

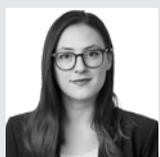
Limited shelf-life? Why the fast fashion model is under strain

Fast fashion retailers came under fresh scrutiny during the Covid-19 pandemic, with an infection spike in one UK city linked to poor conditions in local factories. But shopping for clothes from online retailers rose as lockdowns shuttered high street stores. Lisa Lange looks at the detrimental environmental implications of this.

Setting the scene

In the early days of the pandemic, lockdown measures imposed to reduce the spread of Covid-19 led to a slump in demand for new clothes, causing a ripple effect along international supply chains. Unsold stock piled up in warehouses as shopping malls stood empty. With professionals working from home, no one felt the need to refresh their office wardrobe. But as the pandemic wore on, a new trend emerged – more people turned to online fashion retailers. Fast fashion also hit the headlines when a spike in coronavirus cases in Leicester – a clothing manufacturing hub in the UK – exposed allegedly poor treatment of employees in some supply chains. The controversy may prompt some consumers to reflect on industry practices and reassess their relationship with the frenetic fast fashion cycle.

For further information, please contact:



Lisa Lange
Theme lead: Pollution, Waste and
the Circular Economy
lisa.lange@hermes-investment.com

Fast fashion retailer Boohoo hit the headlines this summer for all the wrong reasons – an investigation alleging serious failings in its supply chain saw approximately £1.5bn wiped off its share price, losing over 40% of its value peak to trough.^{1,2,3} The ensuing controversy shone a spotlight on the cheap clothing brands that are popular with young consumers, although the take-make-dispose model comes with a high environmental price tag.

Boohoo was one of the beneficiaries of a broader consumer shift to buying clothes online during lockdown. Fast fashion retailers were better placed to meet this demand, compared with traditional bricks and mortar stores, as their model is geared to sending out multiple items at the buyer's request and then dealing with unwanted returns.

But the shortness of a fast fashion cycle, with as many as 52 "seasons" in a year, is the antithesis of a long-term sustainable use of resources. This is due to the cumulative impact that each production step has on our planet in terms of the water, materials, chemicals and energy use, from the cultivation of cotton and petrochemical production, to manufacturing, logistics and retail.

¹ <https://www.theguardian.com/business/2020/aug/28/revealed-auditors-raised-minimum-wage-red-flags-at-boohoo-factories>

² <https://www.theguardian.com/business/2020/jul/07/boohoo-shares-concern-factory-conditions>

³ <https://www.ft.com/content/19f9c4e9-e1d6-41a7-a352-5884549fcc9a>



CASE STUDY

Boohoo



Boohoo is an ad hoc engagement that we initiated due to allegations against the company in the press regarding employment practices in Leicester, although due to the relatively low client holdings, Boohoo is not in our engagement plan.

We had a discussion with the company in July in which Boohoo told us that it had commissioned an independent review conducted by senior barrister Alison Levitt QC. This would consider the company's obligations and relevant duties of care in relation to the workforce in its Leicester supply chain. The company assured us that the investigation's recommendations would be key to the future strategy of the company.

On the call, we also raised concerns about the sustainability of the fast fashion business model and urged the company to improve its transparency on reporting environmental metrics on a comparable year-on-year basis. After this initial call with the company, we co-signed a letter from the Investor Forum requesting a review of the fashion retailer's supply chain, improved transparency, and governance reforms, such as improving the level of independence on the board.

Consultancy McKinsey⁴ estimates that the global fashion industry produced 2.1 billion tonnes of greenhouse gas emissions in 2018 alone, which corresponds to 4% of the global total. This, McKinsey suggests, is equivalent to the combined annual emissions of France, Germany and the UK. Some 70% of these emissions come from upstream activities such as materials production, preparation and processing, while around 30% are associated with downstream retail operations, the use-phase, and end-of-use activities.

The current take-make-dispose model is inherently wasteful as around 73% of the garments produced end up in landfill or are incinerated, while less than 1% are recycled, representing a loss of over US\$100bn per year in material value.⁵ According to a research paper published in April 2020⁶, the fashion industry produces over 92 million tonnes of waste and consumes 79 trillion litres of water per year. Clothes have also been identified as a source of microplastics pollution in the oceans.⁷

During the pandemic, the closure of high street stores prompted consumers to turn to online clothing retailers in greater numbers, ordering multiple sizes and returning unwanted items. Although this must be seen in the context of overall depressed sales numbers, the environmental cost of door-to-door delivery in terms of carbon emissions and packaging waste is more cause for concern.

Human rights risks in the supply chain can also damage a company's reputation. Boohoo had generally good ESG ratings,⁸ but a lack of transparency in its supply chain. An independent report commissioned by Boohoo (see box) found widespread instances of dangerous working conditions in its supply chain and underpayment of staff.⁹

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Given the industry's social and environmental impact, there is a growing risk of more regulation or litigation. This could jeopardise the future profits of companies operating a fast fashion business model. In a new report, "Making the UK a Global Leader in Sustainable Fashion", the All-Party Parliamentary Group for Ethics and Sustainability in Fashion (APPG)¹⁰ suggests that the apparel industry needs to choose a more sustainable path. Consumer research in the UK indicates a shift, as 65% of respondents agree with the statement that the government should urgently do more to reduce the negative impact of the fashion industry on the environment.¹¹

Innovative business models are needed that move away from a focus on the number of purchases as a growth model, to consider fashion as a service that fosters the reuse or recycling of garments. Changing consumer preferences for sustainable clothing could be an opportunity for companies to build a strong relationship with their customers.

⁴ <https://www.mckinsey.com/~media/McKinsey/Industries/Retail/Our%20Insights/Fashion%20on%20climate/Fashion-on-climate-Full-report.pdf>

⁵ https://www.ellenmacarthurfoundation.org/assets/downloads/A-New-Textiles-Economy_Full-Report_Updated_1-12-17.pdf

⁶ <https://www.nature.com/articles/s43017-020-0039-9>

⁷ <https://brenmicroplastics.weebly.com/project-findings.html>

⁸ <https://www.ft.com/content/ead7daea-0457-4a0d-9175-93452f0878ec>

⁹ <https://www.ft.com/content/3cc4acc9-3f8a-4fb8-90e5-9a70116df7d4>

¹⁰ https://issuu.com/hubbubuk/docs/appg_report_final?fr=sOWI1NjE5NDA2ODE

¹¹ <https://www.hubbub.org.uk/our-polling-data>

Engaging with the apparel sector

At EOS we are setting more ambitious, yet achievable objectives for the apparel sector. We undertook a comparative analysis of companies to assess how they were positioned to reduce the environmental impact of garments and move towards more circular business models. This will enable us to monitor the progress of our company engagements more systematically within the context of industry peers, and complement our work on supply chain human rights, particularly focused on appropriate due diligence processes.

A strong management of sustainability issues within a company is essential to improving performance. Focusing first on the management approach, we found that companies greatly differed in their conceptualisation of sustainability, and their commitment to the issue. This affects how well sustainability concerns are addressed in a company’s strategic positioning, and its corresponding target setting and reporting. Developing a scoring methodology to benchmark company performance in terms of their management frameworks enabled us to compare companies and tailor objectives to the level of maturity of each. This ensures we can focus on the most ambitious, yet most feasible change for each company.

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Retailer H&M has made a strong commitment by stating that it aims to become a fully circular business. Importantly, the company has set a science-based target to reduce its absolute Scopes 1 and 2 greenhouse gas emissions by 40% by 2030, from a 2017 base year.

It also has a target to reduce its absolute greenhouse gas emissions from purchased raw materials, fabric and garments by 59% per piece by 2030 from a 2017 base year. Furthermore, the company has set a goal to source 100% recycled or other sustainably-sourced materials by 2030.

H&M has also developed a biodiversity strategy that sets out actions to reduce negative impacts and to contribute to more resilient and healthy ecosystems. We are now asking the company to report on its climate change strategy and actions using the guidelines of the Task Force on Climate-related Financial Disclosures (TCFD), including improving transparency regarding the link between sustainability targets and executive remuneration. We also want to see the company introduce a comprehensive take-back scheme for used clothes and to introduce targets for recycled cotton content.



Dr Emma Berntman
Theme lead: Natural Resource Stewardship



Sportswear manufacturer Adidas’s approach to circularity is more mature than that of some of its peers. We had a focused discussion on circular economy approaches in July 2020 in which the company explained how the “Three Loop Strategy” to end plastic waste and scale-up circular efforts to make sustainable clothing mainstream is linked to its corporate strategy.

Adidas made a strong public statement that articulated its commitment to move to a more circular business model and has made a commitment to use only recycled polyester in its products, where this is technically possible, from 2024 onwards.

The company has invested in circular innovation and its shoe range made from recycled ocean plastic was hugely successful with consumers. Furthermore, the first fully recyclable running shoe, the “Future Craft Loop” has been in the test phase since 2019 and its launch is planned for 2021. Finally, in February 2020, the company confirmed that it was committed to setting science-based emission reduction targets.

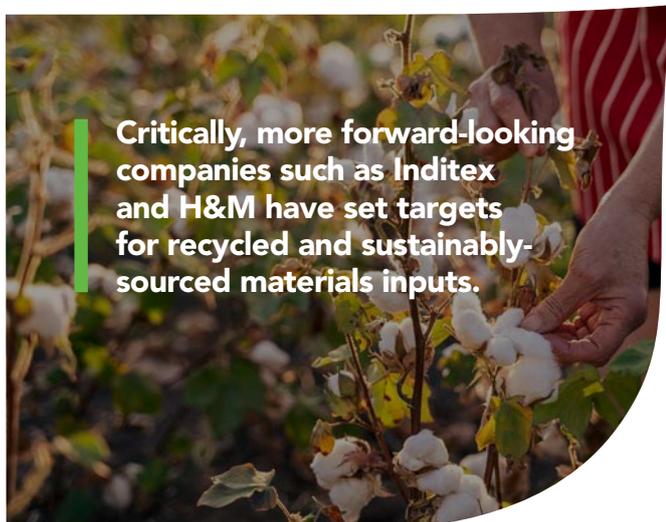
Objectives

Objectives that we will pursue with companies to push them along the trajectory of appropriately capturing the risks and opportunities at the heart of their business strategy include the following:

- 1 Publishing a public statement to acknowledge the need to move to circular business models.
- 2 Demonstrating an assessment of the risks to the business from its environmental impacts, including the supply chain and disposal.
- 3 Setting a timebound recycled content target as a percentage of the total for specific materials such as sustainably-sourced cotton and recycled polyester.
- 4 Setting timebound targets for the percentage of sales from sustainable materials or product lines.
- 5 Ensuring that 100% of stores or online systems offer take-back and repair capabilities to encourage consumers to increase the life of a garment and to recycle.
- 6 Disclosing progress towards environmental targets, as well as the proportion of capital expenditure that is dedicated to moving to a more circular business model.

Of course, what matters in the end is the actual performance of companies in terms of the environmental impact of their operations and products. Some of the key performance metrics that we have identified are carbon emissions and water use per unit of production, the recycled materials input, a roll out of take-back schemes and consumer education on recycling, and the proportion of investment committed to circular innovation.

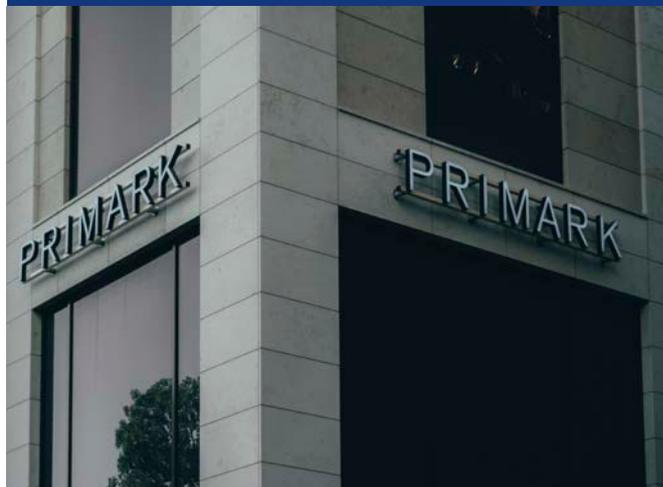
It is promising that companies such as H&M and Nike have now set science-based targets – the first clothing and footwear companies to do so, while others such as Adidas and Inditex have committed to doing so. Critically, more forward-looking companies such as Inditex and H&M have set targets for recycled and sustainably-sourced materials inputs. Now it will be key to monitor progress as companies start to report against these targets.



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CASE STUDY

Primark



Primark, a high street fashion retailer popular with consumers for its low-cost clothing, has been a significant area of focus in our recent engagements with Associated British Foods, its owner. We continued our ongoing dialogue with the sustainability team of Primark in a video call with the company secretary and the ethical trade and environmental sustainability director in June 2020. Primark does not have an online shopping operation and was therefore highly impacted by the coronavirus lockdown, although it recovered once its stores reopened.¹²

In the discussion, we focused on how the coronavirus is impacting sustainability initiatives around cotton, circularity and climate. Primark lacks a concrete public commitment to move to a circular fashion business model but joined the “Make Fashion Circular” initiative developed by the Ellen MacArthur Foundation in 2018 and the Sustainable Apparel Coalition in 2015.

The company highlighted its work with smallholder farmers on sustainable cotton. We encouraged the company to build on this project and increase the proportion of sustainable cotton used in its products.

EOS is intensifying its engagement with the apparel sector, particularly the companies in the engagement programme that rely significantly on a fast fashion business model. We are using our comparative performance analysis of the proactive management of the environmental cost of fast fashion to help set ambitious, yet feasible objectives tailored to the company’s level of maturity.

We now plan to develop our work into a practical guide for investors to raise awareness and support more engagement with companies.

¹² <https://www.ft.com/content/5a4d6ea4-bd19-4e1c-8b92-473f70dd9f60>

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