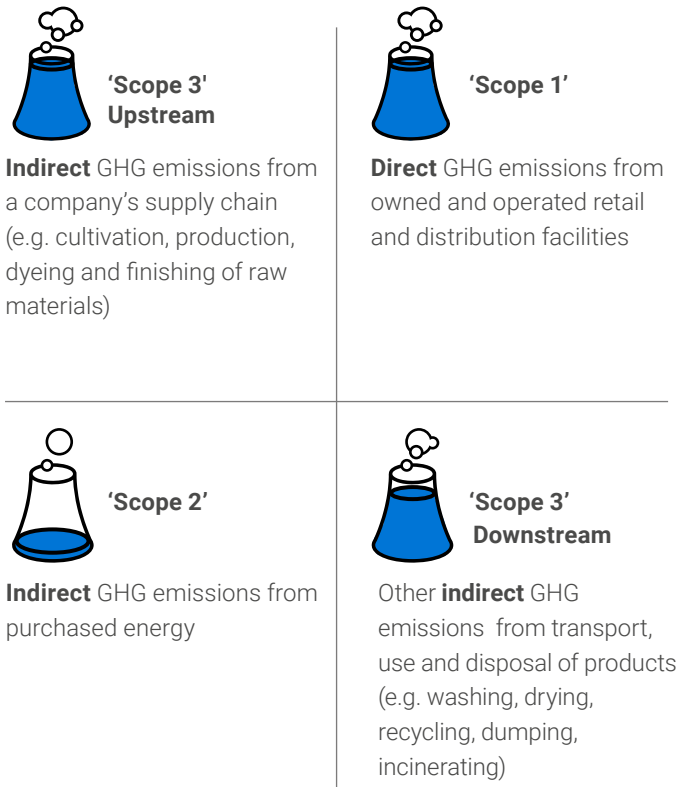


# Net zero: apparel

To prevent dangerous climate change, greenhouse gas emissions must reach net zero. What does the **apparel sector** need to do?

**8%** of human-caused GHG emissions come from the production and transport of clothing and footwear

## Sources of emissions



 Sources: Quantis (2018)

## Challenges

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

## Opportunities

- Growing consumer demand for sustainable fashion
- Improved brand image and reduced reputational risk through better supply chain management

## Companies

## Governments

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



## Other environmental considerations

- Water use/ pollution
- Waste
- Soil degradation
- Deforestation
- Pesticide and insecticide use
- Microplastics

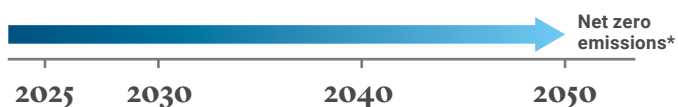
## Social impacts and the just transition

- Workers' rights, health and safety standards
- Manufacturing efficiencies and reduced demand for fast fashion can result in unemployment

## Physical risk impacts

- Disruption to supply chain and production
- Water scarcity

## Decarbonisation effort



### Easier to achieve

- Increased recycling
- Deployment of renewables to power operations
- Energy efficiency

### Possible with effort

- Low-carbon transport for goods
- Increased sustainable organic material production
- Dynamic supply chain monitoring

## What is needed?



### Company leadership

- Investments to tackle emissions across the entire value chain
- Commitment to alternative materials



### Research and innovation

- Circular business models with (regenerative materials, material efficiency, recycling)



### Consumer behaviour

- Shift away from 'fast fashion'

**LGIM will vote and implement investment sanctions against companies falling short of our climate expectations.**

\*To be followed by reducing emissions of other GHGs such as methane to net zero

## How are we assessing companies' pathways to net zero?

<b>Net-zero Commitment</b>	<ul style="list-style-type: none"> <li>Does the company support the Paris Agreement target?</li> <li>Does the company have a net-zero target covering full value chain emissions?</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>What percentage of R&amp;D is allocated to new recycling techniques and to lower-impact materials?</li> <li>Is the company offering recycling collection for sold products? In what % of stores?</li> <li>What share of collected garments are recycled versus being disposed of?</li> <li>Traceability of fibres and compliance with zero-deforestation principles?</li> </ul>
<b>Resilience</b>	<ul style="list-style-type: none"> <li>Is the company analysing the physical climate risks to its portfolio and evidencing measures to manage these?</li> <li>Resilience of business model in – and alignment to – climate scenarios?</li> </ul>
<b>Targets</b>	<ul style="list-style-type: none"> <li>Target to achieve zero energy-related emissions, including from suppliers and logistics?</li> <li>Targets for revenue from lower-impact products?</li> <li>Targets to improve material recycling?</li> <li>Targets to grow sourcing from organic/regenerative producers?</li> </ul>
<b>Collaboration</b>	<ul style="list-style-type: none"> <li>Evidence of the company working collaboratively across its value chain to reduce emissions?</li> <li>Evidence of the company advocating for meaningful policy action?</li> </ul>
<b>Red lines</b>	<ul style="list-style-type: none"> <li>Does the company have a fully comprehensive zero-deforestation policy?</li> <li>Is the company disclosing Scope 3 emissions?</li> </ul>

## For more information...

Please see: <https://www.lgimblog.com/categories/esg-and-long-term-themes/climate-impact-pledge>

### Important information

Source: LGIM as at September 2020. 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

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