affected high-risk areas which can be updated as necessary without the need for new legislation.[12] A similar system is foreseen by the EUDR, under which the European Commission will establish a system to classify countries as low, standard or high risk.

A global sustainability reporting standard: The creation of a global baseline in sustainability reporting by the International Sustainability Standards Board (ISSB) has encouraged many jurisdictions to substantively address sustainability issues beyond climate for the first time.

Some standard setters that have adopted or are in the process of adopting the ISSB standards, of which there are now more than 30 worldwide, may go beyond the global baseline and require positive improvement actions to be associated with disclosures. This is in contrast to mandatory sustainability reporting in the EU, which requires transparency but does not explicitly dictate any change in behaviour as a result. It is possible to see changing patterns over time, whereby reporting requirements are frequently a precursor to more active obligations, and reporting obligations may catalyse action by reporting entities in any event.

REGULATORY TRACKER

To help investors navigate the evolving regulatory landscape, the PRI and Travers Smith have published a supply chain regulation tracker to accompany this guide.

The tracker was assembled using a third-party software tool, C2P, which provides access to almost 15,000 global regulations and supporting sources, of which more than 600 were potentially relevant to this project.

It focuses on laws, regulations and other legally binding instruments for due diligence or similar obligations in the supply chain regarding human rights and/or environmental damage, whether horizontal or sectorspecific. It does not include supporting sources, including court judgments, codes of practice, guidance or similar.

3.3 IMPLICATIONS FOR PORTFOLIO COMPANIES AND PRIVATE MARKETS INVESTORS

All of the above-mentioned issues, whether incidents of forced labour, occupational health and safety failings or inadequate waste management, for example, can damage the financial performance, operations and reputations of businesses or assets owned by private markets investors. They can also negatively affect the investor's own investment performance and reputation. At the same time, rigorous processes to identify and manage supply chain-related sustainability impacts can help create value.

For portfolio companies and their investors, conducting thorough human rights and environmental due diligence is therefore not only a regulatory obligation but is also a strategic necessity to safeguard assets and ensure sustainable growth. Engagement with investors conducted as part of this project confirmed that most consider sustainability issues in their investment processes due to: the financial significance associated with the risk; potential reputational implications; expectations from LPs; and regulatory pressures.

Compared with their peers in public markets, private markets investors tend to have significant leverage over portfolio companies. This puts them in a strong position to encourage these companies to address human rights and environmental exposures within their supply chains.

BUSINESS DRIVER: MITIGATION OF FINANCIAL AND OPERATIONAL RISKS

The lack of a robust supply chain due diligence system to identify and mitigate the potential adverse impacts on people or the environment can pose direct financial and operational risks. These may result in companies having to pay fines for regulatory non-compliance, settlement costs in cases of actual violations, losses in revenue due to supply chain disruptions or operational inefficiencies, or disruption of capital raising plans.

Recent examples include:

- Investigations by Germany's Federal Office for Economic Affairs and Export Control, initiated in late 2023, into 58 companies for potential violations under the country's Supply Chain Act, related to their engagement with a transport company accused of poor labour practices.[13] These companies could face fines of up to €8 million or 2% of their global annual turnover for failing to address human rights impacts in their supply chains.[14]

- Reports of thousands of Volkswagen vehicles being held at US ports, amid claims they contained parts potentially made with forced labour in China.[15]
- Disruption to Shein's listing plans. Alleged links to human rights abuses – particularly concerns over sourcing cotton produced by Uyghur forced labour in China – and concerns around inadequate due diligence at the fast fashion giant led to the company reportedly shelving plans to list on the New York Stock Exchange in 2023. The company is now exploring a London IPO instead. These London plans also face opposition, with campaigns already preparing to seek a judicial review of the IPO.[16]
- Meat processing and packing companies Perdue Farms and JBS, which paid US$8m in a settlement with the US Department of Labor after employing migrant children in dangerous work at their slaughterhouses. Investigations revealed that children were working overnight sanitation shifts in meatpacking plants and were engaged in hazardous tasks in poultry processing plants, including using electric knives and heat-sealing presses.[17]
- ArcelorMittal, one of the world's largest steelmakers, was placed under judicial supervision in France, being accused of endangering the lives of others, forgery and environmental damages in connection to industrial pollution in the Fos-sur-Mer region.[18]

Similarly, the EU's CSDDD, as drafted, contains penalties for non-compliance and, in the United States, companies found in violation of the UFLPA risk having their goods seized at ports, facing significant financial losses and reputational damage.

The enforcement of the US UFLPA has led to significant detentions of goods at US ports, with Vietnam being notably affected. In 2023, US Customs and Border Protection (CBP) detained shipments from Vietnam valued at approximately US$1.01bn.[19] This is due to Vietnam's role in assembling products using components including cotton and polysilicon that are suspected to originate from China's Xinjiang region. Consequently, companies importing these goods from Vietnam face supply chain disruptions, storage costs for detained goods and the consequences of the seizure and forfeiture of shipments that fail to comply with UFLPA requirements.[20]

Such disruptions can delay production schedules, strain relationships with clients and make it more expensive to raise capital. It is expected that the US administration will increasingly utilise both the UFLPA and Withhold Release Orders as policy levers within its broader geopolitical trade strategy.

BUSINESS DRIVER: VALUE CREATION AND PROTECTION

Monitoring supply chains and managing the related exposures is an important means for both portfolio companies and investors to manage and mitigate risks and can be a strategic lever for value creation. Good sustainability practices, including the effective management of supply chain due diligence, can drive top-line growth. If a portfolio company has a high dependency on its supply chain, the visibility of suppliers, diligence regarding their practices and improvement in their performance must be a key focus to generate the greatest return on investment.

Protecting a licence to operate: Businesses that proactively address human rights violations or environmental harm can better protect their social licence to operate and enhance credibility. One private equity firm gave the example of a multinational food company it owns that specialises in organic and plantbased food products. Its strong commitment to sustainability, with key environmental

13. Noerr (10 October 2023), German Supply Chain Act update: Federal Office for Economic Affairs and Export Control investigates possible violations of the Supply Chain Act; 14. Please note that the coalition agreement of the new German government includes plans to repeal the German Supply Chain Act and has called on the European Union similarly to abandon entirely the EU CSDDD. This may impact the further outcome of these investigations; 15. Business & Human Rights Resource Centre (14 February 2024), Volkswagen cars held up at US ports over part linked to allegations of forced labour in Xinjiang; 16. Reuters (3 February 2025), Shein IPO faces judicial review challenge from Uyghur rights group; Financial Times (26 June 2024), FCA urged to block Shein London listing over forced-labour concerns; 17. New York Times (16 January 2025), Meatpacking Companies to Pay $8 Million for U.S. Child Labor Violations; 18. Reuters (25 March 2025), ArcelorMittal indicted in Fos-sur-Mer pollution case in France; 19. Reuters (18 September 2024), Labor rights seeing increased enforcement throughout global supply chains; 20. US Customs and Border Protection (12 April 2024), CBP will seize products manufactured using forced labor

initiatives and investments in sustainable production, has helped it strengthen its reputation and attract new clients.

Such efforts not only support brand equity but can also yield tangible benefits in supplier performance, as safe and stable working environments can reduce staff turnover and improve output quality and efficiency. As an example, ITC Limited, an Indian company with a growing presence in the agriculture, manufacturing and services sectors, has leveraged its deep engagement in agriculture to work with farmers to create new opportunities that enhance farm incomes.[21]

Cutting costs: Enhanced risk management can also lead to cost savings. Measuring Scope 3 emissions occurring in the supply chain and reducing them through measures such as optimising modes of transport, routes or delivery schedules, can reduce operating costs while contributing to decarbonisation goals.

For suppliers, this focus on decarbonisation can attract new clients that are trying to reduce their supply chain emissions. In parallel, investments in safe, clean and efficient supply chain operations can help minimise operational disruptions caused by, for example, health and safety incidents, ultimately improving reliability and speed of delivery, and helping to increase productivity.

Improving exit strategies: Robust strategies for managing human rights and environmental impacts in the supply chain can improve a portfolio company's exit opportunities. Demonstrating and documenting the strength of a company's approach to and resilience of its supply chain can position it more favourably to potential buyers during the exit process, enhance the company's perceived value and help to avoid devaluation.

Starting from a baseline enterprise value without embedded sustainability considerations, the initial costs of regulatory compliance, risk mitigation and opportunity loss can be offset by subsequent value drivers. These include: enhanced resilience; stronger bottom-line performance driven by cost savings from energy efficiency; reduced regulatory penalties; and greater supply chain efficiency. In addition, these actions can generate top-line growth through increased demand for sustainable offerings, access to new markets enabled by legitimate sustainability credentials and improved brand reputation supporting higher sales.

Together, these factors can help deliver stronger enterprise value at exit. Initiatives and programmes such as the one exemplified in the case study below can directly contribute to value creation by reducing operational overheads and accelerating progress towards sustainability commitments. Collaborative models can unlock economies of scale and enhance supplier accountability.

CASE STUDY:

HOW THE CARBON LEADERSHIP PROGRAM IS ADVANCING SUSTAINABILITY IN THE APPAREL INDUSTRY

RESET Carbon and the Apparel Impact Institute (aii) have developed the Carbon Leadership Program, working with 19 apparel brands in nearly 300 manufacturing facilities to identify carbon reduction opportunities and develop implementation plans. The programme has identified aggregate investable opportunities to reduce more than 8m tonnes of CO_2e, with associated cost savings of US$250m per year, mainly from reduced energy spend. Key project opportunities include switching from coal to gas or biomass, onsite solar photovoltaics, steam system optimisation, industrial heat pumps and stenter waste heat recovery.

RESET and aii are working with the brands and suppliers on implementing action plans to align with brand and manufacturer 2030 carbon targets. The programme is also reducing transaction costs for participants by deploying a single methodology used by all participating brands to assess, plan and report carbon reduction. It has also identified significant procurement overlaps between participating brands, providing opportunities for them to collaborate with the same suppliers and further reinforce the business case for manufacturers to invest in facility-level reductions.

21. ITC (2021), Supporting NexGen Agriculture and Inclusive Growth

4. PRACTICAL INSIGHTS ON INTEGRATING SUPPLY CHAIN DUE DILIGENCE

There is a growing body of guidance and practice that sets out how human rights and environmental due diligence on company supply chains can be integrated. From the perspective of investors, this includes establishing governance and policies, screening portfolios, undertaking due diligence, establishing agreements with investee companies, engagement and monitoring and ensuring supply chain issues are well managed at exit.

4.1 SUPPLY CHAIN DUE DILIGENCE AS AN INVESTOR

Human rights and environmental supply chain due diligence can be integrated along every stage of the investment process, from early screening and subsequent in-depth due diligence, within legal agreements, as part of ongoing monitoring and engagement and in exit planning. Practice ranges from foundational approaches to more advanced methods adopted by frontrunners.

To effectively identify and manage risks of adverse environmental and social impacts within supply chains, investors need to critically assess and integrate relevant practices across all stages of the investment cycle. There are multiple entry points to embed supply chain sustainability considerations throughout the investment process, including:

1. **Governance and policies.** Putting clear governance structures, roles, policies and procedures in place helps ensure supply chain-related risks are considered in origination, investment decisionmaking, portfolio management and oversight activities.

2. **Early screening.** Reviewing potential investments early on can identify any red flags or sustainability incidents that may conflict with investor policies and standards or represent risks that cannot be sufficiently mitigated.

3. **Due diligence.** Thorough due diligence to identify and assess actual and potential impacts on people and the environment in the supply chain enables findings to be integrated into an action plan with measures for prevention, mitigation or remediation.

4. **Decision-making and agreements.** It is important to ensure that investment decisions are informed by due diligence outcomes and that agreements with investee companies clearly define expectations, responsibilities, required actions and monitoring provisions related to supply chain sustainability.

5. **Engagement and monitoring.** Actively engaging with portfolio companies supports capacitybuilding and continuous improvement on supply chain due diligence. Systematic monitoring ensures progress is tracked and emerging or evolving risks are identified.

6. **Exit strategy.** Sustainability impacts should be taken into account when planning and executing an exit, which should also aim to ensure that key mitigation measures remain in place after investment.

The chart below outlines standard and advanced activities for each step of the investment cycle. The activities apply specifically to GPs that have a significant stake or ownership in the portfolio company (see Spotlight on page 32).

Figure 5: Overview of standard and advanced activities by step in the investment cycle.

	1. Governance and policies	2. Early due dilligence screening	3. Due diligence	4. Decision and agreement	5. Engagement and monitoring	6. Exit and re-investment
Standard practice	• Sustainability policies and principles • Exclusion lists	• Materiality assessment • Self-assessment questionnaire • Review of Supplier Code of Conduct and sustainability policy • Screen for sanctions, media allegations etc. at portfolio company level	• Risk exposure and maturity assessment (inhouse or with third party) • Document reviews • Management interviews	• 100-day action plan • Environmental and social action plan	• Developing policies • Monthly media screens • Staff training, knowledge sharing and networking sessions • Post-investment visits • Monitoring and reporting • Regular impact assessments	• Ensuring relevant policies and processes are in place and documented
Leading practice	• Dedicated supply chain policies • Clearly defined roles and responsibilities • Management leadership and board involvement at portfolio company • Training • Data and systems (e.g., sanction screenings, survey tools, etc.)	• Third-party risk assessment • On-site assessments • Screen for sanctions etc. at supplier level • Product-level screenings/ certifications and standards	• Supply chain mapping (priority products/ suppliers) for high priority/risk suppliers • Spot checks of high-risk suppliers • Stakeholder engagement with suppliers, NGOs, etc.	• Including performance clauses in agreements	• Establishing relevant teams • Escalation plan and remediation procedures • Grievance mechanisms and handling of complaints • Engagement with affected stakeholders • Crisis management plan (at investor level)	• Screening new buyers for alignment with priorities

1. GOVERNANCE AND POLICIES

	1. Governance and policies	2. Early due dilligence screening	3. Due diligence	4. Decision and agreement	5. Engagement and monitoring	6. Exit and re-investment
Standard practice	• Sustainability policies and principles • Exclusion lists	• Materiality assessment • Self-assessment questionnaire • Review of Supplier Code of Conduct and sustainability policy • Screen for sanctions, media allegations etc. at portfolio company level	• Risk exposure and maturity assessment (inhouse or with third party) • Document reviews • Management interviews	• 100-day action plan • Environmental and social action plan	• Developing policies • Monthly media screens • Staff training, knowledge sharing and networking sessions • Post-investment visits • Monitoring and reporting • Regular impact assessments	• Ensuring relevant policies and processes are in place and documented
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Standard practice

- Integrating supply chain considerations into sustainability policies and principles
- Exclusion lists incorporating supply chain considerations

Leading practice

- Dedicated supply chain policies
- Clearly defined roles and responsibilities and full integration in deal teams
- Training and subject matter expert support
- Leadership and board involvement at portfolio companies
- Data and systems (e.g. screenings, survey tools, etc.)

Sustainability policies and principles: Having a sustainability or responsible investment policy in place is an established private equity practice. Investors committing to the PRI's six principles integrate environmental, social and governance factors into their investment decisions and ownership practices and encourage transparency from the companies they invest in. They also promote these principles within the industry, collaborate with others to improve their effectiveness and report on their progress regularly.

While having a dedicated commitment on sustainable supply chains is still rare, many investors address potential issues through commitments on specific topics, such as human rights or greenhouse gas emissions, where potential risks arise across a company's value chain.

Exclusion lists: Another standard practice is the definition of strict exclusion criteria. Supply chain-related topics may indirectly feature in these criteria, as exclusion lists typically focus on controversial industries, products or practices that present potential environmental or social risks. While typical areas of exclusion include controversial weapons, animal testing, gambling and tobacco, more impact-oriented investors may commit specifically to excluding companies linked to, for example, child labour, illegal logging or sourcing of conflict minerals.

Dedicated supply chain policies: More advanced investor practice is to develop a standalone policy that describes the investor's approach to conducting human rights and environmental supply chain due diligence and improving supply chain transparency in more detail. Such policies and underlying processes should align with international standards, such as the UNGPs, and applicable due diligence legislation.

Defining roles and responsibilities, resourcing training: Most investors that helped with the drafting of this guide recognise the importance of sustainability and have dedicated staff in place. A common practice is to have a small team of sustainability professionals, often part of the investment team, that manages the sustainability performance across the portfolio and may support deal teams with reviews into specific sustainability topics. Resources are increasingly allocated for internal sustainability training and specialist support, with external consultants often engaged to provide deeper expertise where needed.

More advanced practices include having dedicated staff with expertise in supply chains and key industry risks. They might include, for example, a renewables specialist who understands issues related to critical minerals, a human rights specialist to identify forced and child labour risks, or engagement with external subject matter experts.

Some sustainability teams are expanding their remits to include training for portfolio company boardm embers and deal teams, equipping investment decision-makers with the knowledge necessary to identify and mitigate adverse impacts in supply chains at the earliest possible stage. Insights from the interviews emphasise capacity-building and training, embedding sustainability expertise across investment teams to strengthen internal capabilities.

Leadership and board involvement: Other more advanced practices include involvement and steering at the senior partner or managing director level of the investment firm, setting clear expectations and allocating resources. Sustainability priorities, including the management of supply chain risks, may be part of the firm's investment philosophy and value-creation strategy. Members of the GP's leadership can play a direct role post-investment, sometimes through board positions at portfolio companies, in setting supply chain risk management expectations and by holding the company's management accountable for improvements.

Data and systems: Policies are ineffective without systems to enforce and monitor them. Robust data collection and monitoring systems are key, as they allow tracking of performance. This helps to ensure compliance by conducting regular real-time supplier screening for policy violations, for example, and enables informed decision-making, prioritised action and effective resource allocation.

However, many investors struggle to obtain relevant, in-depth data at the earliest deal stages. Solutions can be found in screening tools, which help investors assess portfolio companies and their suppliers for links to, for example, forced labour, or survey tools to collect performance data, such as on greenhouse gas emissions, directly from companies.

RECOMMENDATIONS

1. **Formalise commitments:** Establish formal responsible investment commitments, with a specific focus on supply chain impacts, including commitments to incorporate supply chain risks and considerations into the investment decision-making process.

2. **Train teams on emerging risks:** Provide ongoing training to deal and legal teams about emerging issues and high-risk products and geographies to ensure that supply chain issues are front and centre during the rest of the due diligence process and risks are identified at an early stage. Share case studies and examples to bring the subject to life and demonstrate material impacts.

3. **Define responsibility within the team:** Assign clear responsibilities for supply chain due diligence within the investment team.

4. **Secure budget for external expertise:** Ensure dedicated budget is available to bring in third-party support for high-risk industries and targets.

5. **Collaborate with industry experts:** Engage with external experts and industry bodies for best practices in high-risk industries. For example, participate in industry-specific initiatives to gain insights and best practices for managing supply chain risks.

SPOTLIGHT:

ASSESSING SUPPLY CHAIN SUSTAINABILITY – KEY LP CONSIDERATIONS

Sustainability risks can cascade through investment structures, originating at the supplier level and impacting portfolio companies, their investors and, ultimately, limited partners through their commitments to general partners.

GPs and LPs have distinct but complementary roles when it comes to integrating supply chain due diligence into the investment process. While GPs are responsible for implementation and oversight within their portfolios, LPs focus on setting expectations, monitoring and holding GPs accountable. More precisely, LPs, such as pension funds, sovereign wealth funds and institutional investors, act as stewards of capital and ensure GPs align with responsible investment standards.

An LP can use its position to assess its GP's policies, request transparency on supply chain risks and impact responsible investment standards through capital allocation and engagement. To ensure responsible investment practices with a focus on supply chain responsibility, LPs should evaluate whether GPs have established strong monitoring and reporting mechanisms. Key questions to ask include:

- Has the GP put supply chain sustainability policies in place before committing capital?
- Has the GP implemented clear reporting frameworks specifically focused on supply chain sustainability?
- Are there well-defined protocols for reporting and addressing supply chain-related human rights or environmental violations?
- What monitoring procedures does the GP enforce to mitigate risks?

In turn, GPs are directly responsible for assessing and mitigating sustainability risks within portfolio companies' supply chains. To do so, a GP can use its leverage to actively conduct due diligence, set sustainability policies, engage with portfolio companies on compliance and implement monitoring frameworks.

2. EARLY DUE DILIGENCE SCREENING

	1. Governance and policies	2. Early due dilligence screening	3. Due diligence	4. Decision and agreement	5. Engagement and monitoring	6. Exit and re-investment
Standard practice	• Sustainability policies and principles • Exclusion lists	• Materiality assessment • Self-assessment questionnaire • Review of Supplier Code of Conduct and sustainability policy • Screen for sanctions, media allegations etc. at portfolio company level	• Risk exposure and maturity assessment (inhouse or with third party) • Document reviews • Management interviews	• 100-day action plan • Environmental and social action plan	• Developing policies • Monthly media screens • Staff training, knowledge sharing and networking sessions • Post-investment visits • Monitoring and reporting • Regular impact assessments	• Ensuring relevant policies and processes are in place and documented
Leading practice	• Dedicated supply chain policies • Clearly defined roles and responsibilities • Management leadership and board involvement at portfolio company • Training • Data and systems (e.g., sanction screenings, survey tools, etc.)	• Third-party risk assessment • On-site assessments • Screen for sanctions etc. at supplier level • Product-level screenings/ certifications and standards	• Supply chain mapping (priority products/ suppliers) for high priority/risk suppliers • Spot checks of high-risk suppliers • Stakeholder engagement with suppliers, NGOs, etc.	• Including performance clauses in agreements	• Establishing relevant teams • Escalation plan and remediation procedures • Grievance mechanisms and handling of complaints • Engagement with affected stakeholders • Crisis management plan (at investor level)	• Screening new buyers for alignment with priorities

Standard practice

- Materiality assessments
- Self-assessment questionnaires
- Media screening
- Reviews of supplier codes of conduct and sustainability policies
- Screening for sanctions and policy violations, media reports etc. at portfolio company level

Leading practice

- Third-party risk assessments
- On-site assessments
- Screening for sanctions and policy violations, media reports etc. at supplier level
- Product-level screenings/certifications and standards

Materiality assessments: During the early screening and due diligence phase, investors can gain initial insights into supply chain-related sustainability risks by engaging target companies with a set of sustainability-related questions, reviewing key documentation such as supplier codes of conduct, and conducting preliminary desk-based research.

Typically, investors apply a materiality lens first to determine whether and in how much depth they want to assess potential supply chain risks. Factors that usually influence this determination during the early screening include size, industry, the company's products and operations, the geographic scope and complexity of its supply chain, as well as the materiality of specific sustainability issues. Tools like the SASB materiality finder are often used by investors to identify the most material sustainability topics for a given industry.

Surveys and self-assessment questionnaires: For companies active in industries that are more exposed to risks of human rights violations in their supply chain, such as companies producing solar panels, investors can then choose to request additional information on the target's supplier portfolio, its supplier code of conduct and its responsible sourcing policies. This is typically done via surveys or self-assessment questionnaires.

A common practice is for investors to ask supply chain-specific questions, tailored to the potential high-risk areas identified. These typically include questions on the target's most critical suppliers and practices observed in relation to specific human rights or environmental compliance risks.

Media screening: Some investors conduct desktop research to screen for media allegations or links to sanction lists associated with the company. A standard approach is to do this via open keyword searches in publicly available resources; a more advanced approach involves leveraging professional media and sanctions screening tools. Sources to tap into for sanction screening include the United Nations Security Council (UNSC) sanction lists, the EU consolidated sanction lists, the World Bank listing of ineligible firms and individuals and lists maintained by the US Department of Labor on goods produced by child or forced labour.

To streamline processes, some investors utilise compliance platforms from providers such as Moody's and Zapflow, which offer sanction solutions to help navigate international sanctions screening and watchlists. Automated screening tools can be used by investors and companies to enhance existing assessment and monitoring mechanisms through more real-time insight and additional data sources.

Advanced practices: More advanced practices include leveraging third-party risk assessment tools to better understand the inherent risk exposure of the target's supply chain. Some may decide to conduct on-site assessments of key operations or top suppliers of the target (e.g. the top 80% by spend, or the top 20 suppliers), and screen actual supplier data for links to sustainability incidents or sanctions. Some investors incorporate product-level screenings of sustainability risks as part of their initial screening to assess a target company's adherence to recognised certifications and industry standards. This involves evaluating whether products comply with sustainability benchmarks such as Fair Trade or Forest Stewardship Council certification, or whether production processes and sites are certified with an ISO standard.

SPOTLIGHT:

KEY QUESTIONS TO CONSIDER FOR INTEGRATING SUPPLY CHAIN TOPICS AS PART OF PRE-INVESTMENT DUE DILIGENCE

To understand supply chain risks when considering a potential acquisition, GPs might ask the following questions:

1. Governance and policy framework

- Does the company have a supplier code of conduct which includes environmental and social considerations? Does the company have a responsible sourcing strategy or policy, with management or board buy-in?
- Does the company have responsible sourcing oversight for core programme functions, e.g. monitoring supplier performance, implementing audit programmes and engaging or training suppliers?

2. Risk assessment and supply chain due diligence

- Does the company conduct regular environmental and social risk assessments? A risk assessment can include the use of third-party risk analytics data, regular media screening, stakeholder engagement, etc.
- Does the company incorporate environmental and social risk factors into its supplier onboarding and monitoring?

3. Supplier engagement and monitoring

- Does the company conduct third-party social and environmental compliance audits, using a standard audit protocol, such as SMETA (Sedex Members Ethical Trade Audit), ERSA (Elevated Responsible

Sourcing Assessment by LRQA) or BSCI (Business Social Compliance Initiative), with all or selected tier 1 suppliers?
- Does the company have an approval process for subcontractors?
- Do supplier contracts include terms from the supplier code of conduct?
- Does the company have long-term engagements with its suppliers (e.g. multi-year contracts with regular orders)?

4. Supply chain transparency and data management

- Has the company identified and mapped its tier 1 suppliers?
- Is the company able to provide the number of tier 1 suppliers?
- Does the company maintain its tier 1 supplier data on an easily accessible database?
- Does the company have any visibility over tier 2 suppliers and beyond?
- Can the company access documentation and data from its tier 1 and tier 2 suppliers and subcontractors?
- Has the company mapped all its high-risk supply chains, up to the raw material level? If not, what initiatives have been taken to increase supply chain visibility?

Additional due diligence steps should be triggered to cover any information gaps if the company answers“no” or “not available” to the majority of these questions, as a lack of information might indicate additional risk.

RECOMMENDATIONS

1. Exchange knowledge with other investors

- This can help keep knowledge up to date. Some investors have partnered with others to share knowledge on responding to emerging high-risk areas, such as critical minerals, solar, etc., in an informal setting.

2. Conduct risk assessments

- Risk assessments can be conducted internally (provided sufficient information is available) or with the help of a third party. Most investors will require a third-party risk assessment if the portfolio company operates in, or sources from, geographies or industries that are deemed high risk.
- Real-time monitoring or data analytics should be integrated into risk assessment as part of in-depth sustainability due diligence.

- Teams should have access to up-to-date risk assessment tools that incorporate real-time information as well as publicly available datasets.

3. Perform detailed (pre-investment) due diligence to identify risks early

- Detailed pre-investment screening helps identify risks before the investment process progresses.
- Advanced tools and platforms, including EiQ, RepRisk and EcoVadis, allow continuous monitoring.

4. Provide training and resources

- Providing training and resources to portfolio companies, and organising webinars and workshops, can help to educate and engage them on relevant supply chain issues and regulations.
- A focus on education and capacity-building, especially for early-stage companies, can ensure they understand and implement frameworks to navigate legislative landscapes and potential risks.

CASE STUDY:

INSPIRED EVOLUTION'S COMMITMENT TO RESPONSIBLE SOURCING

Inspired Evolution is an investment advisory business specialising in climate-driven principal investment themes. Its commitment to responsible sourcing is described within its Responsible Procurement Policy, as part of its wider sustainability-related management system. This public-facing policy sets out detailed requirements and actions to guide investment decisions and minimise risks associated with supply chains and procurement practices.

All investments and portfolio companies are required to comply with applicable national and international laws. They are also asked to establish codes of conduct, include ethical sourcing clauses in their legal contracts and continuously monitor their suppliers to ensure ongoing adherence to sustainability-related standards. This includes regular assessments, audits and the implementation of corrective action plans where necessary.

Additional risk identification and management practices vary based on the industry involved. For example, in the renewable energy industry, the focus is on the procurement of solar panels, wind turbines and batteries. Suppliers are screened for compliance with relevant legislative requirements, human rights standards and international labour standards. This includes assessing the supplier's environmental management systems, occupational health and safety practices, and overall compliance with sustainability criteria. Inspired Evolution also seeks to emphasise the importance of responsible waste management, requiring portfolio companies to screen waste processors and conduct audits before contracting. This ensures that waste processors hold the required licences, comply with applicable regulations and have robust environmental and social management systems in place.

3. DUE DILIGENCE

	1. Governance and policies	2. Early due dilligence screening	3. Due diligence	4. Decision and agreement	5. Engagement and monitoring	6. Exit and re-investment
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Standard practice	Leading practice
▪ Risk exposure and maturity assessment (in-house or with a third party) ▪ Document reviews ▪ Management interviews	▪ Deeper supply chain mapping (priority products/ suppliers) for high-priority or high-risk suppliers ▪ Spot checks of high-risk suppliers through on-the-ground visits ▪ Stakeholder engagement with suppliers, NGOs, etc.

RISK ASSESSMENT

Once a potential investment has passed initial screening, a more in-depth due diligence process is typically conducted to evaluate sustainability-related supply chain risks and to assess the company's capacity to manage them effectively. The scope and depth of this due diligence are influenced by several factors, including the initial risk classification, industry-specific supply chain vulnerabilities, regulatory and geopolitical risks, and company-specific concerns, such as past violations or lack of supplier transparency.

Risk exposure and maturity assessment: During the due diligence process, most investors conduct an indepth risk exposure and maturity assessment of the company to ensure it has the necessary practices and people in place to manage its supply chain. The assessment should be risk-based and is usually based on a thorough document review, interviews with management and key personnel, and targeted site visits. While some investors have sufficient capacity available to do this internally, most leverage third-party specialists to conduct the expanded due diligence, including on-the-ground assessments where relevant, to verify whether policies and procedures are implemented effectively.

Mapping the supply chain: To better assess the specific risks inherent to the company in focus – rather than at a more general product or industry-related level – some investors first undertake a supply chain mapping exercise. This process starts with mapping the company's primary, first-tier suppliers and later extends to additional suppliers if a deeper assessment is required due to identified risk factors. Key information to seek during this exercise should include the name of the supplier (ideally also in the local language, as this can unlock additional findings when screening local media reports), supplier location (address and country), products or services supplied and an indication of the company's leverage or ability to engage the supplier (often reflected by, for example, order volumes in relation to the supplier's total turnover, the type of supplier relationship, contracts etc.).

Consequently, investors should consider requesting that such supply chain-specific information is uploaded to the data room at the beginning of the due diligence process.

Deeper supply chain mapping: More advanced practices include a mapping of the deeper supply chain,

typically for high-risk products or geographies. For instance, when companies identify supply chains that pose a greater risk of negative human rights impacts, for example through their sourcing of minerals or agricultural products, they may choose to examine suppliers beyond tier 1 to create a more detailed overview of the entire supply chain for goods or materials.

Key elements to address during this mapping exercise should include:

- identifying the main components or raw materials used in the supplied product (or component);
- determining the suppliers of these materials and their locations;
- establishing whether any part of the production process is outsourced to other suppliers (subcontractors), along with their locations.

To facilitate this supply chain mapping exercise, investors and companies should consider creating visual supply chain diagrams or models as this enables a clearer understanding of the different stakeholders, tiers and business relationships involved.

Where actual data on suppliers is difficult to obtain – which is still one of the largest obstacles to conducting supply chain due diligence – investors and companies are recommended to create proxy supply chain maps, based on industry data and typical supply chains, production processes, sourcing countries, etc.

Identifying supply chain-specific risks: The supply chain mapping exercise helps to identify and prioritise supply chains for a subsequent in-depth human rights and environmental risk assessment. Typically, this assessment starts with the company's key products and services, as these fundamentally shape the nature and structure of the supply chain. Sourced products and services may be prioritised based on the greatest strategic value or highest procurement volume, or their relevance to the company's business operations.

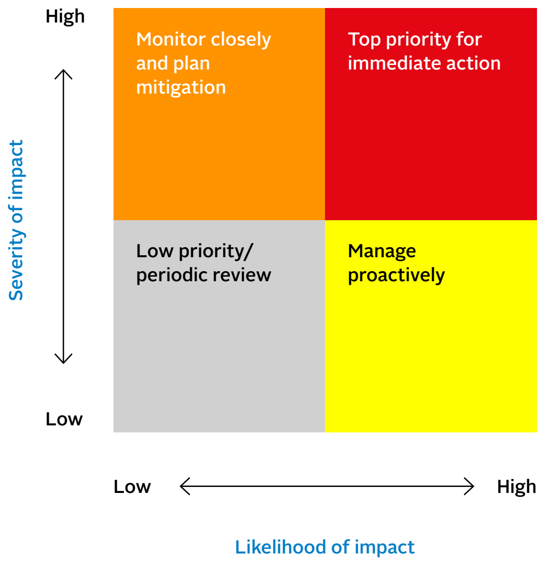
To accurately assess risk, it is critical to examine not just what is being sourced, but also where it is being sourced. Applying a geographical lens to the supply chain helps uncover context-specific risks. For example, a cosmetics manufacturer sourcing mica from regions where artisanal mining is prevalent would warrant a higher degree of due diligence, given the potential for child labour and hazardous working conditions.

An in-depth risk assessment should involve an initial evaluation of the likelihood and severity of potential impacts, as well as identifying affected rightsholders, such as suppliers' employees or local communities, with particular attention to vulnerable groups.

To conduct such an assessment, investors typically use different resources, including existing knowledge within their organisation and sustainability teams, as well as external sources, which can include desk research or support from specialised third-party consultancies. (See Section 5 for examples of useful sources to consult for additional risk information.)

Figure 6: Illustrative risk assessment matrix

Risk type	Severity	Likelihood	Potential affected rights holders	Priority
Forced labour in raw material extraction	High	High	Workers in mining regions	Immediate action
Water pollution in production processes	High	Medium	Local communities	Monitor closely
Occupational health risks in packaging	Medium	High	Factory workers	Proactive management
Deforestation linked to minor packaging material	Low	Low	Ecosystems	Low priority



High-risk suppliers: To further advance the risk assessment, some investors request evidence through onsite spot checks with high-risk suppliers and engage stakeholders such as suppliers or civil society organisations to better understand underlying issues and risk management opportunities. This can take the form of a social and environmental compliance audit for selected strategic high-risk suppliers, and/or direct engagement with relevant stakeholders that can provide further insights into the risks associated with a particular supply chain, sourcing country or industry.

Stakeholder engagement: This can take different forms, including dialogue interviews with suppliers' workers, trade unions, industry peers, experts with specialised knowledge, civil society organisations and local communities likely to be affected by the company's business activities.

As this requires substantial time and financial investment, it is recommended to focus such efforts on supply chains and products that have been identified as particularly high risk during the initial risk mapping, where investors have reasonable leverage, and/or where the most significant information gaps exist.

When identifying external consultancies to support with supply chain due diligence, investors are advised to use those with long track records in this area and with in-depth expertise in the industry or geographies of focus. The outcome of an in-depth risk assessment is typically a list or matrix detailing the identified human rights and environmental risks across the company's supply chain.

RISK MANAGEMENT – EVALUATING THE COMPANY'S MATURITY

After gaining a thorough understanding of the risk exposure associated with the company's supply chain, it is crucial to assess the company's ability to identify, mitigate and respond to adverse impacts occurring there. Such a maturity evaluation exercise should be informed by the investor's established minimum requirements on its portfolio companies' risk management. While most investors typically expect companies to adhere to local legislation, others may set more advanced expectations to ensure alignment with their own responsible investment commitments or meet specific industry or commodity requirements.

Companies that do not have to abide by certain regulations, such as the EU's CSDDD, may nevertheless be expected by their investors to meet these requirements, as they ensure a thorough approach to managing human rights and environmental risk.

Key policies review: An evaluation of the maturity level of the company's risk management approach typically involves reviewing key policies and frameworks, such as the supplier code of conduct, human rights commitments and modern slavery statements, to determine whether robust guidelines are in place.

External certifications: Relevant certifications, such as the Roundtable on Sustainable Palm Oil Supply Chain Standard or the Kimberley Process Certification Scheme, can help streamline the diligence process and reduce the level of effort required. As the diligence process is often a race against time, external certifications against independent standards can provide a reasonable proxy for the company's level of commitment and maturity.

Checking implementation: Policies alone are not sufficient, however. It is essential to validate their implementation through, for example, interviews with company management and employees, and to assess the availability and effectiveness of grievance mechanisms, audit practices or supplier engagement processes.

When evaluating the effectiveness of grievance mechanisms or preventive measures implemented, affected stakeholders in the supply chain should be consulted and engaged with. They should include not only suppliers' employees but also local communities potentially affected by respective business activities.

By assessing both documented policies and their practical application, investors can determine whether a company has the necessary capabilities to effectively manage supply chain risks.

Recommendation report: The last step of the due diligence process typically includes writing up a recommendation report with detailed actions to enhance the company's risk management approach and ensure identified risks are effectively managed.

Depending on the company's maturity, this action plan may include implementing standard policies addressing risk topics, such as a supplier code of conduct, ensuring necessary resources and capacities are secured internally to oversee the risk management approach, or implementing mandatory supplier screening and audits through verified parties.

CASE STUDY:

A PRIVATE EQUITY INVESTOR CONDUCTING SUPPLY CHAIN DUE DILIGENCE FOR A FOOD COMPANY

A European private equity firm was considering the acquisition of a mid-sized food ingredients company that sources coffee from Latin America and cocoa from West Africa, among other things. Given the welldocumented risks of child labour and deforestation in these supply chains, the investor undertook a structured human rights and environmental due diligence assessment before finalising the investment.

1. Assessment of risk exposure

The private equity firm conducted a thorough review of the target's supplier data, including supplier lists by spend, country and product. Public sources, such as NGO reports, trade association findings and certifications (e.g. Fairtrade and Rainforest Alliance) were analysed to assess inherent risks. In addition, the investor conducted a media screening of the target's top 20 commodity suppliers, revealing previous allegations of labour rights violations for a tier-n supplier associated with one of the target's key suppliers. The assessment highlighted critical risks, including child labour in cocoa farming, deforestation linked to coffee plantations in Brazil, and reports of abusive and unsafe labour practices, including wage theft and failures to provide clean drinking water and personal protective equipment.

2. Assessment of management system maturity

To evaluate the target company's ability to manage these risks, the private equity firm reviewed key policies, including the company's supplier code of conduct, ethical sourcing commitments and its modern slavery statement. While these documents outlined strong commitments, further investigation was needed to assess their implementation. Key findings included that:

- The company had a supplier code of conduct in place, but it did not adequately communicate about this document to suppliers nor ensure adherence to the code.
- Risk mitigation measures such as supplier audits were undertaken, but only infrequently and often based on self-reporting rather than independent verification.
- No grievance mechanism was available for workers at supplier sites, raising concerns about the effectiveness of risk monitoring.
- Sustainability commitments were broad, but there was no deforestation policy in place.

3. Engagement with company management

The private equity firm engaged the target's leadership to clarify outstanding concerns. Discussions focused on:

- its approach to child labour risk mitigation, including existing partnerships with NGOs and third-party auditors;
- plans for enhancing supply chain traceability, particularly in regions with high deforestation risks and in light of requirements under the EUDR;
- the company's willingness to invest in stronger supplier oversight, including third-party audits and certification schemes.

The target company's leadership acknowledged the gaps and expressed interest in strengthening risk management but lacked a concrete action plan.

4. Recommendation report and outcome

Based on the due diligence findings, the investor outlined a set of recommendations, requesting that the company:

- strengthened its supplier code of conduct communication and approach to verification;
- implemented a robust, risk-based supplier audit programme;
- strengthened its grievance mechanism.

The private equity firm proceeded with the acquisition, conditional upon the company committing to a 24- month action plan to strengthen supply chain due diligence. A post-acquisition monitoring framework was established to track progress.

4. DECISION AND AGREEMENT

	1. Governance and policies	2. Early due dilligence screening	3. Due diligence	4. Decision and agreement	5. Engagement and monitoring	6. Exit and re-investment
Standard practice	• Sustainability policies and principles • Exclusion lists	• Materiality assessment • Self-assessment questionnaire • Review of Supplier Code of Conduct and sustainability policy • Screen for sanctions, media allegations etc. at portfolio company level	• Risk exposure and maturity assessment (inhouse or with third party) • Document reviews • Management interviews	• 100-day action plan • Environmental and social action plan	• Developing policies • Monthly media screens • Staff training, knowledge sharing and networking sessions • Post-investment visits • Monitoring and reporting • Regular impact assessments	• Ensuring relevant policies and processes are in place and documented
Leading practice	• Dedicated supply chain policies • Clearly defined roles and responsibilities • Management leadership and board involvement at portfolio company • Training • Data and systems (e.g., sanction screenings, survey tools, etc.)	• Third-party risk assessment • On-site assessments • Screen for sanctions etc. at supplier level • Product-level screenings/ certifications and standards	• Supply chain mapping (priority products/ suppliers) for high priority/risk suppliers • Spot checks of high-risk suppliers • Stakeholder engagement with suppliers, NGOs, etc.	• Including performance clauses in agreements	• Establishing relevant teams • Escalation plan and remediation procedures • Grievance mechanisms and handling of complaints • Engagement with affected stakeholders • Crisis management plan (at investor level)	• Screening new buyers for alignment with priorities

Standard practice	Leading practice
▪ 100-day action plan ▪ Environmental and social action plan	▪ Including performance clauses in agreements

The due diligence process should enable investors to gain a clearer understanding of both the human rights and environmental impacts associated with the company's supply chain, as well as the company's risk management practices.

Environmental and social action plans: A key outcome of this process is the creation of time-bound environmental and social action plans (ESAPs) to help companies achieve compliance, mitigate risks or implement effective management systems. Typically, an ESAP clearly outlines the identified key risk topics, such as child labour or weak supplier oversight, along with the necessary actions to close gaps in the company's management systems.

The action plan should provide estimated timelines and costs for implementing corrective measures, ensuring that capacity-building efforts are realistic in light of the investment horizon and budget constraints. Incorporating these action plans into legal and investment agreements is a crucial leverage point for investors, with milestones within such action plans potentially linked to disbursement conditions.

Performance clauses: Advanced practice includes adding performance clauses to the legal agreements, with a view to closing those gaps. For example, the Responsible Investor Model Clauses developed by the Responsible Contracting Project (RCP) are designed to help investors and portfolio companies integrate human rights and environmental performance goals directly into their investment agreements.

Under the RCP framework, model investor clauses cover areas such as human rights, supply chain due diligence, climate impact and governance, ensuring that such commitments are not just voluntary but are legally embedded in investment agreements. Incorporating model clauses can help investors drive accountability, align portfolio companies with international sustainability standards and safeguard against sustainability-related financial, legal and reputational risks.

Deal termination: In some cases, the outcomes of an in-depth supply chain due diligence process can lead to termination of a deal, especially if occurring in combination with other 'deal-breaker' findings. This usually depends on the severity of the findings and is particularly the case for high-risk issues such as sanctions, child labour exposure, dependence on extreme-risk sourcing regions and subsequent risks of unstable raw material supply, or significant issues within the company's own operations (e.g. health and safety).

While few investors will veto an investment based on supply chain risks alone, many indicate that these risks often go hand in hand with other material risks that can terminate a deal – such as inadequate management of product quality or data management. Critical to avoiding such an outcome is the capacity and willingness of company management to acknowledge potential risks and allocate resources to the management of risk and performance improvements.

5. ENGAGEMENT AND MONITORING

	1. Governance and policies	2. Early due dilligence screening	3. Due diligence	4. Decision and agreement	5. Engagement and monitoring	6. Exit and re-investment
Standard practice	• Sustainability policies and principles • Exclusion lists	• Materiality assessment • Self-assessment questionnaire • Review of Supplier Code of Conduct and sustainability policy • Screen for sanctions, media allegations etc. at portfolio company level	• Risk exposure and maturity assessment (inhouse or with third party) • Document reviews • Management interviews	• 100-day action plan • Environmental and social action plan	• Developing policies • Monthly media screens • Staff training, knowledge sharing and networking sessions • Post-investment visits • Monitoring and reporting • Regular impact assessments	• Ensuring relevant policies and processes are in place and documented
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Standard practice	Leading practice
▪ Developing policies ▪ Monthly media screens ▪ Staff training, knowledge-sharing and networking sessions ▪ Post-investment visits ▪ Monitoring and reporting ▪ Regular risk assessments	▪ Establishing relevant teams ▪ Escalation plans and remediation procedures ▪ Grievance mechanisms and handling of complaints ▪ Engagement with affected stakeholders ▪ Crisis management plans (at investor level)

Regular engagement with portfolio companies on the management of human rights and environmental impacts in the supply chain provides an opportunity to identify and manage risks early, reinforce investors' expectations and foster a relationship of trust and transparency. While engagement may in some cases occur informally during regular business interactions, more structured, formal engagements can be more productive and effective. Engagement can be carried out across the portfolio or with specific companies.

Policy commitments: A key form of engagement for most investors is to support portfolio companies with establishing a clear policy commitment on their responsibility to respect human rights and protect the environment, as well as communicating those expectations to suppliers, for example through a supplier code of conduct.

This involves approving a meaningful policy at the most senior level of the company that:

- is informed by relevant internal and external expertise;
- stipulates the company's expectations of its own employees and its business partners;
- is publicly available and communicated internally and externally;
- is reflected in the operational policies and procedures necessary to embed it throughout the company.

These policies should define expectations for suppliers, outline company commitments and ensure alignment with international standards, such as the UNGPs, or with applicable legislation.

Sharing knowledge: Some investors will support this process by reviewing and commenting on a company's policy document, while others provide access to standard templates or share best practices from other portfolio companies. Other standard practices include providing portfolio companies with an overview of useful third-party guidance documents, directing them to consultancies that provide tools to screen for suppliers' risk exposure and organising knowledge-sharing sessions.

These sessions might involve one-to-one or joint training of key portfolio company staff , covering topics such as managing supply chain risk and identifying high-risk issues. These key staff typically include the procurement and sourcing teams, which play a critical role in evaluating suppliers, negotiating contracts and integrating sustainability criteria into purchasing decisions.

Compliance and legal teams should also be equipped to assess any legal obligations and implement appropriate governance mechanisms. Sustainability leads also require deep understanding of the potential environmental and human rights impacts in the supply chain and typically oversee the due diligence process to identify and mitigate risks.

Most investors also share emerging knowledge with specific companies on an ongoing basis, as new information about potential risks, regulations, etc. becomes available.

Monitoring implementation: Regular post-investment visits allow investors to directly observe the implementation of company policies and potential emerging risks, facilitating more informed decision making. We also see engagement over regular reporting on identified risks and performance improvements emerging as standard practice.

Monitoring portfolio companies on supply chain human rights and environmental practices may include tracking progress on specific supply chain-related commitments defined in the action plan, conducting workforce or supplier surveys, or overseeing management of concerns raised via the grievance mechanism to ensure accessibility, responsiveness and efficacy.

Similarly, investors can help ensure portfolio companies are on track with their sustainability goals by helping them carry out regular risk assessments and periodically evaluating the effectiveness of their due diligence processes. This is done by guiding portfolio companies to useful resources, enabling knowledge sharing or linking them to external third-party consultancies.

Human resources: Encouraging companies to establish dedicated teams with expertise to address supply chain risks is a critical but more advanced engagement practice. Some investors defer to the company to assign these responsibilities to an existing resource, with people often showing the underlying skills needed even if supply chain management is not part of the core role. Others mandate a dedicated sustainability/supply chain hire.

Investors seeking professionals for dedicated roles tend to prioritise individuals with a strong blend of qualitative and quantitative skills, coupled with critical thinking and a pragmatic understanding of effective solutions. Emotional intelligence and the ability to assess dynamics within a business context are also highly valued, enabling teams to conduct thorough analyses while remaining attuned to broader commercial and operational considerations. Expertise in data analysis, reporting and stakeholder engagement, and strong communication skills are essential for driving meaningful initiatives. Crisis management capabilities and a problem-solving mindset are critical for responding to emerging risks and implementing remediation measures where necessary. Likewise, robust risk assessment and compliance expertise are fundamental in identifying supply chain vulnerabilities and ensuring alignment with relevant regulatory and industry standards.

Escalation and remediation procedures: The development of escalation plans and remediation procedures is a key advanced practice. This includes developing crisis playbooks that set out how the company and the investor respond to findings or allegations (e.g. media reports, complaints, whistleblower reports, etc.) and remediate any issues, such as by working with a dedicated party to institute proper health and safety practices at a supplier site or investigating the root causes of a child labour case.

In addition, the establishment and control of a dedicated grievance mechanism and process to handle and escalate complaints and grievances is critical (and is a requirement under the CSDDD).

Investors should ensure that all portfolio companies implement a robust employee stakeholder consultation programme and have accessible grievance mechanisms available both for their own employees but also affected stakeholders in the supply chain, including their suppliers' employees, contractors and local communities. Having effective grievance mechanisms in place enables early identification of potential adverse impacts on people or the environment and allows companies to prevent and mitigate any incidents.

Stakeholder engagement: As part of prevention and remediation efforts, stakeholder engagement should be a strategic and ongoing process for investors. Best practice here involves supporting portfolio companies to conduct early, inclusive and culturally appropriate consultations to identify potential risks, concerns and expectations from affected stakeholders.

This involves mapping key stakeholder groups, such as local residents, workers, Indigenous communities and civil society organisations, and ensuring that two-way communication channels are established.

Investors should align any stakeholder engagement approach with international standards, such as the UNGPs or the CSDDD requirements, and should require portfolio companies to document engagement outcomes, integrate stakeholder feedback into decision-making and monitor impacts.

SPOTLIGHT:

ENGAGING WITH COMPANIES ON SUPPLY CHAIN SUSTAINABILITY RISK MANAGEMENT – VARYING APPROACHES BASED ON THE INVESTOR'S LEVERAGE

Investors' approaches to integrating and engaging on sustainability supply chain due diligence differ, depending on their level of control over portfolio companies.

Majority buyouts: With full operational control, investors can request that companies establish key sustainability policies and supplier codes of conduct. They may conduct direct audits or be involved in supplier choices and have sustainability oversight integrated at the company's board level.

Minority stakes: Limited influence requires a collaborative approach, encouraging companies to adopt better supplier standards through engagement, executive incentives and improved sustainability reporting. Investors may push for certifications and third-party audits, but they cannot dictate supplier choices.

Co-investments: Shared governance means that any integration of sustainability efforts must be negotiated among investors. Influence is exerted through risk mapping, disclosure requirements and knowledgesharing rather than direct enforcement.

At the portfolio company level, the ability to manage supply chain risks depends on the leverage the company has over its suppliers. Companies with strong purchasing power (e.g. high spend volumes) and longstanding supplier relationships have greater ability to enforce sustainability conditions with suppliers, while companies with less leverage may need to rely on certifications, partnerships or industry-wide initiatives to increase their leverage.

CASE STUDY:

ACTIS – HELPING PORTFOLIO COMPANIES MANAGE ENVIRONMENTAL AND SOCIAL SUPPLY CHAIN RISKS

Actis applies a rigorous environmental and social (E&S) due diligence approach to all investments, which includes careful consideration of supply chain E&S risks in its portfolio companies. Analysis of these risks extends well beyond the due diligence phase and remains a key focus area throughout the asset management phase. As an investor which takes majority stakes in investments, Actis actively manages these risks during ownership.

Actis has developed a large suite of practical E&S guidance documents, playbooks, toolkits and best practice frameworks to help its portfolio companies manage E&S risks in the supply chain. These guidance documents provide views on best practice, common challenges and solutions. They have been developed either solely by the Actis Sustainability Team or in conjunction with third-party experts. They are tailored for maximum relevance and utility to Actis portfolio companies, which are infrastructure investments, mostly in emerging markets. Most are launched with an accompanying webinar to provide an opportunity for discussion and live question and answer sessions.

The guidance documents are accessible to portfolio companies via a best practices portal. E&S topics covered include:

- Guidance on developing a responsible procurement policy
- Contracting with third-party security services

- Gender-based violence and harassment
- Health and safety, and including cascading requirements/minimum standards in contracts with suppliers
- Procurement of solar panels (addressing traceability and human rights risks in supply chains)
- Grievance mechanisms for workers and for communities, and speak-up (whistleblower) channels at corporate level
- Best practice guidelines on labour accommodation standards at site

The Actis Sustainability Team does not rely solely on distribution of guidance materials, however, and a key driver of successful implementation is hands-on partnership with the portfolio company leadership. Actis hosts an annual in-person offsite with heads of sustainability, which provides an opportunity for portfolio companies to come together, share lessons learned and insights, and accelerate knowledge transfer on E&S supply chain issues, among other things.

Finally, in terms of governance and monitoring, a crucial limb of the Actis approach is that most portfolio companies have sustainability sub-committees that report to their boards: these are crucial forums for Actis oversight of all E&S risks and opportunities.

6. EXIT AND RE-INVESTMENT

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Standard practice

- Ensuring relevant policies and processes are in place and documented

Leading practice

- Screening new buyers for alignment with priorities

When preparing for an exit, investors (sellers) typically focus on attracting high-quality buyers, maximising the value of the business and ensuring a smooth transition. For business with complex or higher-risk supply chains (e.g. those active in more high-risk industries or geographies), demonstrating robust human rights and environmental due diligence practices, effective risk management and improved performance, such as a decarbonised supply chain, can be a key differentiator, enhancing both valuation and buyer confidence. Sellers can leverage progress in the company's supply chain due diligence by providing comprehensive, welldocumented data, clear policies and structured risk assessments, easily accessible for buyer review.

This transparency can help mitigate legal, operational and reputational risks that can devalue an asset. Buyers in turn typically look for evidence of strong governance, supplier oversight and risk mitigation efforts and may seek assurances that the company has a clear escalation process for addressing supplier noncompliance. For companies with more risk-exposed supply chains, a robust due diligence approach to manage supply chain risks can help to lower the overall risk of the investment by demonstrating stronger resilience against regulatory changes, litigation or activist scrutiny.

More advanced practices in this context include sellers screening buyers for their sustainable supply chain commitments, responsible business practices and long-term strategic goals to help safeguard the company's progress post-exit.

SPOTLIGHT:

MATURITY LEVELS IN THE INTEGRATION OF SUSTAINABLE SUPPLY CHAIN MANAGEMENT IN THE INVESTMENT CYCLE

The table below outlines investor maturity levels in terms of integrating human rights and environmental supply chain management into the investment process.

Key characteristics	Examples of implementation
Nascent – Investors acknowledge sustainability factors but lack a structured approach to assessing and managing supply chain risks	
Sustainability considerations included in investment policies, but supply chain impacts not systematically assessed. Formal commitments to supply chain management less frequently observed.	▪ Standardised sustainability questionnaires used for initial screening, indirectly including supply chain-related topics ▪ Focus on compliance with local regulations ▪ No formal supply chain-specific policies beyond general sustainability considerations
Standard – Investors integrate supply chain due diligence into sustainability policies, conduct risk assessments and build internal capacity	
Companies with more mature sustainability frameworks, more likely including explicit commitments to supply chain management. They engage in risk assessments beyond basic screening and develop sustainability policies that integrate supply chain risks.	▪ Use of external consultants and platforms for screening of high-risk industries ▪ Development of supplier codes of conduct and supply chain policies ▪ Internal training programmes to build sustainability and supply chain capacity in investment teams ▪ Participation in industry-specific sustainability initiatives and collaboration with industry bodies

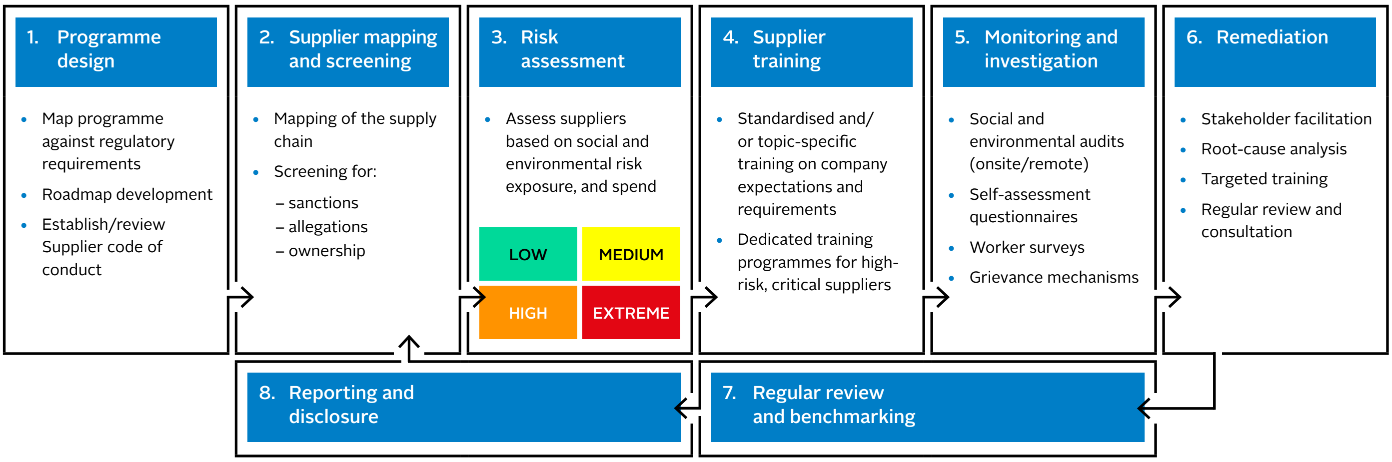
Leading – Investors embed rigorous sustainability monitoring, legal enforcement and supplier engagement to align with best practice and mitigate risks	
Advanced practices involve detailed supply chain policies with rigorous monitoring, reporting mechanisms and legal integration into investment decisions. Firms actively evolve their supply chain management practices to align with best practices and international standards. Grievance mechanisms established to resolve issues transparently.	▪ Sustainability compliance clauses included in all legal agreements ▪ Grievance mechanisms required and rolled out to monitor and manage supplier risks and worker concerns ▪ Engagement in supplier capacity-building, such as providing templates for codes of conduct and procurement policies ▪ Supplier monitoring at tier 1 and/or beyond

4.2 SUPPLY CHAIN DUE DILIGENCE AS A PORTFOLIO COMPANY

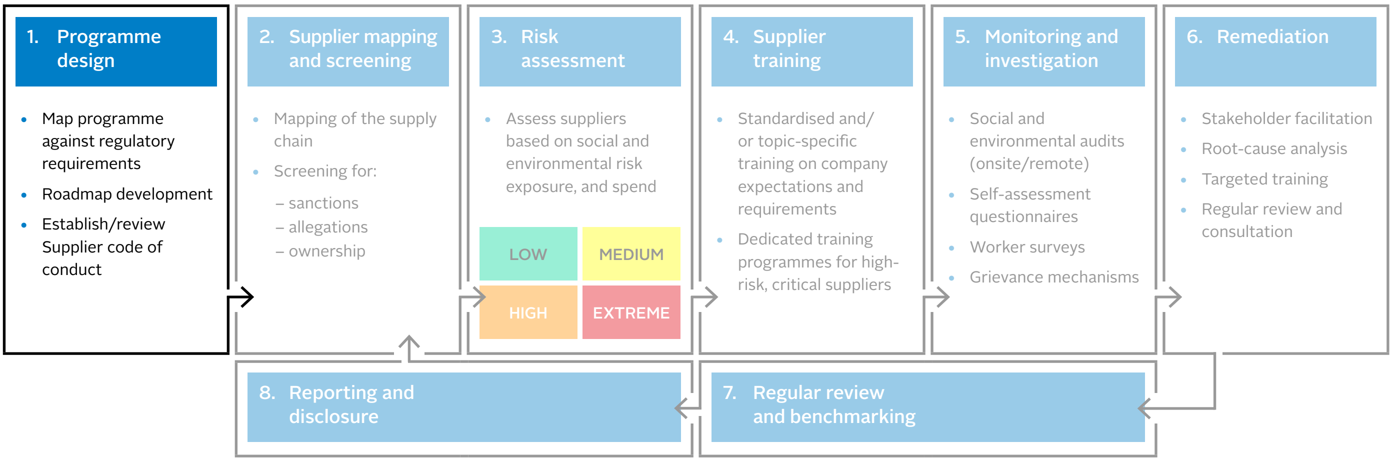
It is important that portfolio companies understand the specific actions they can take in conducting human rights and environmental due diligence for effective risk management and value creation. Standard and best practices require designing effective due diligence programmes, mapping and screening suppliers, assessing risks, training suppliers, monitoring, remediation and disclosure.

Below is an illustrative workflow to help companies design supply chain due diligence programmes.

Figure 7: Overview of activities for portfolio companies



1. PROGRAMME DESIGN



Mapping due diligence programme: As a starting point, a portfolio company should have a clear overview of the investor requirements and regulatory requirements that its human rights and environmental due diligence approach should adhere to. This can help identify key risk hotspots and inform the level of due diligence required and establish product-specific performance and disclosure requirements.

Companies should conduct a scope-setting exercise and gap analysis to identify applicable requirements and evaluate where existing processes already meet these requirements and where enhancements or additions to processes are needed.

Roadmap development: A clear roadmap that details the actions needed, responsibilities assigned, timelines and estimated costs can help develop a more comprehensive, robust human rights and environmental due diligence system. Any existing due diligence processes, such as supply chain risk assessments, should be reviewed regularly and updated when there are material changes, such as mergers and acquisitions or the rollout of new business lines or products.

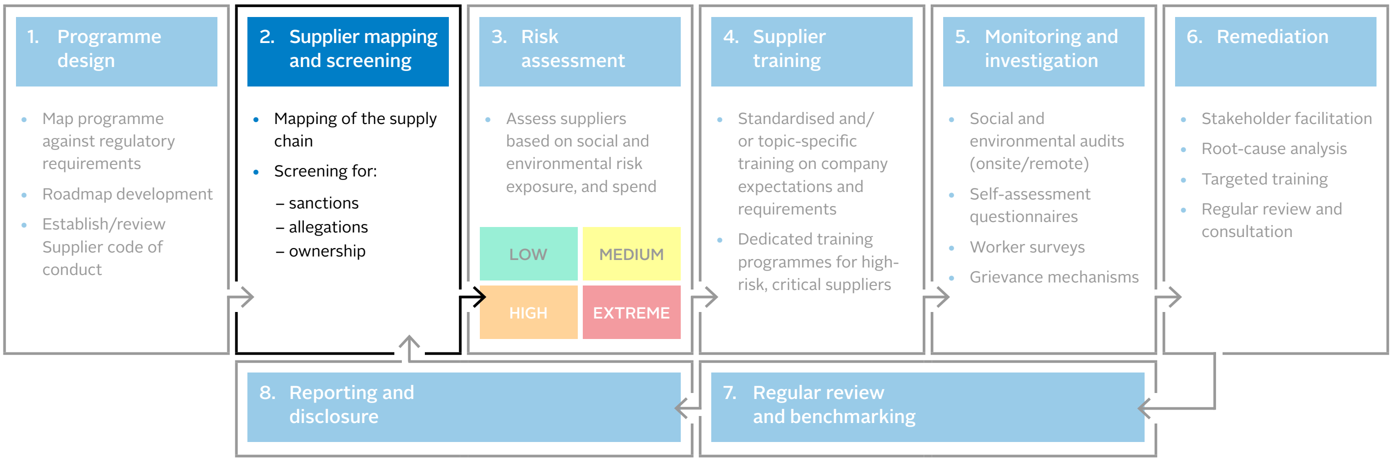
Supplier code of conduct: This is a crucial component of a responsible sourcing programme, as it sets clear expectations for social and environmental standards throughout the supply chain. By establishing guidelines on human and labour rights, environmental sustainability and business integrity, companies can ensure their suppliers align with their values and regulatory requirements on conducting human rights and environmental due diligence.

A company's supplier code of conduct should be aligned with key conventions, including the International Bill of Human Rights[22] and the International Labour Organization (ILO) conventions.[23]

More advanced practices include making adherence to its code of conduct part of contractual requirements with suppliers, and actively communicating its requirements during the negotiation and onboarding phase. Some companies will also require suppliers to take a mandatory digital learning course about their code of conduct as part of the pre-approval process.

22. OHCHR (undated), International Bill of Human Rights webpage; 23. ILO (undated), ILO Conventions webpage

2. SUPPLIER MAPPING AND SCREENING



For many portfolio companies, supply chains are vast, multi-layered and often extend beyond their direct relationships, making full visibility across all tiers challenging. Given this complexity, it is crucial to conduct regular risk assessments to identify and prioritise human rights and environmental impacts within their supply chains. Establishing transparency and traceability is a key first step, allowing businesses to gain full visibility into the supply chain's scope, pinpoint areas of highest risk and take a phased approach to addressing them.

Supply chain mapping: While companies often maintain strong relationships with their tier 1 suppliers, visibility and direct engagement with tier 2 suppliers and beyond can be far more limited. To address this, businesses should conduct a supply chain mapping exercise, covering both direct and indirect suppliers.

There are various online tools on the market that support supply chain mapping through supplier outreach, questionnaires and/or the use of AI to identify supply chain links. To map their supply chains, companies are advised to document their tier 1 suppliers, categorising them by product type, industry and region (their physical site locations rather than vendor addresses or headquarters) to understand direct sourcing risk. This can be followed by mapping lower tiers (tier 2, 3 and n.) for high-risk products.

For deeper tiers (tier 2 and beyond), companies can either cascade information requests down the supply chain, requiring suppliers to disclose their own sourcing partners, or rely on industry research and credible data sources to estimate typical supply chain structures. Leveraging third-party audits, supplier selfassessments, trade data and industry-specific reports can provide insights into common sourcing patterns and risk exposure associated with specific products, raw materials and sourcing regions.

To ensure successful data gathering, it is important to ensure buy-in from key internal stakeholders at the company, specifically the buying/procurement units, and build up capacities so that they can communicate to suppliers why and how data-sharing can be beneficial. As suppliers may be reluctant to share potentially sensitive information, it is important to reassure suppliers that information is not being misused and that due diligence activities will benefit their businesses.

Supply chain screening: Once supply chain visibility is established, companies are advised to screen their key suppliers, using a (third-party) screening tool or publicly available information, for any risks, allegations, ownership issues, sanctions or other human rights or environmental impact-related incidents.

SPOTLIGHT:

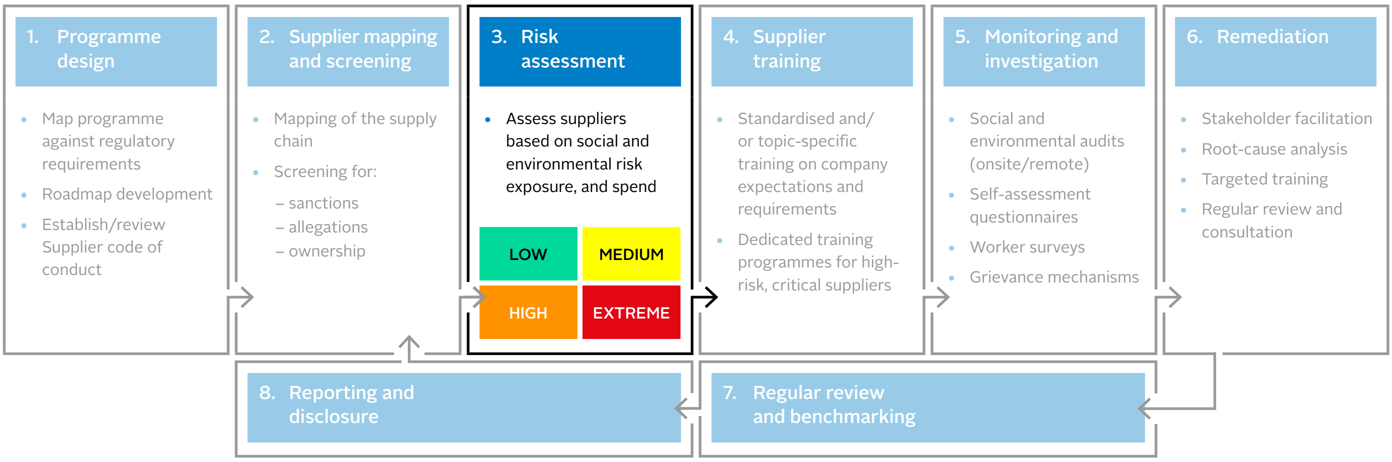
MANAGING SUBCONTRACTING RISKS

Subcontracting, whereby business allocated to a supplier is outsourced or assigned to another party, is a common practice in many industries and can significantly reduce supply chain transparency and visibility. This can create risks related to quality control, human and labour rights violations, and environmental compliance, as subcontractors may not adhere to the same standards as direct suppliers. Furthermore, liability can become complex – while the original direct supplier remains contractually responsible, the hiring company may also face reputational, financial or even legal consequences if subcontractors in its deeper supply chain engage in unethical or illegal practices.

To mitigate these risks, most companies include dedicated clauses in their supplier codes of conduct and/or supplier contracts that explicitly prohibit unauthorised subcontracting. In addition, businesses can develop a standalone subcontracting policy that outlines:

- approval procedures requiring suppliers to disclose and seek permission for any subcontracting arrangements;
- roles and responsibilities of suppliers in ensuring subcontractors meet the company's sustainability standards;
- consequences of violations, such as contract termination or corrective action plans;
- ongoing monitoring and reporting requirements, including audits, self-assessments or regular disclosures.

3. RISK ASSESSMENT



Following the identification of key suppliers and products/components involved throughout the supply chain, the human rights and environmental risk assessment is core to supply chain due diligence.

Companies should conduct regular risk assessments of their supply chain, in compliance with the growing body of regulations that require this, as well as the UNGPs and other human rights frameworks. A structured risk assessment should evaluate both the likelihood of potential adverse impacts materialising and their potential severity.

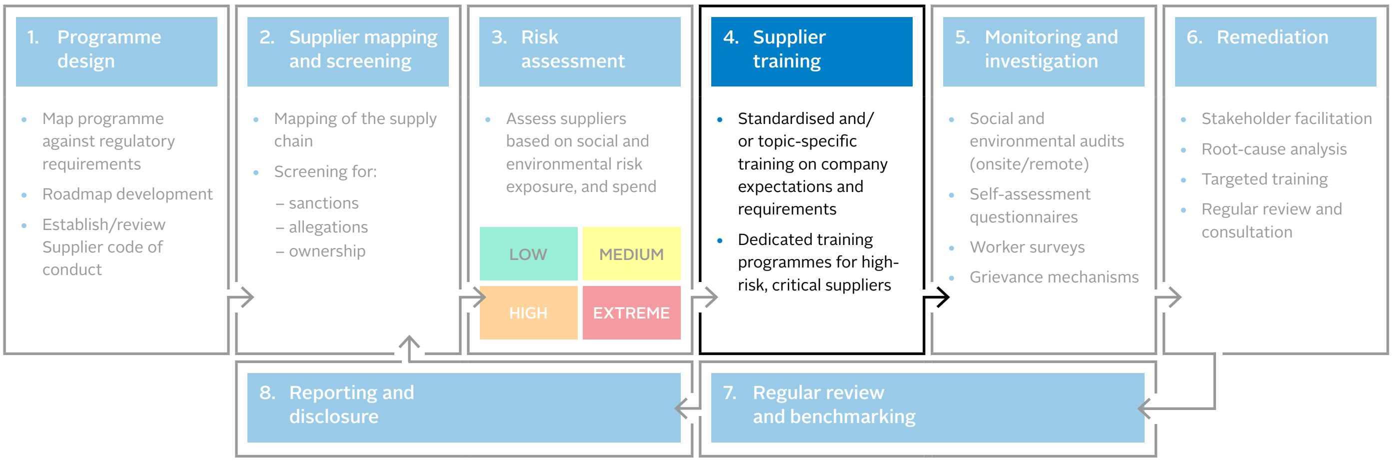
Companies can use supplier disclosures, third-party audits, industry reports and stakeholder consultations to collect risk-related data. This information should then be used to categorise risks, for example as low, moderate, high or extreme. Suppliers can be grouped accordingly to prioritise risk mitigation actions, with the most severe and likely risks addressed first.

Given potential resource constraints, portfolio companies should initially focus risk mitigation efforts on higher-risk products, supply chains and geographies. High-risk suppliers should be subject to enhanced due diligence measures, such as targeted audits (ensuring that they cover relevant risk topics) and capacitybuilding programmes, or required to implement grievance mechanisms. By integrating a risk-based approach into their responsible sourcing strategies, portfolio companies can proactively address human rights and environmental impacts, comply with regulatory expectations and enhance overall supply chain resilience.

There are a variety of risk assessment tools and service providers on the market that can be used for the risk assessment. These include LQRA's EiQ, Verisk Maplecroft, NAVEX ESG and reports from the Danish Institute for Human Rights and the Business and Human Rights Resource Centre. Alternatively, some companies maintain proprietary internal databases to assign risk scores to their suppliers. These scores can be used to determine the level of due diligence required for the supplier and highlight critical dependencies. Where risks are identified, it is important they are mitigated.

A reasonable timeframe for conducting a risk assessment would be every two years, depending on the regulatory requirements applicable to the company. New suppliers should be reviewed and assigned a risk score during their onboarding.

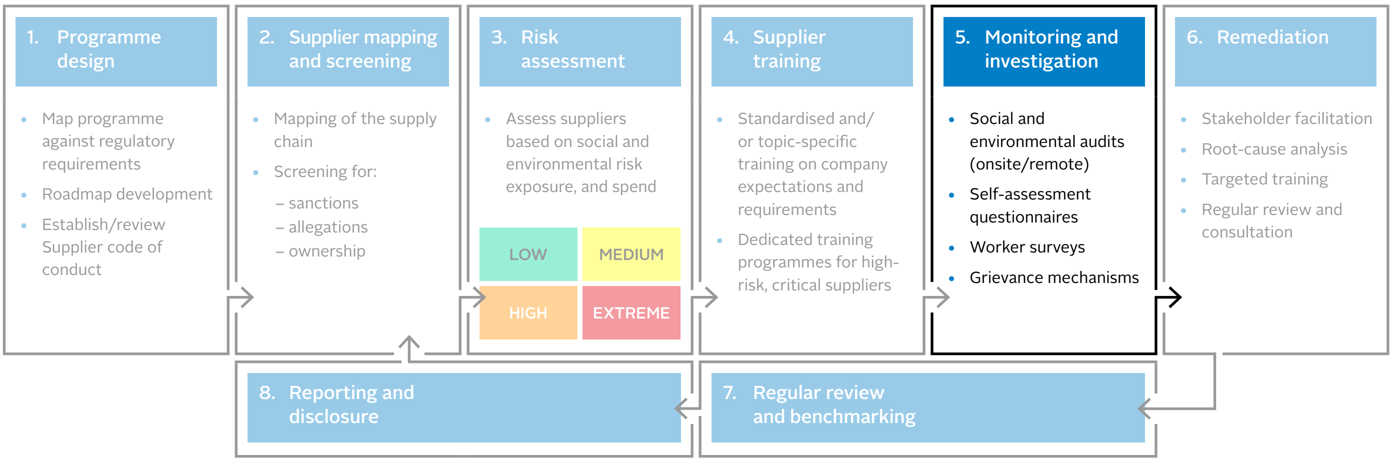
4. SUPPLIER TRAINING



To effectively mitigate adverse impacts within their supply chains, companies should adopt a risk-based approach, prioritising actions based on the severity and likelihood of identified impacts. High-risk suppliers should be subject to enhanced oversight and corrective measures, while lower-risk suppliers may require periodic assessments and capacity-building efforts, such as training, workshops and direct engagement. Companies can decide to roll out training for all suppliers or specifically for high-risk/high-spend suppliers.

Some companies also request suppliers to take specific courses on high-risk topics, such as responsible recruitment or health and safety, either online or in person. This can be done through a service provider or the company's own teams, assuming they have sufficient expertise in the topic. Leveraging third-party training platforms that also provide virtual courses – such as EiQ Learn, Quizrr and EcoVadis Academy – can help scale these efforts across global supplier networks.

5. MONITORING AND INVESTIGATION

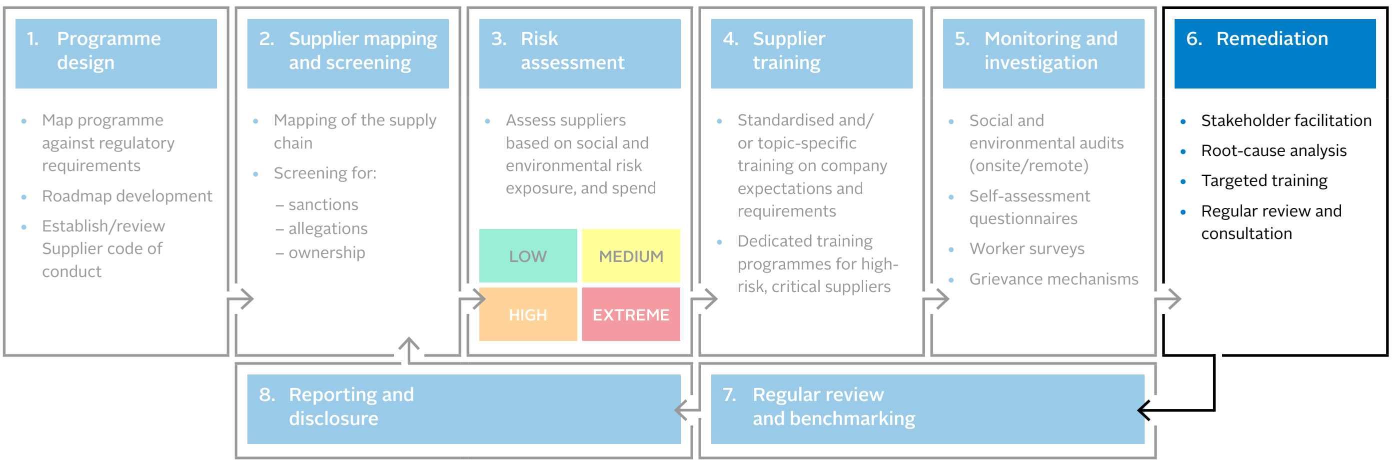


Companies can use a variety of tools to monitor and assess supplier performance, such as industry audit schemes (e.g. SMETA, ERSA and BSCI) whereby a third party will conduct an in-person or remote assessment of a factory or farm and identify any compliance gaps. An audit should be accompanied by a corrective action plan (CAP) to highlight compliance gaps and which requires the supplier to close or resolve any issues within a defined number of days. A CAP can also include a root-cause analysis to support the supplier in addressing the issue. In addition to an audit, companies can deploy anonymous worker surveys to gain additional insights into working conditions, labour issues or other sustainability concerns.

For higher-risk suppliers, companies are advised to use more robust monitoring tools, such as in-person audits or investigations, with self-assessment questionnaires used for low-risk/low-spend suppliers only. For high-risk issues, companies might decide to launch an investigation (typically through a third party) to better understand the situation and identify the root cause.

Grievance mechanisms can be a valuable tool to gain additional information about the situation on the ground and receive early warnings. Companies can use third-party grievance mechanisms, deploy their own hotline, or request suppliers make their own independent grievance mechanisms available. It is important to ensure the grievance mechanism meets the effectiveness criteria set out in the UNGPs – i.e. that it is legitimate, accessible, predictable, equitable, transparent, rights-compatible, a source of continuous learning and based on engagement and dialogue. (See UNGP 31 for more information.)

6. REMEDIATION



Legislation and international frameworks like the UNGPs specify that remediation is required when a company's activities directly or indirectly contribute to harm, whether caused by its own operations or those of its suppliers. According to the UNGPs, remediation can take the form of rehabilitation, financial or nonfinancial compensation, punitive sanctions or prevention of harm through, for example, injunctions or guarantees of non-repetition. To effectively remediate adverse impacts, companies are advised to first engage with affected stakeholders – including workers, local communities and suppliers – to understand the nature and scale of the harm.

SPOTLIGHT:

MESCALATING AND REMEDIATING IN RESPONSE TO FORCED LABOUR CONCERNS

In March 2021, Top Glove Corporation Bhd., a Malaysian manufacturer of disposable gloves, faced scrutiny over forced labour practices within its supply chain. The US CBP identified multiple forced labour indicators at the company's Malaysian facilities, including debt bondage, excessive overtime, abusive working and living conditions, and retention of identity documents.

In response to these findings, Top Glove implemented a number of corrective measures, including issuing over US$30m in remediation payments to affected workers. In addition, it upgraded hostel facilities for its migrant workers, who constitute a majority of its factory workforce. These efforts led the CBP to modify its forced labour findings in September 2021, allowing Top Glove's products to be imported into the United States once more.[24]

In a different case, Dyson Ltd. terminated its contract with Malaysian supplier ATA IMS Bhd. following an audit that uncovered labour practice concerns. ATA had faced accusations of excessive overtime, illegal wage deductions and physical abuse. After receiving the audit findings and engaging with ATA to address the issue, Dyson eventually terminated the relationship, citing insufficient progress.[25]

Most companies (or investors) will develop a dedicated escalation plan (see above) to respond to such issues. Recommended key steps include:

- An independent, third-party investigation should be carried out to further understand the issue and identify possible root causes and underlying concerns. Professional services firms such as law firms, human rights advisers and investigators are often engaged.
- Results should be shared with the supplier and/or site management (e.g. of the farm or factory), if appropriate and safe, an action plan should be put in place to address issues.

Actions can include, for example:

- additional investigations into underlying issues, e.g. the use of a particular recruitment agency that may charge recruitment fees to workers (a forced labour indicator)
- engagement with local communities and civil society organisations to develop an action plan
- facility management training
- establishing procurement and supplier incentives to ensure issues are resolved (see e.g. Better Buying)
- repayment of recruitment fees, remediation of child labour issues, etc., with local/expert organisations that can advise on local sensitivities and context

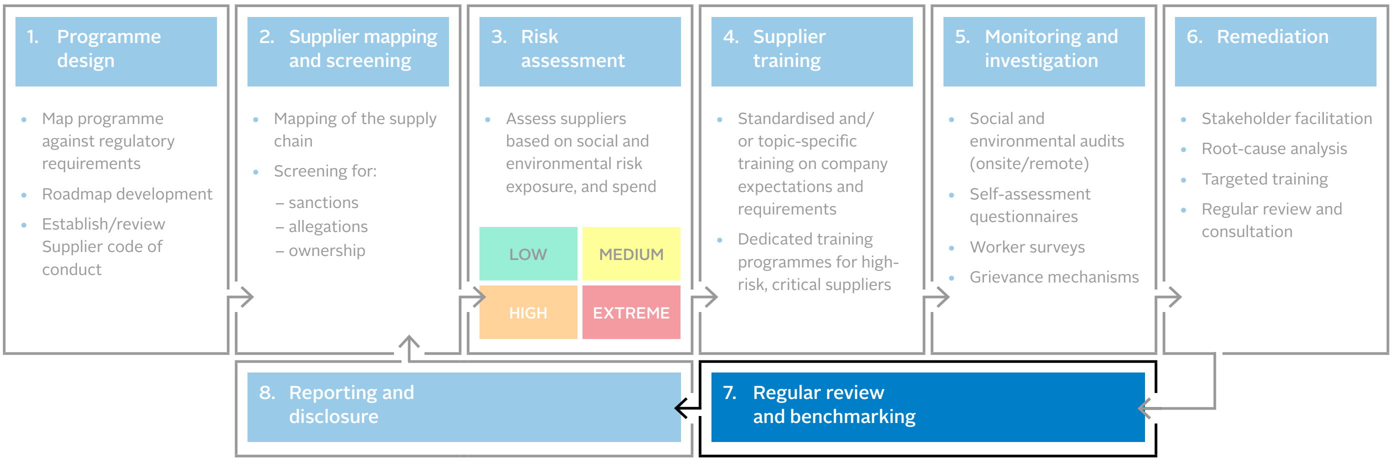
24. US Customs and Border Protection (9 September 2021), CBP Modifies Forced Labor Finding on Top Glove Corporation Bhd.; Euronews (10 September 2021), U.S. lifts import ban on Malaysia's Top Glove over forced labour concerns; 25. Euronews (25 November 2021), Exclusive-Dyson dumps Malaysian supplier ATA over labour concerns

- Follow-up visits and meetings should be carried out to ensure the remediation plan is being implemented and findings arew addressed.

If meaningful progress is lacking and there is no willingness from the supplier to address the issue, a company can consider a responsible exit from the relationship. It can be helpful to develop a formal responsible exit policy to support this process.
For examples of responsible exit plans, see:

- Fair Wear Foundation: Responsible Exit Strategy Guidance
- ACT: Responsible Exit Policy and Checklist

7. REGULAR REVIEW AND BENCHMARKING



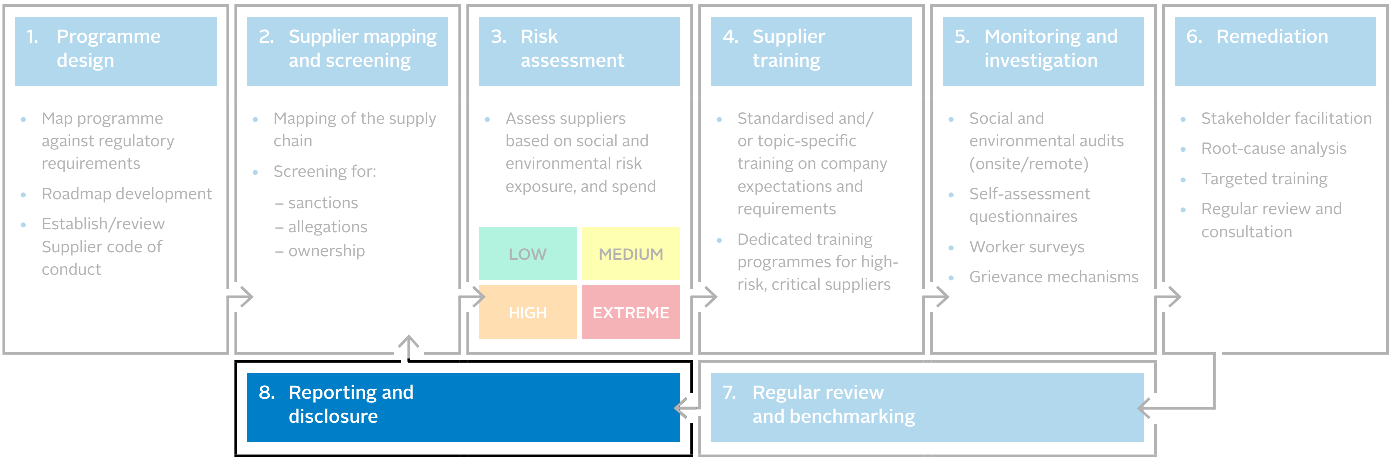
Companies can periodically review and benchmark supply chain due diligence programmes to ensure they remain aligned with regulatory requirements, peer practices and industry practice. Civil society organisations such as the World Benchmarking Alliance and Know the Chain publicly benchmark (listed) companies based on their social and environmental performance and assign a score. The methodologies underlying the scoring can be a useful tool to review a company's own performance and understand where it falls within its industry.

In addition, companies can use industry dialogue and multistakeholder groups to discuss best practices, identify areas for industry collaboration and benchmark their programmes. For example, more than 24,000 organisations disclose social, environmental and governance-related data using the CDP platform.[26] Suppliers can respond to standardised questionnaires, allowing buyers to benchmark performance, assess risks and track improvements.
The platform also encourages knowledge-sharing and collaboration, supporting capacity-building and enabling suppliers to learn from best practices.

Organisations like Cascale and the Apparel Impact Institute (aii) collaborate with supplier networks to advance decarbonisation efforts. Cascale's Decarbonization Program supports companies in setting and achieving science-based targets for emissions reductions.[27] Similarly, aii has introduced its Brand Playbook for Financing Decarbonization, which provides financial strategies to help brands fund supply chain decarbonisation efforts.[28]

26. CDP homepage; 27. Cascale (undated) Combat Climate Change; 28. Apparel Impact Institute (17 September 2024), Aii Launches New Roadmap to Accelerate Supply Chain Decarbonization

8. REPORTING AND DISCLOSURE



Tracking key performance indicators (KPIs) and regular reporting on supply chain due diligence is crucial for companies to assess the effectiveness of their approach and to ensure accountability, transparency and continuous improvement. To assess the effectiveness of implemented measures, companies should use assessment metrics and indicators that are relevant, measurable, responsive and resourced. Potential KPIs include:

- the number and percentage of suppliers that have signed the supplier code of conduct;
- the number of internal training days by role and topic, including the percentage change in awareness levels as a result and corresponding performance improvements;
- the number and percentage of suppliers attending capacity-building programmes, based on their risk exposure categorisation and corresponding performance improvements;
- the number and percentage of (critical) suppliers in specific risk categories, including changes in risk assessments on a year-on-year-basis.

Companies are recommended to report on their due diligence policies, processes, efforts and outcomes, e.g. the results of risk assessments and the effectiveness of their risk mitigation measures. Regular monitoring of outcomes should inform updates to human rights risk assessments and relevant management measures. By measuring performance and effectiveness against clear benchmarks, companies can identify risks early on and strengthen their responsible sourcing practices. In addition, regular disclosures build trust with stakeholders, including consumers, investors and regulators. To effectively gauge evolving risks, companies should gather both quantitative and qualitative indicators, tailored to the specific risks within their supply chains. (See the GLI Labor Outcomes Metrics Policy Brief for examples of possible KPIs to track and report performance.)

SPOTLIGHT:

RESPONSIBLE CONTRACTING IN SUPPLY CHAINS

As human rights and environmental practices in global supply chains come under increasing scrutiny, investors can look to innovative approaches to effectively prevent and address adverse impacts. For example, the Responsible Contracting Project (RCP) has developed responsible contracting principles that companies can integrate into their supply chain agreements.[29]

Responsible Contracting Principles

Responsible contracting refers to the practice of integrating human rights and environmental obligations into commercial contracts in a way that commits both parties to work together to uphold human rights and environmental standards.[30]

There is no universal contract template that fits every situation, but the responsible contracting approach – also known as the shared responsibility approach – can be applied across various contract types. This includes agreements for the sale and production of goods, service provision, equity investment, debt financing, licensing, franchising and even carbon offset transactions.

This approach is also sector-neutral, making it adaptable to any supply chain. A defining characteristic of responsible contracts is their alignment with the UNGPs and the OECD Guidelines.

In most cases, when companies include human rights and environmental obligations in their contracts with, for example, suppliers, service providers, portfolio companies or licensees, they use conventional contracting methods that place the full burden – including cost – of compliance on their business partner. This happens because contracts are primarily designed to protect company interests and minimise risk exposure, rather than protect workers or the environment.

However, to manage social and environmental risks in complex supply chains, a shared responsibility approach is more effective than simply shifting risks to suppliers. This is why the RCP emphasises that, when it comes to social and environmental matters, risk shifting is not the same thing as risk management.

In practice, this means that responsible contracts are structured to support effective human rights and environmental due diligence as outlined in the UNGPs and the OECD Guidelines. More specifically, responsible contracts put into action the shared responsibility principles established by these widely accepted international frameworks.

RCP has set out three core principles of responsible contracting (its three Rs):

1. **Responsible allocation of risks and obligations:** The parties set aside guarantees of perfect compliance in favour of a joint commitment to cooperate to uphold human rights and environmental standards and carry out related due diligence.
2. **Responsible purchasing practices:** The buyer commits to fair purchasing practices that support positive human rights and environmental outcomes. (This principle could extend to include fair investing, lending and licensing practices.)
3. **Remediation first and responsible exit:** If an adverse impact happens, the parties commit to provide remediation to victims as a matter of priority, ahead of traditional contract remedies (e.g. suspending payment and cancelling orders). Exit or termination can be pursued only as a last resort and should be done responsibly, taking measures to mitigate the impact.

29. RCP (undated), Core Principles of Responsible Contracting; 30. UN Global Compact (2025), Decent Work Toolkit for Sustainable Procurement

Responsible contracting tools

RCP's open access toolkit[31] includes pan-industry and sector-specific model clauses, template codes of conduct, implementation guidance and policy briefs. The tools that may be of most interest to investors include:

Investor Guidance on Responsible Contracting

Developed by the RCP and the Interfaith Center on Corporate Responsibility, the guidance equips investors to engage their portfolio companies on how they integrate human rights and environmental due diligence into their commercial contracts.

It provides an overview of key concepts to explain the critical role that due diligence-aligned contracts play in promoting better human rights and environmental due diligence and outcomes, and better legal compliance. It includes the following tools for carrying out company engagement:

- sample questions that investors can use in their dialogues with companies
- a shareholder resolution template
- an investor engagement letter template
- sample responses to frequent pushback from companies

These tools can help investors assess whether companies are using their international supply contracts in a way that supports – or undermines – effective due diligence processes.

The Responsible Investor Model Clauses

The Responsible Investor Model Clauses (RIMCs) are model contract clauses designed to help investors and portfolio companies integrate human rights and environmental performance goals directly into their investment agreements.

In February 2025, the RCP, together with the American Bar Association Business Law Section's Corporate Sustainability Law Committee and in collaboration with the PRI, launched an initial draft of the RIMCs for consultation.[32] Consultations are now underway to receive input from stakeholders and the RIMCs 1.0 are scheduled to be published in the second half of 2025. In addition to the model clauses, the RIMCs include a company human rights and environmental due diligence plan template, sources with guidance on responsible investment (Annex 1) and a sample due diligence request list (Annex 2).

Responsible Purchasing Code of Conduct

The Responsible Purchasing Code of Conduct, also known as the Buyer Code, is a model code of conduct designed specifically for buyers. Traditional codes of conduct only address suppliers and do not account for the role buyers play in upholding human rights and environmental standards, nor hold buyers accountable when their actions undermine them. The Buyer Code bridges the gap by setting out steps the buyer can take to support positive human rights and environmental outcomes. Like other tools in the RCP toolkit, the Buyer Code promotes the shared-responsibility approach of the UNGPs and the OECD Guidelines.

31. RCP (2025), The RCP Toolkit; 32. RCP (2025), The Responsible Investor Model Clauses (RIMCs); Business Law Today (2025), Draft Model Clauses for Responsible Investing: Call for Consultation

5. USEFUL SOURCES AND FURTHER READING

1. Policy development

Key practices:

- Defining environmental and human rights commitments
- Establishing responsible investment and exit policies
- Aligning with global frameworks (e.g. UNGP, OECD, ILO)

Relevant sources:

- BII ESG Toolkit for Fund Managers
- ESG Toolkits | FMO
- How to Develop a Human Rights Policy | UN Global Compact
- Responsible Business Conduct | OECD
- Step-By-Step Guide to Mandatory CSRD | Netherlands Ministry of Economic Affairs
- Toolkit on Corporate Governance | Corporate Governance Development Framework
- UN Guiding Principles on Business and Human Rights (UNGP)| OHCHR
- UN Guiding Principles Reporting Framework
- UN Global Compact
- Human Rights Toolkit for Financial Institutions | UNEP Finance Initiative

2. Early screening

Key practices:

- Identifying high-risk industries, regions and business models
- Screening against sanction lists and global watchlists
- Integrating social and environmental risk factors into investment screening

Relevant sources:

- List of Goods Produced by Child Labor or Forced Labor | US Department of Labor
- Consolidated list of persons, groups and entities subject to EU financial sanctions | European Union
- The World Bank Listing of Ineligible Firms and Individuals
- Sanction List Materials | United Nations Security Council
- Forced Labour Observatory | ILO
- Labour considerations for private equity investors in emerging markets| Ergon
- Verisk Maplecroft (for country and industry risk analysis)
- Using maps to protect human rights | Rainforest Alliance
- ESG Toolkit for Fund Managers | BII
- Task Force on Climate-related Financial Disclosures (TCFD)
- Taskforce on Nature-related Financial Disclosures (TNFD)

3. Due diligence (supply chain mapping and risk assessment)

Key practices:

- Conducting supply chain mapping and risk assessments
- Engaging suppliers on ESG risks
- Assessing labour, human rights and environmental risks

Relevant sources:

- Managing human rights risk in supply chains: A toolkit for companies | Ergon
- The Business & Human Rights Resource Centre
- Managing Social and Environmental Risks in Supply Chains for IDB-Financed Projects
- Managing Risks Associated with Modern Slavery | BII
- Managing labour risks and opportunities of platform work | BII
- New private sector guidance on tackling modern slavery risks | BII
- NAVEX One GRC software platform
- EcoVadis Academy
- EiQ Analyse and EiQ Training | LRQA
- ILO Forced Labour Convention, 1930 (No. 29) | OHCHR
- Forced Labour Observatory | ILO
- 2025 Supply Chain ESG Risk Outlook Report | LRQA
- Contractual Clauses Project | American Bar Association
- Women, Business and the Law 2024 | World Bank Group
- Working Time | UN Global Compact
- Reports | Danish Institute for Human Rights

4. Engagement (supplier and portfolio company engagement)

Key practices:

- Implementing responsible recruitment and fair labour practices
- Enhancing supplier training and sustainability performance improvement
- Engaging with stakeholders and third-party auditors

Relevant sources:

- General principles and operational guidelines for fair recruitment and Definition of recruitment fees and related costs | ILO
- IRIS Ethical Recruitment
- Responsible Recruitment Toolkit
- Better Buying – Improving purchasing practices in global supply chains
- Responsible Business Alliance
- Managing labour risks and opportunities of platform work | BII
- Addressing Forced Labor and other Modern Slavery Risks | GBCAT
- Addressing Gender-Based Violence and Harassment | BII
- Preventing Fatalities and Serious Accidents | BII
- Quizrr
- Amnesty International

5. Exit strategy

Key practices:

- Ensuring responsible exit and transition planning
- Avoiding negative human rights or environmental impacts post-exit

Relevant sources:

- ACT Responsible Exit Policy and Checklist
- Responsible Exit Strategy Guidance | Fair Wear Foundation
- Responsible Business Conduct | OECD
- Contractual Clauses Project | American Bar Association

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The Principles for Responsible Investment (PRI)

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system.

More information: www.unpri.org

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

United Nations Global Compact

The United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices. Launched in 2000, it is the largest corporate sustainability initiative in the world, with more than 8,800 companies and 4,000 non-business signatories based in over 160 countries, and more than 80 Local Networks.

More information: www.unglobalcompact.org

Principles for Responsible Investment