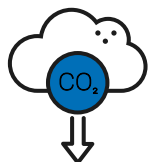


Net-zero: Apparel

8% of human-caused greenhouse gas emissions come from the production and transport of clothing and footwear. ¹

What does the **apparel sector** need to do?

LGIM will vote and implement investment sanctions against companies falling short of our climate expectations. LGIM expects companies' boards to oversee and publicly disclose answers to the following:



Net-zero commitment

- Does the company have a comprehensive target for net-zero by 2050 or earlier, covering scopes 1, 2 and material scope 3 emissions?²
- Has the company made a commitment to certify/certified this target with the SBTi or other external independent parties?
- Does the company have a net-zero transition plan that includes short- and medium-term targets?³



Strategy

- What are the actions and investments involved in the company's plan to reach net-zero, and what is the contribution of each action towards meeting its targets?⁴
- Is the company offering recycling collection for sold products? What share of collected garments are recycled versus being disposed of?
- Does the company ensure traceability of fibres and compliance with zero-deforestation principles?
- Is executive remuneration aligned with the company's short- and/or medium-term emissions targets, as set out in the net-zero transition plan?
- Does the company's net-zero strategy consider the potential impacts and dependencies on biodiversity – for example, in relation to land-use change/ cotton agriculture/ supply chain deforestation?



Resilience

- Has the company analysed its business model resilience to climate-related risks and opportunities using scenario analysis and disclosed how the output has influenced its strategy?
- Has the company analysed the physical climate risks to its assets, operations, and value chain, including potential financial impacts, and evidenced measures to mitigate or adapt to them?



Targets

- Does the company have targets to switch to 100% renewable energy and low carbon transportation across its operations and supply chain?
- Does the company have targets to grow production of / revenue from low-carbon garments?
- Does the company have targets to optimise its water usage and to improve material circularity?



Collaboration

- How is the company working collaboratively across its value chain to reduce emissions (e.g. customers, suppliers, strategic R&D partnerships, sector initiatives etc)?
- Is the company advocating meaningful policy action, including from regulators, to meet global net-zero targets (e.g. carbon pricing)?



Red lines

- Does the company have a net-zero operational emissions target?
- Does the company disclose its material scope 3 emissions?
- Does the company have a comprehensive zero deforestation policy?
- Does the company disclose its climate-related lobbying activities, including trade association memberships, and explain the action it will take if these are not aligned with a 1.5°C scenario?

* The applicability of the expectations varies depending on companies' business models

1. Quantis (2018).

2. Aiming to cover all segments of the business, as articulated within the GHG protocol guidance.

3. Short-term refers to 2022-2025, medium-term 2026-2035 and long-term 2036-2050.

4. E.g., energy efficiency and a shift to renewable energy, smart approaches for fibre and fabric recycling, maximise material efficiency and minimise production/manufacturing waste through innovations in design and cutting processes, offer repair and refurbishment service, source from organic/regenerative producers.

Further areas for company consideration

Biodiversity expectations

Why? The climate and nature crises are inextricably linked.⁵ Net-zero requires both emission avoidance and sequestration. Functioning natural systems are essential to this, but increasingly vulnerable due to climate change.

LGIM's expectations: An assessment of the impacts and dependencies on nature and biodiversity, and any appropriate mitigation actions.

Sector-specific considerations: A direct impact could result from material preparation and processing (water pollution from dyeing). Indirectly – through raw material production (cotton agriculture) and end of life treatment (waste disposal and microplastics)



Company levers

- Circularity / Recycling
- Low-carbon materials and logistics
- Energy efficiency
- Deployment of renewables to power operations

Government policies

- Carbon pricing
- Increased roll-out of renewables, particularly in emerging markets
- Low-cost financing for energy efficiency measures
- Waste, recycling and energy use standards for apparel and other consumer goods (e.g. washing machines)
- Supply chain certifications
- Policies to eliminate deforestation from the supply chain



Challenges

Consumer behaviour and growth of global middle class
Lack of low-carbon electricity and heat
Competitive market and fragmented supply chain
Traceability of materials



Opportunities

Growing consumer demand for sustainable fashion
Sustainable organic material production
Improved brand image and reduced reputational risk through better supply chain management



What is needed?

Company leadership	Research and innovation	Consumer behaviour
Investments to tackle emissions across the entire value chain Commitment to alternative materials	Circular business models (with regenerative materials, material efficiency, recycling)	Shift away from 'fast fashion'

5. UN IPCC-IPEBS, [Biodiversity and Climate Change workshop report \(2021\)](#)

Sources of emissions



'Scope 3' Upstream

Indirect GHG emissions from a company's supply chain (e.g. cultivation, production, dyeing and finishing of raw materials)



'Scope 1'

Direct GHG emissions from owned and operated retail and distribution facilities



'Scope 2'

Indirect GHG emissions from purchased energy



'Scope 3' Downstream

Other **indirect** GHG emissions from transport, use and disposal of products (e.g. washing, drying, recycling, incinerating)

Source: UNEP (2019).

'Just Transition' considerations

Potential implications for employees, supply chain, customers, and communities from the transition to a lower-carbon business model.

Manufacturing efficiencies and reduced demand for fast fashion can result in unemployment

Physical risk impacts

Disruption to supply chain and production

Water scarcity



For more information and to see how companies are rated

[LGIM Climate Impact Pledge score](#)

[LGIM Climate Impact Pledge](#)

Important information

Source: LGIM as at September 2023. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. The above information does not constitute a recommendation to buy or sell any security.