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SUSTAINABLE IMPACT FRAMEWORK

Retail, Apparel, Household

Sectors:

- Household Durables
- Textiles, Apparel & Luxury Goods
- Consumer Staples, Merchandise Retail

Last updated: November 2024

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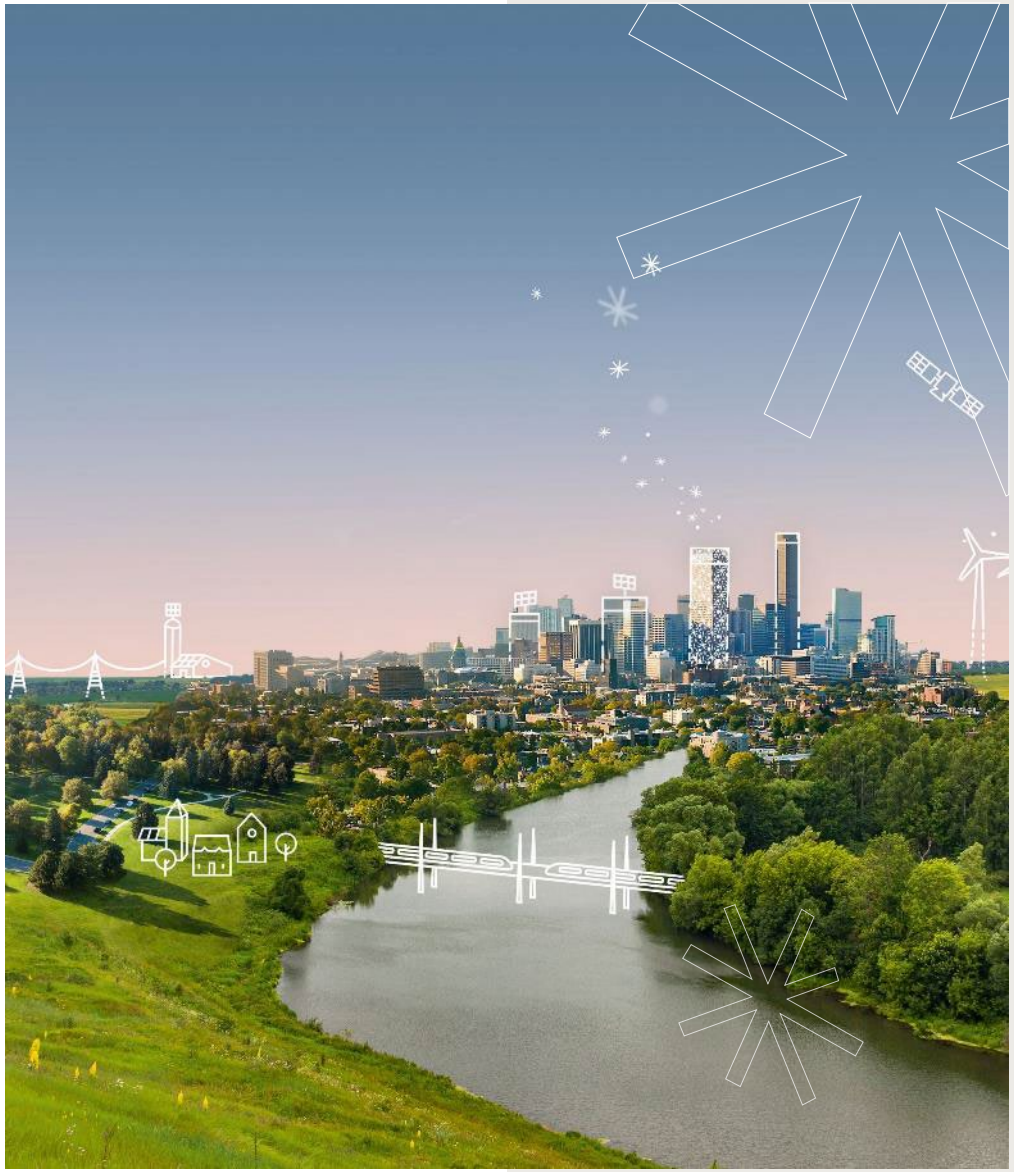
Executive Summary



Retail, Apparel, Household

Companies in Retail, Apparel and Household industry are responsible for negative externalities, ranging from social abuses in the supply chain to environmental pollutions resulting both from the manufacturing process and the sourcing of raw materials. Social risks including labor and human rights violations in manufacturing plants and/or cotton farms are now common knowledge but continues to be a reality. In recent years, an increased awareness and scrutiny of the environmental consequences of the industry have been witnessed. Companies are slowly shifting away from the use of harmful chemicals and linear water usage and are starting to address deforestation impact.

Every second, the equivalent of a truck load of clothes is burnt or buried in landfill[1] .

While "fast fashion" business models were the first to push the consumer society concept to its extreme, a lot of other consumption products are now falling under this category. For example, cheap furniture or home decor products are usually thrown away, buried in landfills because they can't be repaired, and are often not donated due to their poor quality. In order to address this challenge, circular economy for the apparel and household industry can transform the way we produce and use daily products. Companies should increase the percentage of recycled materials in their products, increase the durability of their products, provide options for a sustainable end-of-life, and ensure products are recyclable and/or repairable. Retailers also have a key role to play, both to provide the necessary infrastructures for a more circular consumption (collection point, repair stations, second-hand sections, etc.) and to enhance consumer awareness.

2,700 liters of fresh water are required to make a single cotton t-shirt[2] .

The industry is heavily impacting biodiversity by intensively harvesting raw materials, withdrawing large quantities of water and using hazardous chemicals in the manufacturing process. Most raw materials have a significant impact either on land, through intensive agriculture or on air as a by-product of the petrochemical industry. Indeed, synthetic fibers such as polyester account for over half of the global fiber market[4]. Synthetic fabrics are polluting water effluents with the release of microplastics. Cotton on the other hand represents around 25% of the total market yet has also been criticized for the need of irrigation and pesticides[4]. Water is also a concern in the manufacturing process, as it is heavily used to clean, to dye, to bleach products, etc. Advanced manufacturing practices including regenerative sourcing of raw materials, alternative use of some chemicals or innovative recycling processes are likely to reduce pressures from the industry.

Less than 2% of the textile workers earn a living wage[3].

More than 10 years ago, the Rana Plaza catastrophe forced the apparel industry to change after a factory collapsed, killing more than 1,000 in Dhaka, Bangladesh[5]. However, companies in the industry continues to depend on a large, low-skilled and low-paid workforce, and often fails to demonstrate adequate working conditions (either in stores, warehouses or in manufacturing sites). To improve job quality, companies are really expected to adopt a comprehensive approach to understand the difficulties faced by employees at different stage of the production/distribution cycle. Providing decent pay and benefits, offering opportunities for career development and certifying trainings, as well as maintaining employees' wellbeing is key. In a lot of regions, companies will be able to ensure wellbeing through maintaining healthy social dialogue conditions between employees and employees' representatives and management.

The information provided reflects Mirova's opinion/the situation as of the date of this document and is subject to change without notice. 1. Ellen MacArthur Foundation. 2. European Parliament. 3. The True Cost. 4. Textile Exchange. 5. ILO. Source: Mirova.

Drivers of contribution and obstruction to sustainability goals

	Activities	Practices
Positive Impact	**Sustainable Activities** CIRCULAR BUSINESS MODELS CERTIFIED PRODUCTS PRODUCTS FROM SUSTAINABLE RAW MATERIALS	**Advanced Practices** HUMAN CAPITAL MANAGEMENT • Diversity and inclusion • Job quality CLIMATE BIODIVERSITY *Advanced governance models*
ESG Risks	**Harmful Activities*** *Activities negatively affecting biodiversity sensitive areas*	**Risk Mitigation** WORKING CONDITIONS : HUMAN RIGHTS & HEALTH AND SAFETY PRODUCT SAFETY BIODIVERSITY & CLIMATE FOOTPRINT GOVERNANCE : • Governance of sustainability • Business ethics • Taxes

* As defined in: Minimum standards and exclusions, Mirova

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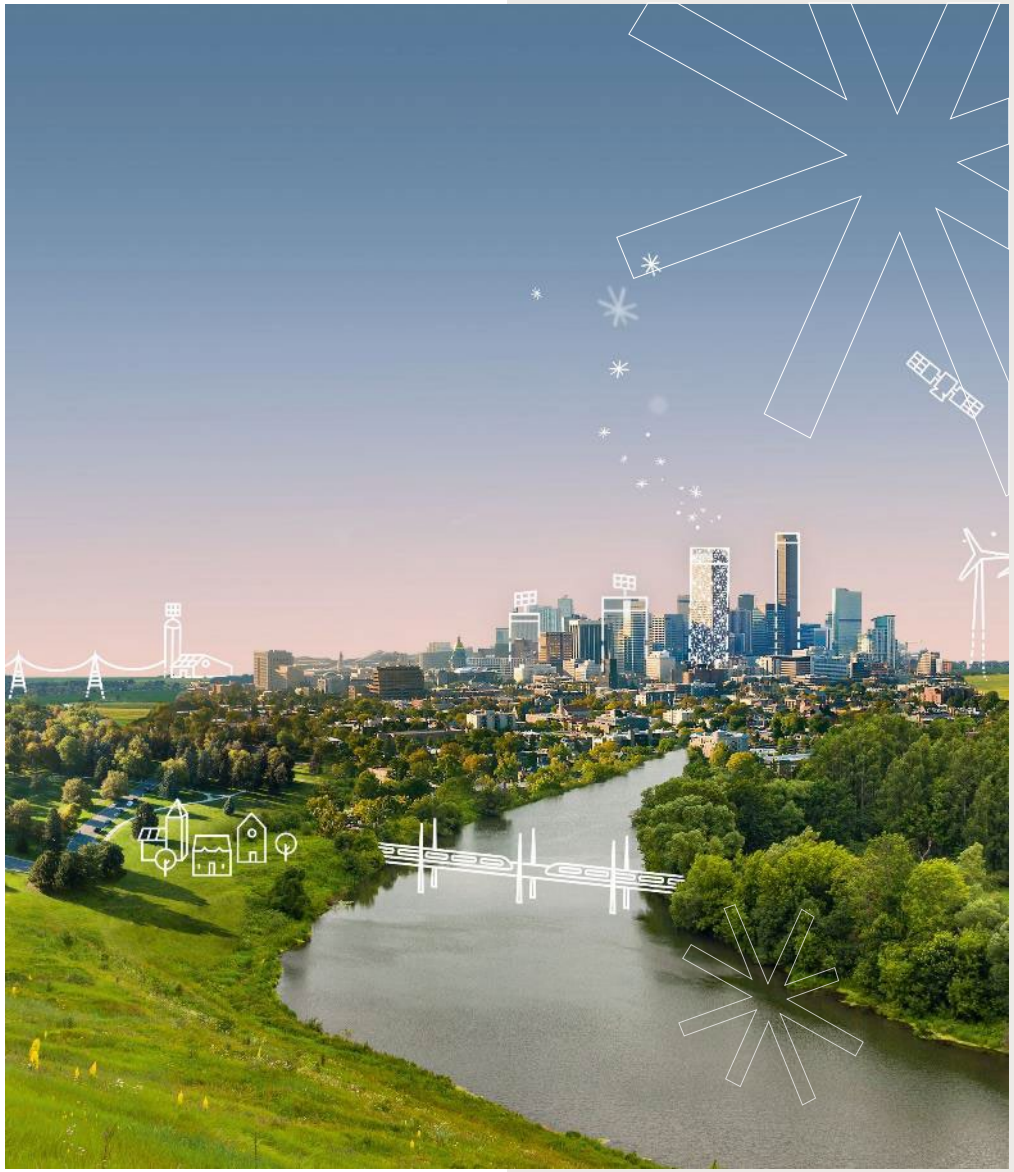
Positive Impact



Sustainable Activities

BIODIVERSITY/CLIMATE

CONTEXT

Each year, millions of tons of clothes are produced, worn, and thrown away. Every second, the equivalent of a truck load of clothes is burnt or buried in landfill, and clothing utilization has declined by 40% over the past 15 years[1]. While "fast fashion" business models were the first to push the concept of consumer society to its extreme, a lot of other consumption products are now falling under this category. For example, cheap furniture or home decor products are usually thrown away or buried in landfills because they can't be repaired and are often not donated due to their poor quality. It is estimated that in the US, nearly 75% of discarded furniture ends up in landfills[2]. In order to address this challenge, circular economy for the apparel and household industry can transform the way we produce and use daily products, putting a strong emphasis on reusage, repair, and recycling. While product manufacturers are considered to bear the end-of-life responsibility, also known as extended producer responsibility, retailers also have a key role to play to provide the necessary infrastructures for a more circular consumption (collection point, repair stations, second-hand sections, etc.), and to improve consumer education.

SUSTAINABLE ACTIVITY

Circular business models
Companies/projects providing equipment 'as a service' or with models of deposit return scheme, and 'extended responsibility of producer', rental, recommerce/ second hand, refurbished products.

IMPACT CRITERIA

Companies should provide evidence of:

- **The large scale of the offer**: number of product lines aligned with circular economy principles, percentage of stores equipped, etc.
- **Impact analysis of this offer**: user rate, collaboration with other stakeholders of the value chain, etc.
- **Significant efforts and investments from the company to make sure this offer is known and understood by customers**: providing necessary knowledge, tools and services to maintain the quality of the products and effective repair.

For this pillar, the positive contribution of activities is analyzed through a combination of revenues exposure, R&D investment and other indicators to qualify the effectiveness of measures implemented.

LOW POSITIVE IMPACT	MODERATE POSITIVE IMPACT	HIGH POSITIVE IMPACT
10% to 20% revenues from sustainable activities	20% to 50% revenues from sustainable activities	> 50% sustainable activities

Sustainable Activities

BIODIVERSITY

CONTEXT	SUSTAINABLE ACTIVITY
Increasing the percentage of recycled materials is one step to transition towards more circular business models, through the introduction of waste into the new products. In this industry, it is, however, still early stage. In 2022, only 1% of the global fiber market came from pre- and post-consumer recycled textiles[1]. Moreover, recycled polyester is rarely made from the fibers of recycled clothing, and is almost always made from old plastic, such as plastic water bottles. It causes three main issues. First, recycled polyester created through a mechanical process can't be indefinitely recycled. Thus, it cannot be considered a long-term solution. Second, it is also likely to sustain demand for single-use PET bottles, which is not encouraged. Finally, recycled polyester is still often blended with virgin polyester, perpetuating the dependency on fossil fuels. For other raw materials, the biggest challenge for fiber-to-fiber recycling is the cultivation of clean material feeds. It requires the identification, collection, sortation, and aggregation of garments into feeds containing the same fibers, such as cotton with cotton, wool with wool, etc. While the industry would be expected to rely more on natural raw materials, companies should provide evidence of sustainable sourcing, including ensuring regenerative agriculture practices (reduced use of water and pesticides in the cotton harvesting phase for example).	**Products from sustainable raw materials** Companies/projects manufacturing products containing high levels of post-consumer and contaminated waste recycled inputs in developed countries, recycled inputs in developing countries, manufacturing of sustainably grown biobased ingredients.
The number of certifications and labels in the industry keeps increasing. Although the majority of them have emerged over the past two decades, each certification adheres to a different standard which sometimes can be confusing for consumers. Without a global framework to determine what can be classified as sustainable, it can be challenging to understand which labels are trustworthy. Moreover, most of these labels are focusing on one specific challenge. For example, either certifying the origin of raw materials, the chemicals used in the manufacturing process, or reduced water consumption, etc. The EU Ecolab is one example of a comprehensive approach, but it is unfortunately not available for all products. ISEAL is an initiative that supports ambitious sustainability systems and has defined credibility principles to help stakeholders in make better informed decisions. The principles are as follow: sustainability impacts, collaboration, value creation, measurable progress, stakeholder engagement, transparency, impartiality, and reliability. The quality of labels can be analyzed against these credibility principles.	**Certified products** Companies/projects offering non-food products certified by regulated or private standards at least complying with ISEAL[2] standard credibility principles related to the sourcing of raw materials and manufacturing processes, with comprehensive coverage – chemicals, water, biodiversity.

For this pillar, the positive contribution of activities is analyzed through a combination of revenues exposure, R&D investment and other indicators to qualify the nature of the activities, including the market share of innovation, and investments made to develop innovative solutions.

LOW POSITIVE IMPACT	MODERATE POSITIVE IMPACT	HIGH POSITIVE IMPACT
10% to 20% revenues from sustainable activities	20% to 50% revenues from sustainable activities	> 50% sustainable activities

Advanced Practices

	CONTEXT	ADVANCED PRACTICES	
		Actions/measures expected:	Impact indicators examples:
HUMAN CAPITAL	**Job Quality** Companies in the industry rely on a large workforce and most jobs do not necessarily require a college degree. Working conditions are usually arduous, fast paced, with unstable schedules, and high risk of physical injuries or mental health issues. It applies for workers working in stores, warehouses, or in the supply chain (from raw materials harvesting to fabric assembly). Unfortunately, these jobs are usually not rewarded with high pay and benefits. All these factors explain high turnover rates in the industry. To advance job quality, companies are therefore expected to adopt a comprehensive approach to understand employees' working conditions and challenges at different stage of the production/distribution cycle. Providing decent pay and benefits, offering opportunities for career development and certifying trainings, as well as maintaining employees' wellbeing, is key. In a lot of regions, companies will be able to ensure that through the maintaining of healthy social dialogue conditions between employees and employees' representatives and management.	1. **Ensure fair remuneration and social benefits are sufficient for good living conditions.** 2. **Develop employees' skills recognized on the labor market and anticipate shifts in skills.** 3. **Ensure employee satisfaction and wellbeing.**	• Average hourly wage and percentage of in-store and distribution center employees earning minimum wage, by region. • Employee turnover evolution for in-store and distribution center employees. • Training hours per employee, % of workforce trained per type of contract. • Enhanced training offering including upskilling programs, mentorships focused on young talents, leadership trainings, tuition fees payment or loan repayment programs. • Other workplace retention measures including flexible work arrangements, and mental health support. • Existing employee surveys and action plans implemented based on the results. • Existing and effective employees' association mechanisms.
	Diversity & Inclusion Although women represent around 80% of the workforce in the garment or retail sectors worldwide, they are concentrated in the lowest-paying, lowest-skilled positions, usually at manufacturing sites. For the retail sector at large, females represent around 50% of the workforce. However, women are still highly underrepresented at the management level (around 20%)[1]. Diversity and inclusion does not only pertain to gender. Attention should be paid to the economic and social background of employees, as well as their age to make sure that the working environment is inclusive for every employee regardless of their minority profile. To do so, recruitment pools need to be diversified, to ensure equal opportunities, in terms of professional development, and to raise awareness of employees and management on this subject. The analysis also considers geographical and cultural difference to assess the quality of practices, notably regarding benefits and social dialogue matters.	1. **Improve female and diverse representation especially at management/leadership level.** 2. **Ensure equal opportunities and increase awareness to overcome inequalities.** 3. **Ensure adapted and flexible career options.**	• In the subsectors mainly dominated by female and other diversity profiles, "Job quality" related KPIs are used to also assess the "Diversity and Inclusion" pillar. • Percentage of women in the Executive Committee, difference between women representation in the workforce and Executive Committee, C-Suite female representation. • Wage gap or credible target to reach pay equality & unadjusted pay gap. • Succession planning including at least one woman as a possible candidate for every senior position. • Provision of daycare options (affordable and/or paid by the company) and work flexibility options.

LOW POSITIVE IMPACT

➢ Advanced practices - Medium Stake* topic

> Credible strategy to achieve advanced practices

MODERATE POSITIVE IMPACT

> Advanced practices - High Stake* issues

POSITIVE IMPACT

Advanced Practices – Apparel and Household

CONTEXT		ADVANCED PRACTICES	
		Actions/measures expected:	Impact indicators examples:
CLIMATE	The fashion industry is estimated to be responsible for 10% of global carbon emissions[1]. At the current pace, the sector's emissions would nearly double the maximum required to stay on the 1.5ºC pathway[2]. The largest share of emissions is estimated to come from the dyeing and finishing phases, followed by yarn preparation, fiber production and fabric. The contribution of the "use phase" in the total carbon emissions over a garment's life cycle is not as commonly assessed. Calculating emissions from the use phase is challenging due to lack of data on behaviors such as the frequency of washing, washing temperature, detergent types and drying methods, which vary greatly between cultures. Yet, some studies suggest the use phase may be the largest contributor to emissions in the value chain. Thus, companies will be expected to decarbonize their manufacturing process, as well as implement circular economy principles in the product design to reduce fossil-fuels materials dependency and overall life-cycle impact.	**Implement robust decarbonization strategy on all three scopes**	• GHG[3] emissions reduction targets on all 3 scopes, preferably aligned with the Science Based Target Initiative (SBTi) and effective reduction in emissions. • Scope 1 & 2[4] : Absolute reduction of scope 1 and 2 emissions, significantly increase renewable energy power for manufacturing sites. • Scope 3[5] : measures to reduce dependency on fossil-fuel based materials, objective to reduce dependency on plastic packaging, improve life expectancy of products, and design lifecycle analysis to reduce footprint related to the use of products.
BIODIVERSITY	Pressures on biodiversity are resulting from the harvesting of raw materials, the use water and chemicals in the manufacturing process, and the impact from the end of life, notably for synthetic fibers. Most raw materials have a significant impact on land, either through intensive agriculture or as a by-products of the petrochemical industry. In addition, 2,700 liters of fresh water are required to make a single cotton t-shirt, enough to meet one person's drinking needs for 2.5 years[6]. Textile mills use some 20,000 chemicals and are estimated to generate about 20% of the world's industrial water pollution[6]. Some of these chemicals have been demonstrated to be of high potential concern for the environment due to their ability to disperse easily, globally and to accumulate, causing diseases, allergic reactions, and increasing cancer risk. Finally, an estimated 35% of microplastics in the oceans originate from synthetic microfiber release[7]. The textile industry is not the only responsible industry, other non-food consumption products are distributing billions of plastic items everyday, quickly disposed and ending in landfills.	1. **Conduct systematic life-cycle analysis with enhanced circular loop and recycled intrants** 2. **Ensure sustainability sourced ingredients / raw materials and reduce the use of chemicals** 3. **Preserve water ressources**	• Extend lifespan of the product with measures such as production based on demand, no huge sale, limited number of product lines, secondhand and repair options. • Reduce resource intensity with measures such as less water intensive dying processes, biobased polyesters, reduced releases of microplastics. • Share of sustainably certified sourcing and recycled raw materials – commitment towards regenerative agriculture practices in the supply chain and robust deforestation policy. • Water stewardship program with SBTN Target setting on freshwater and/or land footprint reduction. • Ensure the use of nontoxic substance and alignment with Manufacturing Restricted Substance List and wastewater standards are at least aligned with Zero Discharge of Hazardous Chemicals (ZDHC).

LOW POSITIVE IMPACT

> Advanced practices - Medium Stake* topic

> Credible strategy to achieve advanced practices

MODERATE POSITIVE IMPACT

> Advanced practices - High Stake* issues

 1. European Parliament. 2. Fashion on Climate, McKinsey and Co/Global Fashion Agenda. 3. Greenhouse Gases Emissions. 4 Direct emissions created by a company's activities and Emissions from the electricity a company uses in its operations. 5. Indirect emissions from a company's supply chain, distribution, use of products, and product disposal. 6. European Parliament. 7. IUCN. Source: Mirova

POSITIVE IMPACT

Advanced Practices – Retail

CONTEXT	ADVANCED PRACTICES	
	Actions/measures expected:	Impact indicators examples:
CLIMATE Among the various commercial buildings in the US, retail buildings are responsible for the second largest percentage of greenhouse gas emissions[1]. To lower these direct emissions, retailers could seek to improve the energy efficiency of stores and warehouses and decarbonize their transportation fleet by upgrading to zero-emissions vehicles. For grocers, in-store refrigeration is a significant emissions factor, necessitating efforts to detect and address refrigerant leaks and, in some cases, a complete overhaul of the store's systems. However, the largest portion of the impact lies in the scope 3[4] that can represent up to 80 percent of the total carbon footprint for many companies and as much as 98 percent for home and fashion retailers[5]. It includes emissions generated across the value chain and not directly controlled by the retailer. Yet, the retailer can promote change by using suppliers with sustainable practices over others who do not.	**Implement robust decarbonization strategy on all three scopes**	• GHG[2] emissions reduction targets on all 3 scopes, preferably aligned with the Science Based Target Initiative (SBTi) and effective reduction in emissions. • Scope 1 & 2[3] : Absolute reduction of scope 1 and 2 emissions, significantly increase renewable energy power for manufacturing sites. • Scope 3[4] : Support the development of regenerative practices for plant based agricultural inputs, reduce dependency on fossil-fuel based products, reduce emissions in transportation, support transition of suppliers towards SBT.
BIODIVERSITY About 75% of world land has been eroded, of which a majority of cropland, pastureland and managed forests, while forests are home to most of world's biodiversity[6]. Therefore, sustainable land management can participate both in reduction of land footprint and improvement of habitat quality on working land (while generating benefits on climate change). There are several challenges for brands and retailers when tracing the origin of the raw material used in their products. The long and fragmented supply chain results in a lack of transparency. Certain materials such as leather are particularly difficult to trace. Indeed, leather is a co-product of another industry, which reduces the ability of an apparel company to influence that industry's value chain. Depending on what retailers are specialized into, the measures expected to be considered as advanced practices will vary. The provision of infrastructures to enable circular economy, regenerative agriculture practices, as well as limited pollutions in the use phase of the product will remain a priority across actors.	1. **Provide infrastructure for circular consumption** 2. **Assess life-cycle impacts of main product line**	• Provide infrastructures to enable collection, reuse and second hand, bulk products, repair and rental services. • Empower users and customers with the necessary knowledge, tools and services to enjoy circular economy. • Limit mass consumption behaviors (huge sale, burnt inventory etc.). • Assess life-cycle impacts of main product lines. • Implement robust chemicals policy, provide transparency on forbidden ingredients and products aligned with EU Regulation or California). • Where relevant, ensure the adoption of regenerative practices in plant-based agricultural input and commit to zero deforestation targets. • Reduce product packaging, forbid single use plastics including plastic bags.

LOW POSITIVE IMPACT

> Advanced practices - Medium Stake* topic

> Credible strategy to achieve advanced practices

MODERATE POSITIVE IMPACT

> Advanced practices - High Stake* issues

The information provided reflects Mirova's opinion/the situation as of the date of this document and is subject to change without notice. 1. EPA. 2. Greenhouse Gases Emissions;. 3.Direct emissions created by a company's activities and emissions from the electricity a company uses in its operations. 4. Indirect emissions from a company's supply chain, distribution, use of products, and product disposal. 5. CDP. 6. IPBES. Source: Mirova

Advanced governance model

CONTEXT

Mirova aims to promote the development of a corporate vision focused on the creation of collective value over the long term. Corporate governance should be shaped to include the interests of its key stakeholders. We believe that the creation of wealth requires a long-term perspective, which takes into account sustainability issues.

Mirova encourages companies to include environmental and social issues in its purpose, and to adapt their articles of association accordingly. We feel that shareholders have a role to play in spreading this vision of what a company should be.

Thus, we are promoting the development of a long-term shareholder base, the creation of governing bodies that serve all stakeholders and address CSR[1] issues, the introduction of a compensation policy which is not only fair to its stakeholders, but also promotes sustainable growth, and -increased transparency and a better quality of both financial and extra financial information, through annual audited reports covering all these issues.

Advanced governance practices only foster sustainability but is not a standalone driver of impact.

ADVANCED GOVERNANCE MODEL DETAILS

Practices/measures expected:	Impact indicators examples:
Commitment to long-term and shared value creation	• Demonstrate how value created is shared fairly amongst company stakeholders. • Strive towards the model of a purpose-driven organization or/and a B-Corp organization.
Integration of stakeholders in the decision-making process	• Create a Sustainable Development Committee or sustainability representative at the board level, with regular meetings throughout the year. Sustainability items are systematically integrated into the board's agenda.
Fair taxes	• Provide country-by-country reporting on tax payments.

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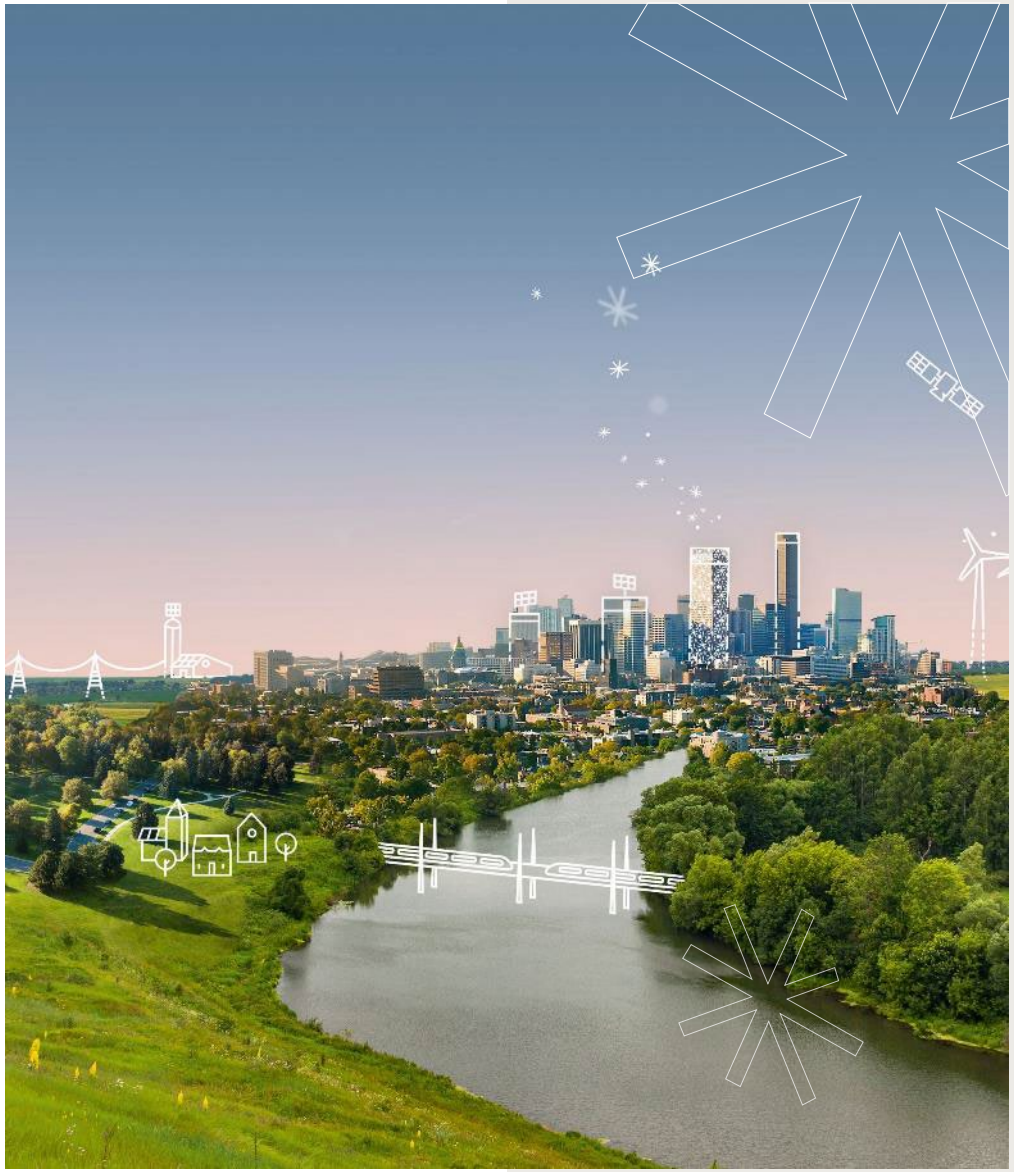
ESG Risks



Product Safety

CONTEXT

Product safety and compliance certifications are important for players in the industry. The condition to sell products for retailers is to ensure items meet certain safety and compliance standards. Product safety issues usually come from chemical ingredients but can also result from contamination during the manufacturing process or manufacturing errors. Several U.S. states, as well as the federal government and the European Union Chemicals Agency, are mandating more information on the chemicals in consumer products. Apparel and household manufacturers should also comply with these regulations. Companies are regularly audited through a comprehensive evaluation of various aspects, like sourcing of ingredients, production processes, packaging, storage, distribution practices, and ethical standards.

To reduce the occurrence of product safety issues, tracing a product as it travels through different supply chains is useful. Companies who rely on low-cost suppliers should exercise heightened cautious in monitoring of their suppliers' quality processes. In addition, robust traceability systems can also considerably improve the detection of counterfeiting, which can cause risks for customers.

MINIMUM STANDARDS

Type of ESG risk:	Risk assessment indicators examples:
Toxicity of chemical use	• Comprehensive policy around toxicity and transparency on ingredients used. • Transparency on ingredients used and efforts to converge to local regulations, including Restricted Substances List REACH[1] Annex XVII. • Minimize revenues from products based on ingredients in the SVHC[2] Candidate lists and California DTSC[3] Candidate Chemicals List. • Investment in R&D allocated to the development of alternative ingredients to chemicals including biobased ingredients.
Product vigilance	• Number of recalls and evolution in the past 3 years. • Qualitative analysis of fines and regulatory actions related to product safety. • Supplier risk management systems to protect against product safety hazards. • Robust vigilance process to ensure quick turnaround if products fail to meet any regulatory standards. • Transparency about efforts to monitor, avoid and communicate about counterfeit drugs.
Suppliers' management	• Training and compliance monitoring of suppliers, documented verification of the compliance of the products, products subject for testing. • Robust suppliers onboarding programs.

The information provided reflects Mirova's opinion/the situation as of the date of this document and is subject to change without notice. 1. Registration, Evaluation, Authorization and Restriction of Chemicals 2. Substance of Very High Concern. 3. Department of Toxic Substances Control. Source: Mirova.

Working conditions

CONTEXT

More than 10 years ago, the Rana Plaza catastrophe forced the apparel industry to change, after a factory collapse killed more than 1,000 workers in Dhaka, Bangladesh[1]. However, companies in the industry continues to depend on a large, low-skilled and low-paid workforce, and often fails to demonstrate adequate working conditions (either in stores or warehouses or in manufacturing sites).

Human rights issues in the industry's supply chain are still unfortunately common. Workers often lacks access to basic labor rights, are facing unfair dismissals, retaliations against workers who join or form unions; are pressured to work overtime, may experience sexual harassment, etc. These dire conditions are present not only in factories but also on the farms producing key raw materials, such as cotton. For example, instances of forced labor have occurred in China in recent years, and in Uzbekistan a few years back. In addition, the excessive use of pesticides in most of the raw materials harvested has caused serious health hazard to farmers.

The lack of rights is often worsened by the prevailing "fast" business model in global apparel and furniture markets. The production of cheaply made apparel that rapidly shifts in response to sometimes abrupt changes in demand can only depends on low production costs, including labor.

MINIMUM STANDARDS

Type of ESG risk:	Risk assessment indicators examples:
Health and safety	• Frequency and severity of accidents (direct workers and contractors), number of fatal accidents in the last few years. • Measures to promote fair working conditions and a sustained social dialogue in countries with less stringent regulations. • Anonymous reporting channel to report non-ethical behaviors in the workplace.
Human rights	• Transparency and traceability of the supply chain for high-risk ingredients. • Train suppliers on a clear, and ambitious supplier code that includes forced labor, child labor, freedom of association, living wage, discrimination and other labor rights. • Percentage of Tier 1 and beyond-supplier facilities and supplier facilities percentage of total audits conducted by a third-party auditor, and number of corrective action taken following these audits. • Existing grievance mechanism and systematic corrective measures implemented. • Number of identified cases of severe human rights issues and incidents. • Violation of UNGC principles and OECD guidelines for Multinational Enterprises and implementation of corrective measures. • Implementation of a policy to monitor compliance with UNGC principles or OECD guidelines for multinational enterprises.

PAI #10
PAI #11
PAI #16

Climate & Biodiversity

CONTEXT

The fast fashion model is so-called because it involves the rapid design, production, distribution, and marketing of clothing. Retailers are relying on these models to rapidly pull large quantities of products with greater variety and allow consumers to get more fashion and product choices at a low price. While these business models are mostly mentioned for fashion, ecommerce platforms have enabled this business to become a reality for other products, such as furniture, home decor, accessories, etc., now available online and delivered to the customer's door in often less than 24h. These business models often have no oversight on suppliers' environmental practices, which exacerbates the following environmental issues. The fashion industry is estimated to be responsible for 10% of global carbon emissions. Less than 1% of used clothing is recycled into new garments[1]. It is estimated that every year some USD 500 billion in value is lost due to clothing that is barely worn, not donated, recycled, or ends up in a landfill[2]. Wastewater discharge from production sites can be a significant source of hazardous chemicals and pollution in key production regions. 20% of industrial water pollution globally is attributable to the dyeing and treatment of textiles[3]. Microplastics from packaging waste entering waterways and the ocean are also a material issue for the sector: it has been estimated that around half a million tons of plastic microfibers shed during the washing of plastic-based textiles, such as polyester, nylon or acrylic, end up in the ocean annually[4]. To start addressing these impacts, companies are expected to ensure a robust traceability system along their supply chain, ensure robust grievance mechanism in place, and a binding commitment to avoid significant harm.

MINIMUM STANDARDS

Type of ESG risk:	Risk assessment indicators examples:	
Climate footprint	• Calculation of GHG emissions on all 3 scopes or ongoing evaluation. • Share of non-renewable energy consumption and production - energy consumption intensity per high impact climate sector. • Definition of a decarbonization strategy to reduce major sources of emissions.	PAI #1 PAI #2 PAI #5 PAI #6
Biodiversity footprint	• Life cycle analysis to identify high risk ingredients. • Percentage of raw materials with sustainable certifications. • Existing policy to prohibit transformation of any primary forest, high conservation value forest, high carbon stock or intact forest landscape. • Evolution of recycled content in the packaging. • Transparency on location of manufacturing sites (such as % of operation in highwater stress regions and related action plans) and quantity of water withdrawals. • Existing grievance mechanisms in place to identify and remedy adverse social and environmental impacts linked to their operations and/or supply chain. • Emissions to water - hazardous waste and radioactive waste ratio.	PAI #8 PAI #9

Governance

CONTEXT	MINIMUM STANDARDS	
	Type of ESG risk:	Risk assessment indicators examples:
While companies in these sectors are not the most exposed or the most likely to be found engaging in controversial practices from a business ethics standpoint, it is nevertheless important that companies be transparent about their lobbying practices, anticorruption and bribery policies and initiatives. Furthermore, considering that companies in this industry are generally global organizations, more transparency about their tax optimization strategy is also welcomed.	**Governance of sustainability**	• Existing governance structure enabling the mitigation of environmental and social risks. • Disclose breakdown of value among stakeholders, improving transparency around employee remuneration and payroll. • Integration of ambitious and binding sustainability criteria – assessed through pre-determined, quantifiable metrics– into the variable compensation of top executives. • All Board members are trained on sustainability topics. • Presence of employee representatives at board level (beyond regulatory requirements). • Unadjusted gender pay gap and board gender diversity. PAI #12 PAI #13
	Business ethics	• Robust Business ethics policies covering lobbying practices, anti-corruption, anti-competitive and bribery policies. • Anonymous whistleblowing channel to report non-ethical behaviors in the workplace, mechanisms applicable to all employees and third parties and presence of a third-party ombudsman, number of severe cases and correctives measures. • Systematic training on Company's and Suppliers' Code of Conduct. • Transparency on remuneration scheme of employees in sales-related functions with efforts made to make the fixed part most of the remuneration. • Transparency about lobbying practices and objectives. • Number of convictions and fines for violation of anti-corruption and antibribery laws. PAI #17
	Tax practices	• Effective tax rate vs. equal statutory tax rate. • Absence of controversies or evidence of aggressive tax optimization practices.

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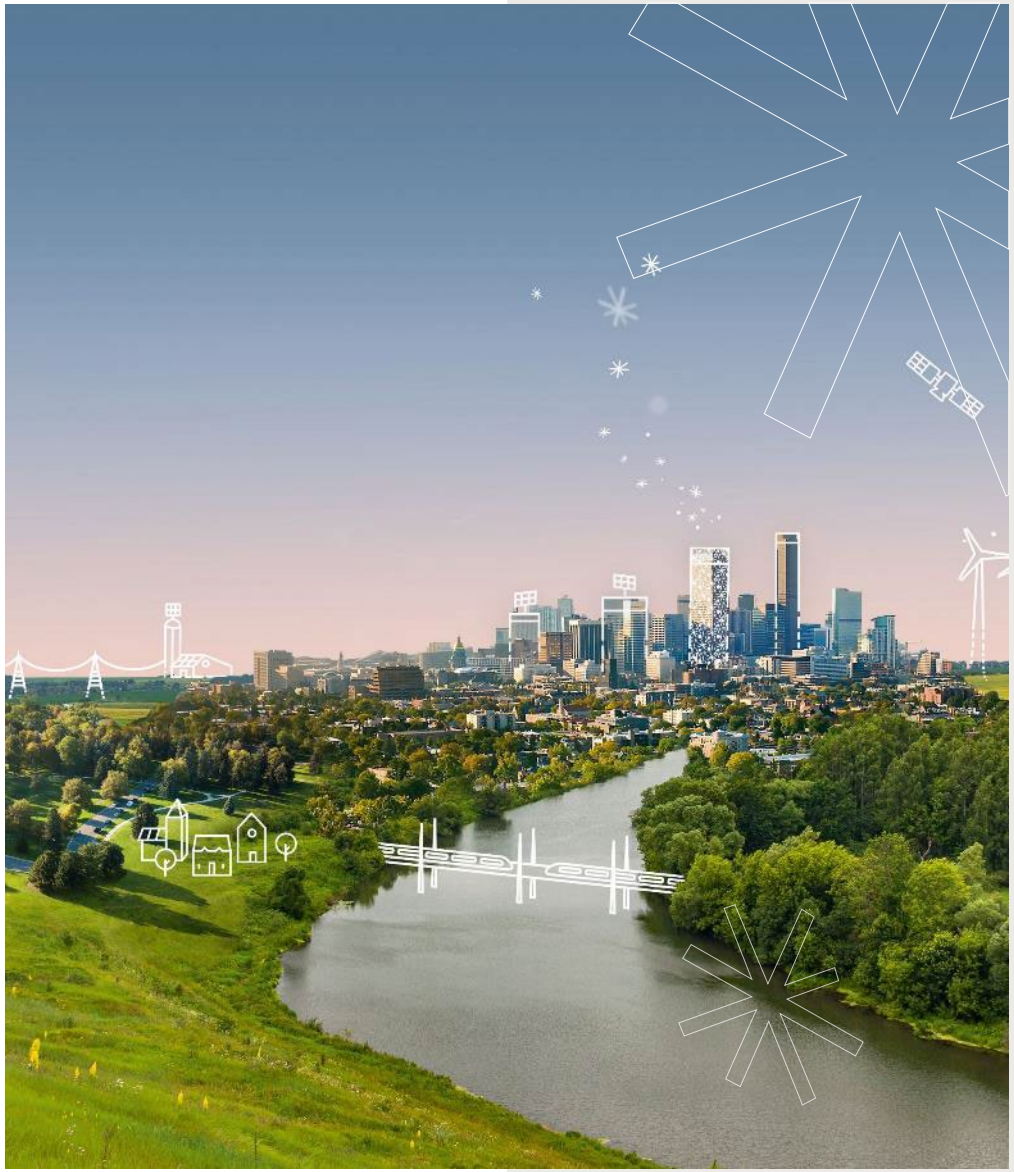
Appendices



Positive Impact

According to Mirova's internal methodology, contribution to the SDGs can be grouped into two main categories, which are often complementary.

- The **"activities"** i.e.. the products and services they offer.
- The "**practices**" i.e.. the way operations can contribute to create sustainable and inclusive jobs, or by having strong commitments to net zero targets beyond their green products offerings, etc.

	NEGLIGIBLE IMPACT	LOW POSITIVE IMPACT	MODERATE POSITIVE IMPACT	HIGH POSITIVE IMPACT
ACTIVITIES	Marginal or no exposure to sustainable activities.	From 10% to 20% revenues from sustainable activities.	From 20% to 50% revenues from sustainable activities.	> 50% revenues from sustainable activities.
	For this pillar, the positive contribution of activities is analyzed through a combination of revenues exposure, R&D investment and other indicators to qualify the effectiveness of measures implemented.			
PRACTICES	Absence of advanced practices.	One or more **advanced practices** on Medium Stake issues. or credible strategy to transition to advanced practices.	One or more **advanced practices** on High Stake issues.	

For the purpose of defining High/Medium Stakes, Mirova relies on external classifications, to the extent possible. Indicative High Stake sectors are defined as follows, but may be adapted on a case-by-case basis, notably depending on a company/project effective exposure to High Stake activities.

- Climate: Mirova relies on the list defined by NZIF and retains Nace codes A to H and J to L as High Stake.
- Biodiversity: Mirova relies on the definition of its supplier Iceberg Datalab and retains all GICS except from GICS 5020, 4510, 5010 and 3510 as High Stake.
- Human Capital: Mirova considers sectors that are most exposed to arduous working conditions as High Stakes and all GICS except from GICS 5020, 4010, 4020, 4030, 4510, 3520, 6010 and 6020.

ESG risks

SECTOR INHERENT RISK LEVEL: MEDIUM/HIGH

Product safety and compliance certifications are important for players in the industry, and especially for retailers. Whether looking at workers in stores or warehouses, working conditions are usually arduous, fast paced, unstable schedules, and high risk for physical injuries and/or mental health issues. Most of the sustainability risks for apparel, retail, and household companies occur in the supply chain. Today's global supply chains have become incredibly complex and as such having proper oversight and transparency over one's supply chain is a challenging task. Various controversies unveiled poor labor conditions in garment and footwear factories: poor or even dangerous working environments, incidences of child and/or forced labor, unpaid overtime, excessive overtime and no respect for the workers' freedom of association and right to collective bargaining. On the environmental front, energy intensity of the manufacturing process, water and chemicals use and pollutions, as well as microplastic releases by the synthetic fabrics in the use phase, are among the impact the industry has on biodiversity.

COMPANY INHERENT RISK LEVEL

A company inherent risk level may differ from the inherent risk level of the sector.
The definition of the company inherent risk level may also be determined by the specificities of the business model, the nature of the activities and their locations, as well as that of their suppliers (incl. country specific risks).

MAIN ESG RISKS FACTORS

Working conditions: human rights & health and safety

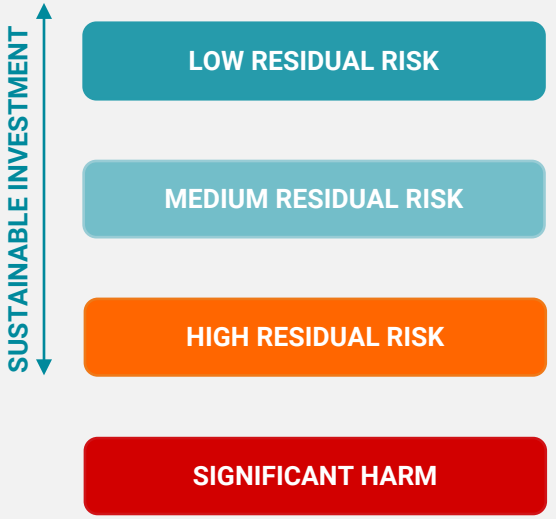
Product safety

Biodiversity & climate footprint

Governance:

- Governance of sustainability
- Business ethics
- Taxes

RESIDUAL ESG RISK LEVEL



Satisfactory management of the company's or project's main sustainability risks on most material issues.

Current management in place does not fully cover all ESG risks but these are considered moderate, and current practices are deemed acceptable.

Companies demonstrating significant mitigation efforts operating in sectors with industry-wide complex and unaddressed challenges- systematically under targeted engagement.

Not eligible for investment.

Principal Adverse Impact Indicators

ADVERSE SUSTAINABILITY INDICATOR		MOST RELEVANT	THRESHOLDS / CRITERIA
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS			
Greenhouse gas emissions	1. GHG emissions	X	Systematic integration in qualitative internal analysis and systematic engagement with the largest emitters to strengthen their Net Zero commitments.
	2. Carbon Footprint	X	
	3. GHG intensity of investee companies		Not applicable
	4. Exposure to companies active in the fossil fuel sector		Not applicable
	5. Share of non-renewable energy consumption and production	X	Systematic integration in qualitative internal analysis and systematic engagement with the largest emitters to strengthen their Net Zero commitments.
	6. Energy consumption intensity per high impact climate sector	X	
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas		Exclusion of companies or projects significantly harming biodiversity sensitive areas.
Water	8. Emissions to water	X	Systematic integration in qualitative internal analysis and systematic engagement with relevant investee companies on this issue.
Waste	9. Hazardous waste and radioactive waste ratio	X	
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS			
Social and employee matters	10. Violations of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	X	Exclusion of companies violating UNGC and OECD principles and monitoring of exposure to violations as part of controversy monitoring process. Systematic integration in qualitative internal analysis.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	X	
	12. Unadjusted gender pay gap	X	Systematic integration in qualitative internal analysis and systematic engagement with relevant investee companies on this issue.
	13. Board Gender Diversity	X	
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	X	Exclusion of companies or projects exposed to controversial weapons leads to and involved in the production of re-exportable weapons.
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS			
Human Rights	16. Number of identified cases of severe human rights issues and incidents	X	Systematic integration in qualitative internal analysis and monitoring of exposure to violations as part of controversy monitoring process.
Anti-corruption and anti-bribery	17. Number of convictions and number of fines for violation of anti-corruption and antibribery laws	X	

The information provided reflects Mirova's opinion/the situation as of the date of this document and is subject to change without notice. Our minimum standards policy also provides more information on thresholds for Principal Adverse Impacts Indicators : Mirova Minimum standards Source: Mirova.

Useful Resources

SFDR

- Sustainable Finance Disclosure Regulation (SFDR): positioning of Mirova Funds
- Description of the principal adverse impacts on sustainability factors

POLICIES AND METHODOLOGIES

- Our approach to impact
- Our approach to impact & ESG assessment
- Minimum standards
- Voting and Engagement policies
- Temperature alignment of listed investment portfolios
- Transparency codes
- Our Taxonomy for Sustainable Solutions

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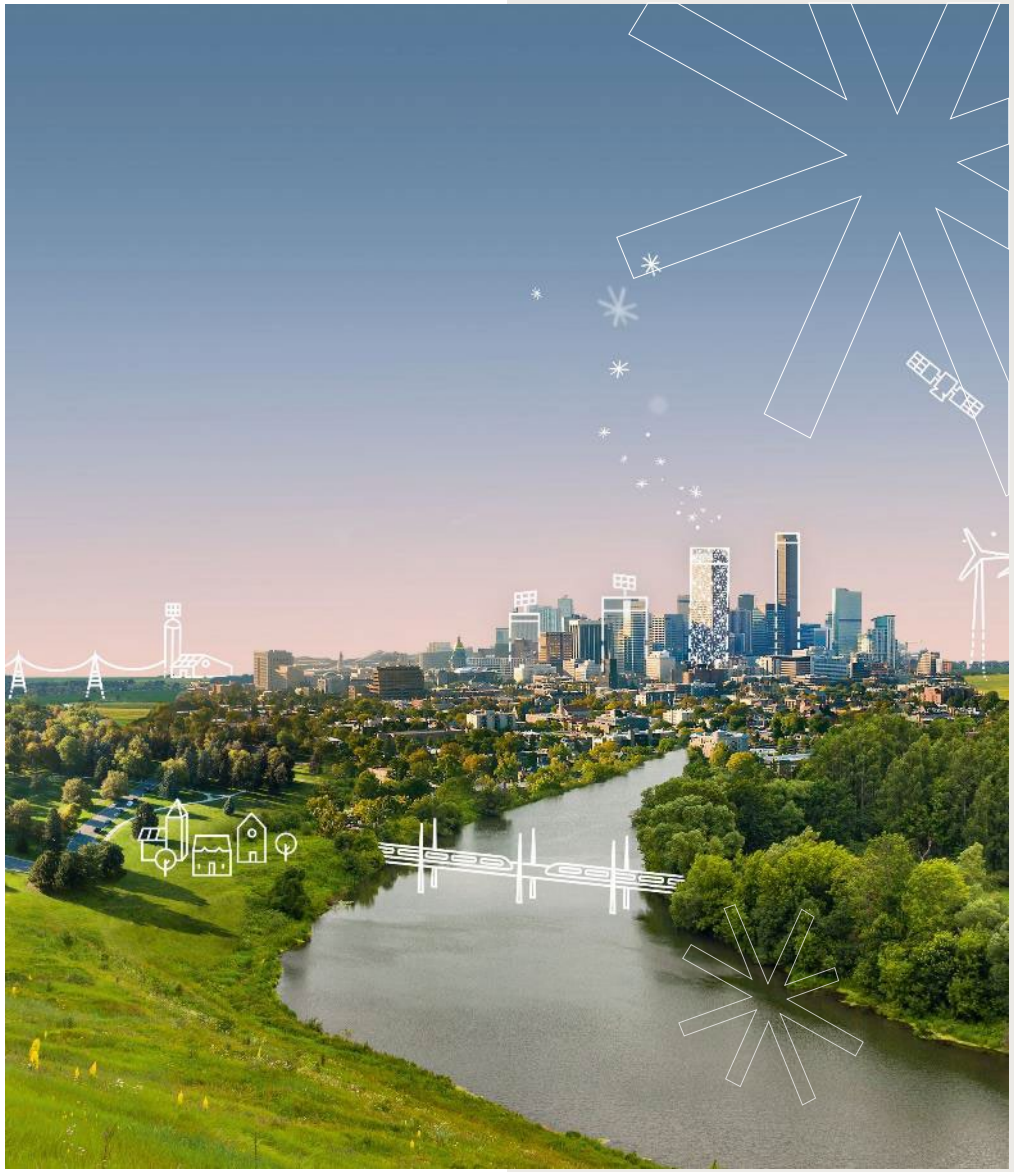

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MAIN RISKS

ESG Investing Risk & Methodological limits

By using ESG criteria in the investment policy, the relevant Fund's objective would in particular be to better manage sustainability risk and generate sustainable, long-term returns. ESG criteria may be generated using Mirova's proprietary models, third party models and data or a combination of both. The assessment criteria may change over time or vary depending on the sector or industry in which the relevant issuer operates. Applying ESG criteria to the investment process may lead Mirova to invest in or exclude securities for non-financial reasons, irrespective of market opportunities available. ESG data received from third parties may be incomplete, inaccurate or unavailable from time to time. As a result, there is a risk that Mirova may incorrectly assess a security or issuer, resulting in the incorrect direct or indirect inclusion or exclusion of a security in the portfolio of a Fund.

Sustainability risks

The Sub-Funds are subject to sustainability risks as defined in the Regulation 2019/2088 (article 2(22)) by environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

Sustainability Risks are principally linked to climate-related events resulting from climate change (i.e. Physical Risks) or to the society's response to climate change (i.e. Transition Risks), which may result in unanticipated losses that could affect the Sub-Funds' investments and financial condition. Social events (e.g. inequality, inclusiveness, labour relations, investment in human capital, accident prevention, changing customer behaviour, etc.) or governance shortcomings (e.g. recurrent significant breach of international agreements, bribery issues, products quality and safety, selling practices, etc.) may also translate into Sustainability Risks. Sustainability factors consist in environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters (the "Sustainability Factors"). Portfolio investment process includes binding and material ESG approach to focus on well rated securities from an ESG viewpoint in order to mitigate potential impact of Sustainability Risks on portfolio return. More information on the framework related to the incorporation of Sustainability Risks is to be found in the sustainability risk management policy of the Management Company on its website.

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