

THREADBARE DATA

Poor environmental disclosures by textile wet processing companies prevent investors from properly pricing ESG risks and opportunities

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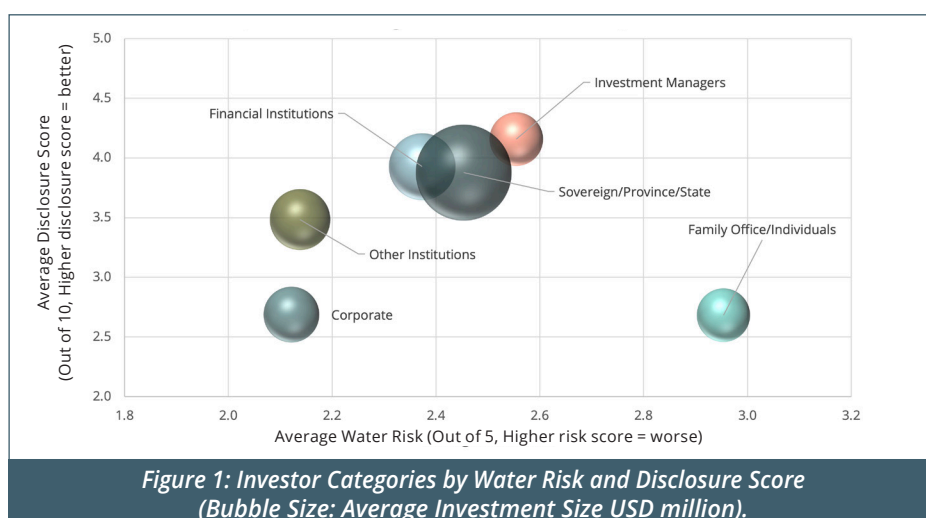
Executive Summary

Our findings are bleak

This report analyses the environmental disclosures of the 230 companies in Planet Tracker's Wet Processing Universe, as defined in the recent report **'Will Fashion Dye Another Day?'**, and covers water, greenhouse gas (GhG) emissions, energy and chemicals management.

Environmental disclosures by wet processing companies are poor. The wet processors in the Planet Tracker Universe give little quantitative and qualitative data publicly about how they measure and assess their use of water, energy and chemicals. Given the heavy environmental footprint of the wet processing industry this represents a significant risk for investors exposed to this sector.

In this report, we defined 37 quantitative and qualitative disclosures (see the overview in Appendix A). 10% of the companies we analysed disclosed no information at all. 90% disclosed at least one qualitative or quantitative environmental metric, however the disclosure was generally poor and inconsistent (our full data set is available on request). Our analysis shows that companies operating facilities in high water risk areas provide the poorest environmental disclosures, compounding risks for investors - see Figure 1.



Source: Factset, WRI, Evalueserve, company reports, Planet Tracker.



Poor disclosures significantly impair the ability of investors to assess the wet processing companies they are funding not only against their ESG investing principles, but also for environmental business risk, such as fines or production closures from water mismanagement, leading to negative impacts on cash flow. Additional business risk can come from wet processors risking losing business from brands that are stepping up their requirement for environmental data from their suppliers.

Overall, our key findings were:

- Of the minority that say they have environmentally linked policies, most do not publicly disclose any data to support these policies or show how they are meeting them.
- Many of the companies that we know are exposed to water risk do not publicly disclose what they are doing to mitigate that risk.
- Even disclosure around a more 'mature' metric like greenhouse gas (GhG) emissions is inconsistently reported and challenging to extract from company literature, such as websites, annual reports and sustainability reports, but might be present in proprietary databases of brands that source from them.
- Based on the limited data we were able to collect, we calculate that larger entities (by revenue) have better environmental efficiency metrics than smaller entities.

Investors cannot be confident that wet processing companies are managing their environmental risks effectively and it might be reasonable to presume that poor disclosure indicates poor risk management.

Our analysis of investor holdings shows that family offices and individual entrepreneurs are particularly exposed since on average they hold companies with poorer disclosure scores which our previous research identified as having higher water risks .

Wet processors can choose from several international sustainability reporting frameworks for reporting environmental performance. However, these frameworks are not mandatory, so it is no surprise that companies will choose a format that suits them, and the data that is reported is neither standardised nor consistently applied. This makes it difficult for analysts to harmonise data across an investment portfolio and therefore undertake meaningful analysis.

Our analysis showed that disclosures relating to GhG emission data (Scope 1, 2 & 3), with energy use as a component of this, were better than disclosures relating to water and chemicals use and management.

The Carbon Disclosure Project (CDP) is one standard setter that does provide a framework for reporting water and chemicals use and management. Companies self-report using the CDP questionnaire. However, as this is not mandated, and individual responses may not be made public, the data are sparse¹

We believe freely available, standardised and consistent data is key to comparison and we welcome the "Statement of Intent to Work Together Towards Comprehensive Corporate Reporting" published by five of these ESG standard setters² in September 2020. For wet processors, this could simply be clear mandated quantitative disclosure around the amount of water withdrawn, consumed and discharged per kg of textiles, or a clear directive around the disclosure of chemicals management policies or reporting which chemicals programmes a company is a member of (e.g., ZDHC³).

¹ Only 62 of 136 fashion and textiles companies asked by CDP disclosed their water impacts in 2019 through CDP in a report found at: <https://www.cdp.net/en/articles/media/just-1-in-10-fashion-companies-show-awareness-of-water-pollution-across-whole-value-chain>

² CDP, CDS, GRI, IIRC & SASB

³ Zero Discharge of Harmful Chemicals more information found at: <https://www.roadmaptozero.com>



Investor Call to Action

There is a clear need for investors, governments and regulators to act together to require a unified, consistent, standardised, global framework for reporting environmental data.

We welcome efforts by the IFRS Foundation and the CDP, CDSB, GRI, IIRC and SASB to work together to create a global sustainability reporting framework.

Planet Tracker recommends that investors take the following actions:

- Use Planet Tracker's disclosure score when assessing the environmental risks associated with a particular company.
- Use Planet Tracker's water risk score for wet processing companies that do not provide adequate water-related disclosures.
- Request companies to radically improve environmental transparency and related financial efficiencies. Potential measures could include:
 - better disclosure of what strategic steps they are taking or have taken to mitigate environmental-related risks.
 - active management of chemicals risks (for example, by joining ZDHC and/or adhering to the REACH regulations).
 - consistent reporting of comparable metrics around water, chemicals and energy use, for example on a per kg of production basis.

Company Call to Action

The pressure for wet processing companies to improve their processes and reduce their environmental footprint will come from downstream fashion retail brands as well as their own investors and government led country-based regulation.

The momentum for better and more in-depth disclosure is underway. Wet processing companies have a commercial opportunity to get ahead of any required environmental reporting measures now and gain market share by adopting more sustainable approaches and then ensuring they proactively disclose their environmental policies and the data required to enable their customers and investors to assess their progress.



Introduction

Planet Tracker's first Textiles Tracker report '[Will Fashion Dye Another Day?](#)' focused on understanding the water risks associated with the wet processing sector. Planet Tracker demonstrated a spatial finance technique of using water risk data provided by the World Resources Institute's Aqueduct 2.0 tool to determine the level of water-related risk faced by listed textile wet processing companies based on the geolocations of their factories. From this we assigned a 'water risk' score to each company.

The Wet Processing Universe we used for this analysis consists of 230 publicly traded companies involved in wet processing activities with identifiable factories that we initially identified in '[Will Fashion Dye Another Day?](#)'. The water risk scores we assigned were based purely on the locations of their factories and did not take into consideration any risk-mitigating actions that are actually being taken by the companies concerned.

Our aim in this paper, therefore, is to understand how companies in the Wet Processing Universe, especially those with high water risk, disclose how they are managing and mitigating their environmentally-related risks. Since wet processing involves the application of water, chemicals and heat, and there is often a balance to be struck between these inputs, we have also analysed how companies measure, monitor and report GhG emissions, chemicals and energy management, and costs for waste management.

We examined each of the 230 companies and found 37 water-, GhG emissions- and chemicals management-related qualitative and quantitative data points and then assigned a disclosure score to each company. This has allowed Planet Tracker to strengthen the water risk score assigned in our previous paper by layering entity disclosure scores, thereby giving investors a more holistic view and metric of how wet processors are mitigating environment-related risks.

This report has three purposes:

- 1 To understand how much and what kind of environmental data is published by companies in the Planet Tracker Universe of wet processors.
- 2 To understand if companies more exposed to higher water risks provide more data (or less), and any other linkages between disclosure and any financial metrics.
- 3 To understand the linkages between water, energy and chemicals management at the wet processing stages of textile production.



Standardised Company Disclosure of Environmental Indicators is Lacking

Assessing the company disclosure of environmental indicators for the Planet Tracker Universe of wet processors

We assessed the environmental disclosures of the 230 companies in our Planet Tracker Wet Processing Universe, using a standardised set of questions covering quantitative and qualitative data on water usage, disposal and re-use, energy management and emissions and chemicals management. Please refer to Appendix B for a more detailed breakdown of Planet Tracker’s data collection format.

Of the 8,510 possible data points we could collect, we could only get data for 1,329. While we found most companies (90%) disclosed at least one quantitative or qualitative environmental metric, disclosures were generally poor and not consistent, significantly impairing the ability of investors to correctly evaluate the companies they are funding.

10% of the 230 companies we assessed reported no environmental policies or data at all. This is equivalent to 5% of the total sector revenues, implying companies with higher revenues generally reported more disclosure. More companies disclosed something relating to their GhG emissions than was the case for water or chemicals - see Figure 2.

- 39% reported no water-related disclosures (12% of total revenue)
- 21% reported no emissions-related (GhG) disclosures (8% of total revenue)
- 35% reported no chemical-related disclosures (11% of total revenue)

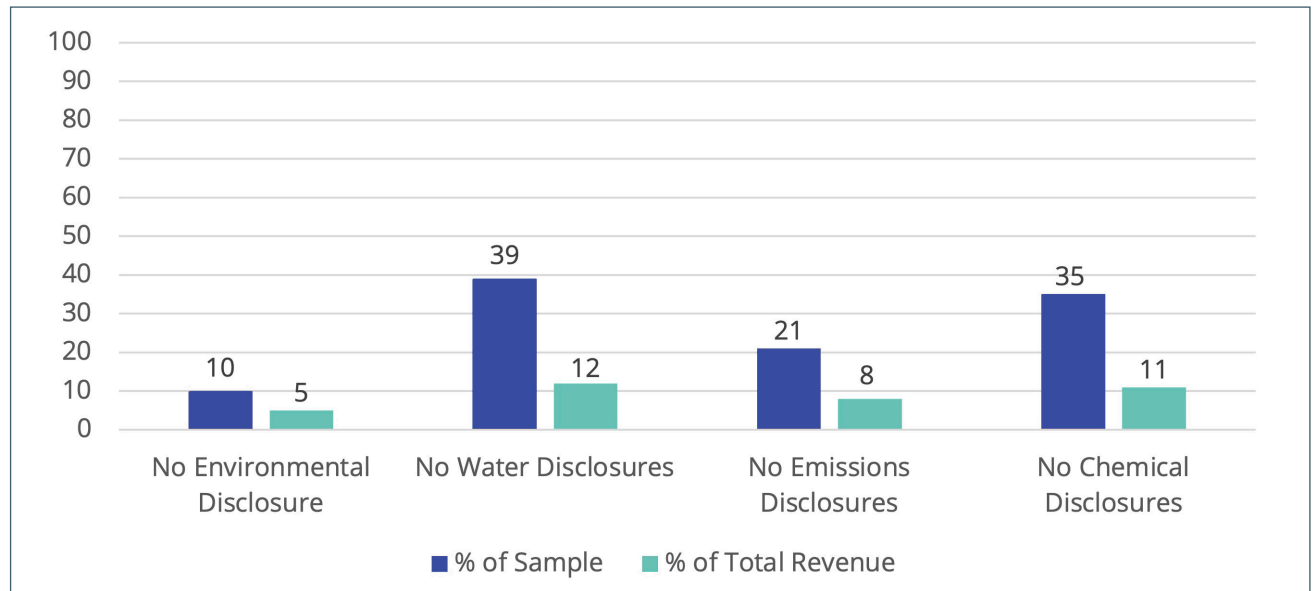


Figure 2: State of Disclosures - The State of Environmental Disclosures for 230 Wet Processing Companies.

Source: Evalueserve, company reports, Planet Tracker.



Excluding LVMH

Amongst our collected 230 companies is LVMH. In our report “Will Fashion Dye Another Day?”, we identified four wet processing factories owned by LVMH. However, as a large luxury goods company, it has a significantly larger market capitalisation and annual revenues than any of the other entities in our analysis. Its annual revenues account for almost 30% of the total revenues for the 230 wet processors. Because of this, we have excluded LVMH from our analysis where its size distorts the results. We have also excluded it from the ownership analysis for the same reason.

Calculating an environmental disclosure score for each wet processor

Despite the challenges of dealing with a paucity of reported quantitative data, Planet Tracker calculated a disclosure score for each entity based on their qualitative and quantitative disclosures.

Based on 18 qualitative and 19 quantitative observations (37 in total), we converted company disclosures to an overall disclosure score out of 10.

The maximum disclosure score of any company was 7/10 (LVMH), which was expected for a well-capitalised and publicly traded large fashion and lifestyle conglomerate.

Shockingly though, 22 companies had an environmental disclosure score of 0, indicating a complete omission of environment-related disclosures.

Seven companies (including LVMH), representing 42% of total revenues in the basket, scored 5 or better - see Figure 3.

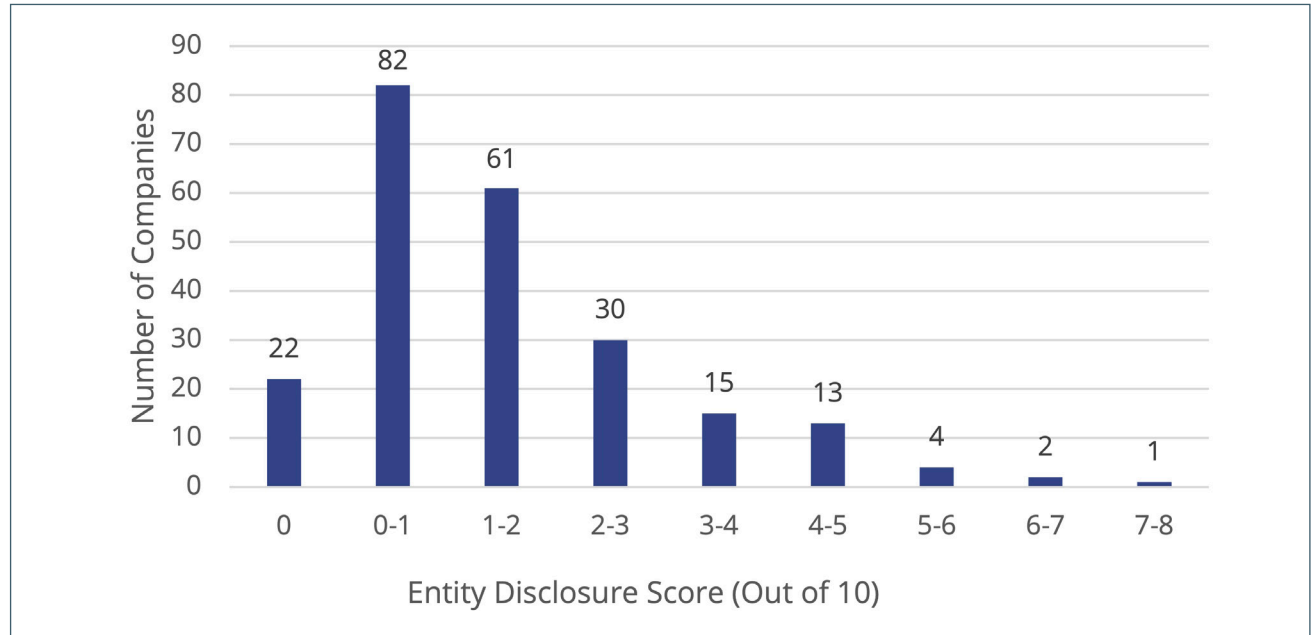


Figure 3: Overall Entity Disclosure Score - The State of Environmental Disclosures for 230 Wet Processing Companies.

Source: Evalueserve, company reports, Planet Tracker.



Quantitative disclosure shows smaller companies are less efficient

We have analysed the quantitative data disclosed by market cap quintiles, calculating the median value, to provide a more clustered analytical approach. 140 companies (61%) reported at least one quantitative metric. Our general observation is that as market capitalisation decreases, the water consumed per US\$ of revenue increases, indicating that smaller companies are less efficient with the use of water. In addition, as market capitalisation decreases, generally, companies produce more metric tonnes CO₂ equivalent per US\$ of revenue. While this might be expected, better quality and standardised data reporting and therefore higher quality data samples are needed to be confident the conclusion is correct – see Table 1.

Table 1: Environmental Efficiency Ratios for Market Cap Quintiles; Note: Some entities report total emissions (Scope 1, 2 & 3), while others report them individually. Note: We have excluded LVMH from this analysis.

MEDIAN	DESCRIPTIVE			EFFICIENCY RATIOS						
MkCap Quintile	Aggr. MkCap of Quintile	Median Water Risk	Median #no Factories	Water Withdrawn/ Revenue	Water Consumed/ Revenue	Water Withdrawn/ Revenue	GhG Scope 1 Emissions/ Revenue	GhG Scope 2 Emissions/ Revenue	GhG Scope 3 Emissions/ Revenue	GhG Scope 1+2+3 Emissions/ Revenue
	USD Bn	Out of 5		(m3/USD)	(m3/USD)	(m3/USD)	(t CO2 eq./USD)	(t CO2 eq./USD)	(t CO2 eq./USD)	(t CO2 eq./USD)
1	419.1	2.99	3	0.01	0.00	0.01	3	17	18	84
2	11.8	2.88	2	0.03	0.01	0.00	5	44	0	368
3	5.0	3.92	2	-	0.02	0.05	767	91	2	788
4	2.3	4.08	2	-	0.02	0.01	9	208	5	704
5	0.4	4.20	1	-	17.22	4.6	-	-	-	888
Median		3.61	2	0.02	3.5	0.9	196	90	6	566

Source: Evalueserve, Company reports, Planet Tracker.

Qualitative disclosure is only slightly better

Our analysis revealed a slightly better performance on qualitative data disclosures with 196 companies representing 44% of revenues positively responding to 22% of qualitative data points.

Only 9% of surveyed companies, representing 9% of revenues, mentioned the use of Zero Liquid Discharge (ZLD⁴) technology to manage wastewater (13% excluding LVMH), indicating that larger companies are more inclined to consider this expensive option for wastewater management.

On a more promising note, 38% of companies representing 62% of the Planet Tracker Universe revenues (90% of revenues when excluding LVMH) indicate the usage of effluent treatment plants to handle wastewater. This suggests that smaller companies are more inclined to handle wastewater by installing a captive effluent treatment plant (cheaper than a ZLD facility) or connect to common/central effluent treatment plants if the factory is located in an industrial cluster or integrated textile park. This may be a result of tightening wastewater-related regulations in wet processing countries.

See Table 2 for an analysis of responses to our qualitative inquiry.

⁴ Zero Liquid Discharge (ZLD) is a strategic wastewater management system that ensures that there will be no discharge of industrial wastewater into the environment. ZLD is typically employed by wet processing companies in the textile supply chain to drive water-related efficiencies and to adhere to water and chemicals-related pollution control rules and regulations.



Table 2: The State of Qualitative Environmental Disclosures; Source: Evalueserve, Company reports, Planet Tracker.
Note – LVMH has been included in this analysis.

Category	Metric Name	No. of Data points collected	% of Data points collected over total	Revenues as % of total associated with collected data points
Metric sub-category				
Targets & goals	Does the company set targets and/or goals for water risk reduction or water management?	15	7%	58%
Risk assessment	Does the company company conduct regular internal water risk assessments? (Y/N)	16	7%	48%
Water impact reduction	Initiatives to reduce water footprint - Waterless wash/ Dynamic rinsing (score: 1 for Yes, 0 for No)	16	7%	15%
Water impact reduction	Initiatives to reduce water footprint - Zero Liquid Discharge (score: 1 for Yes, 0 for No)	20	9%	9%
Water impact reduction	Initiatives to reduce water footprint - Rainwater harvesting (score: 1 for Yes, 0 for No)	26	11%	37%
Risk assessment	Does the company have a water risk or water management policy? (Y/N)	80	35%	64%
Water impact reduction	Initiatives to reduce water footprint - other	82	36%	76%
Water impact reduction	Initiatives to reduce water footprint - Water treatment plant/Effluent treatment plant (score: 1 for Yes, 0 for No)	88	38%	62%
Water impact reduction				
GhG emissions impact reduction	Initiatives to reduce GhG Emissions - GhG offset program (Score: 1 for Yes, 0 for No)	6	3%	6%
Targets & goals	Does the company set targets and/or goals for climate risk reduction or carbon management?	22	10%	67%
Risk assessment	Does the company conduct regular climate risk assessments? (Y/N)	26	11%	62%
GhG emissions impact reduction	Initiatives to reduce GhG emissions - other	42	18%	50%
Risk assessment	Does the company have a climate risk or GhG emissions management policy? (Y/N)	58	25%	71%
GhG emissions impact reduction	Initiatives to reduce GhG emissions - Renewable energy/ bioenergy capital expenditure (score: 1 for Yes, 0 for No)	66	29%	70%
GhG emissions impact reduction	Initiatives to reduce GhG emissions - Energy Efficiency measures (score: 1 for Yes, 0 for No)	139	60%	73%
GhG emissions impact reduction				
Targets & goals	Does the company have or claim to be working towards no hazardous waste discharge (eg by being a member of or aiming to be ZDHC) (score: 1 for Yes, 0 for No)	29	13%	49%
Risk assessment	Does the company have a chemicals management policy? (score: 1 for Yes, 0 for No)	54	23%	60%
Risk assessment	Does the company sustainability led chemicals use and hazard based certifications? (eg. OEKO TEX, Greenscreen, REACH etc) (score: 1 for Yes, 0 for No)	125	54%	73%
Average		51	22%	53%

Source: Evalueserve, Company reports, Planet Tracker.



Water-related disclosures are generally poor

Our previous report, *'Will Fashion Dye Another Day?'*, showed the extent to which our Wet Processing Universe of companies was exposed to water risk. We assessed 51 companies as carrying 'Extremely High' or 'High' water risk.

In that context our analysis shows that the overall quality of water-related disclosure among these companies is poor and even where companies do disclose quantitative data, there is no uniformity or standardisation in terms of the water usage, treatment, reuse and discharge data provided.

To more fully compare the water risk score with a disclosure score we assigned each entity a water disclosure score, to complement the entity disclosure score, based on the qualitative and quantitative water-related disclosures.

We show the results of this analysis for each company by revenue quintile in Figure 4. Showing the data in this way indicates, on a general level, that the higher the water risk, the poorer the water disclosure score⁵.

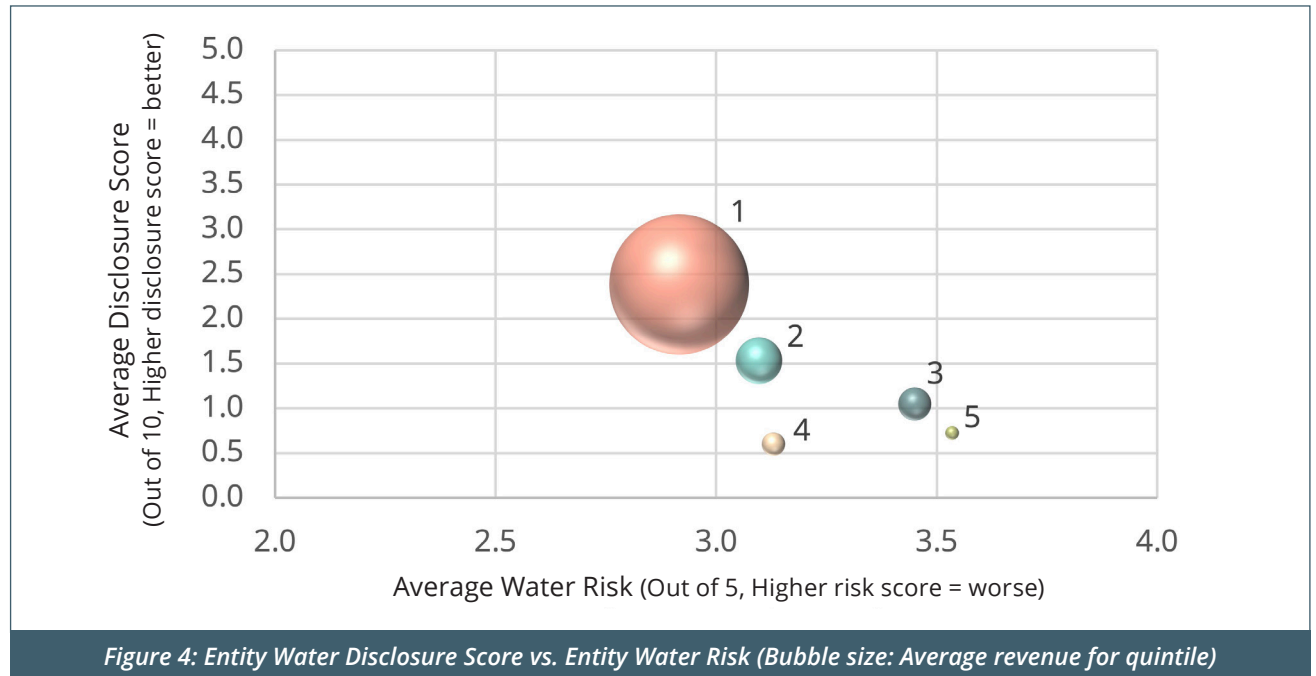


Figure 4: Entity Water Disclosure Score vs. Entity Water Risk (Bubble size: Average revenue for quintile)

Source: Evalueserve, company reports, Planet Tracker.

We also aggregated this data on a country basis. On average, listed companies in India and Pakistan that are facing the highest water-related risks and host the highest number of wet processing facilities, have a total environmental disclosure score of < 1/10 - see Figure 5.

While these companies may very well be managing water-related risks and adhering to domestic environmental laws and regulations, the lack of public disclosure of qualitative and quantitative information means that investors have no way to assess if these companies are mitigating the water-related risks to which they are exposed.

⁵ The correlation between the water risk rating and the water disclosure scores was negative as expected, but not statistically significant (-0.064). When companies with a zero-disclosure score were excluded, the correlation was stronger (-0.131)

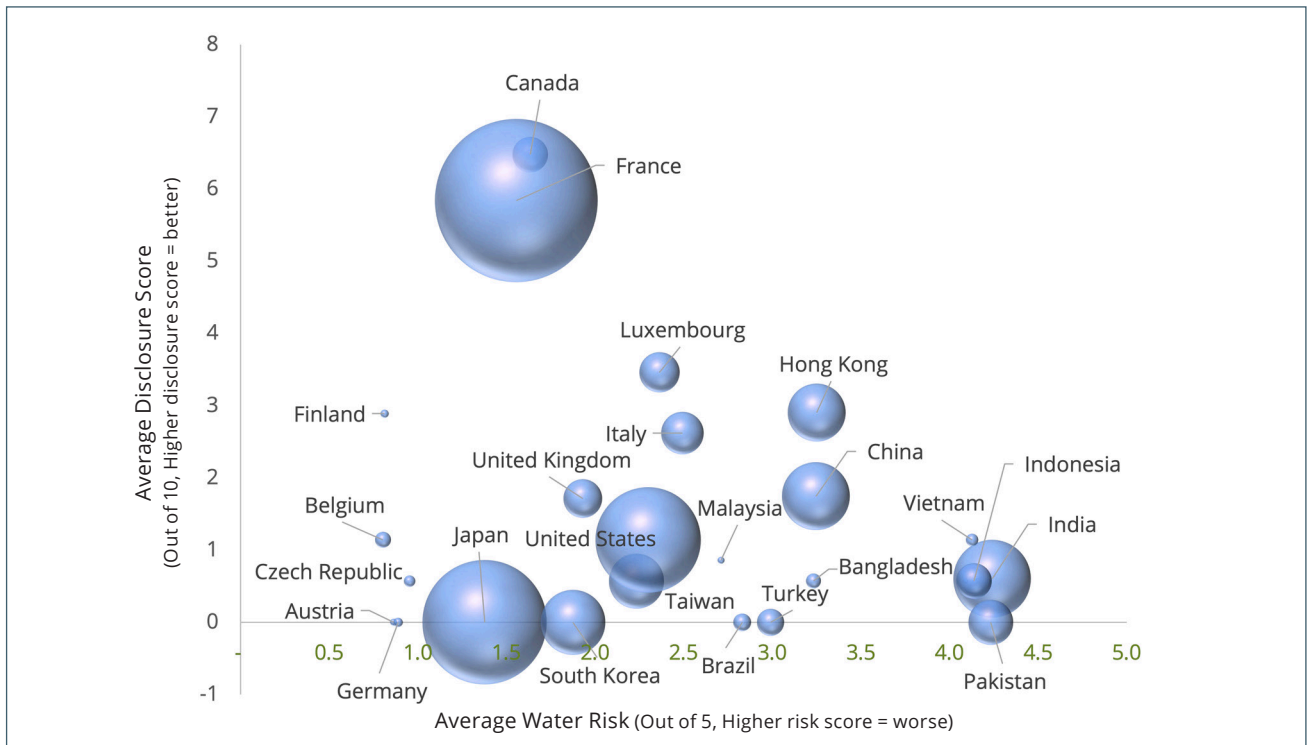


Figure 5: The Relationship between Water Risk and Water-Related Disclosures. (Bubble Size: Revenues)
 Note: LVMH excluded from this analysis.

Source: Evalueserve, company reports, Planet Tracker.

Companies need to back up statements with numbers

Our analysis showed that only a minority of companies (80 or 35%) disclosed policies relating to their water use and, of those that did, even fewer provided the data to demonstrate their compliance with that policy.

Of the 80 companies that declared having a water risk management process or policy in place, 55% of those respondents provided not a single quantitative metric backing up their claim. However, 30% reported two or more quantitative disclosures - see Figure 6.

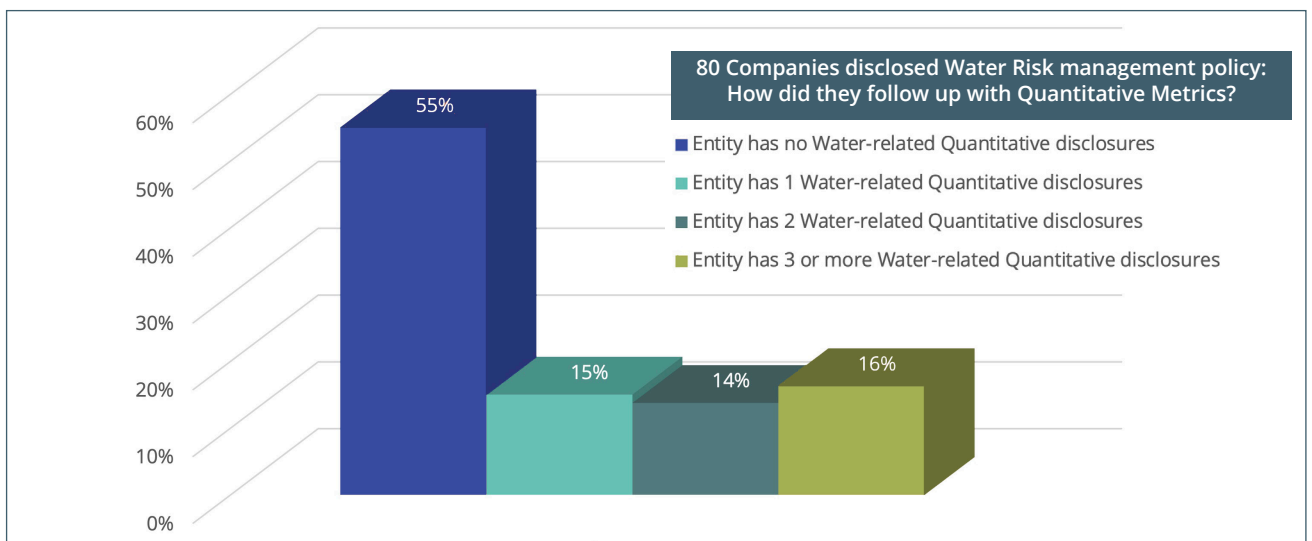
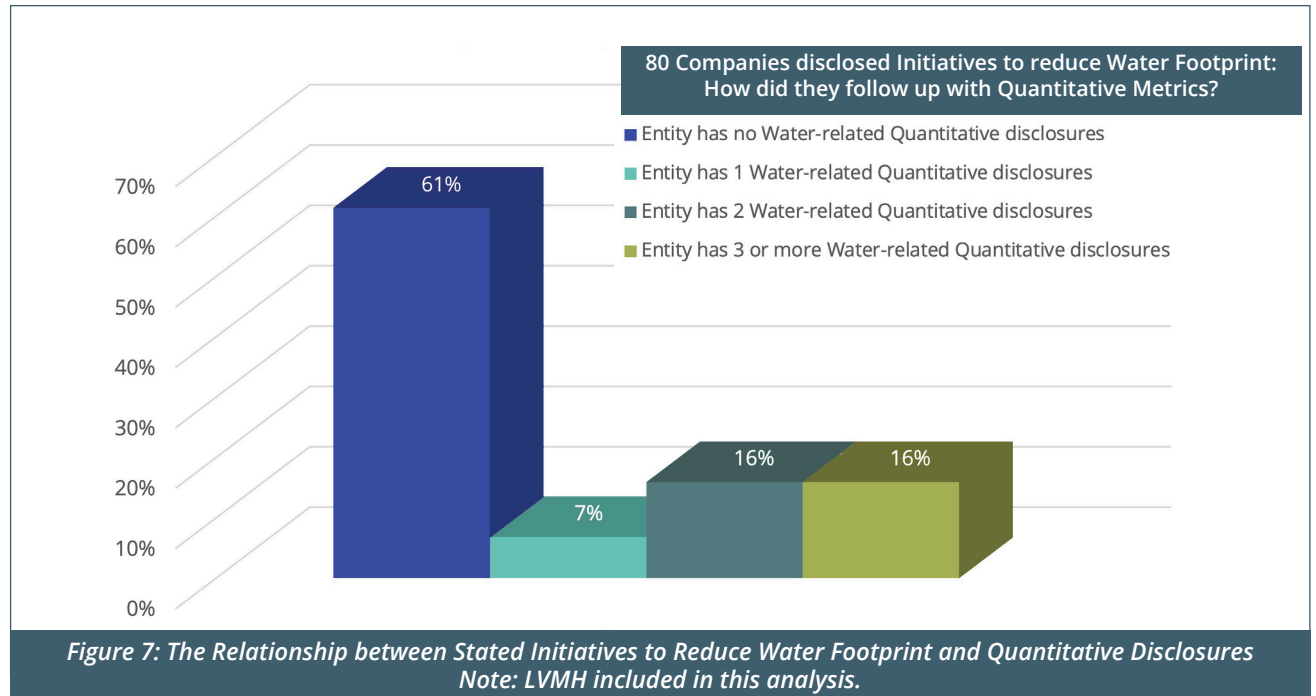


Figure 6: - The Relationship Between Water Risk Management Policies and Quantitative Disclosures.

Source: Evalueserve, company reports, Planet Tracker.



Around 53% of sampled firms declared initiatives to reduce their water footprint. However, despite the assertion, 38% of those respondents provided no sign of quantitative metrics backing up their claims. 30% reported two or more quantitative disclosures, with half of those stemming from either Taiwan or Hong Kong - see Figure 7.⁶



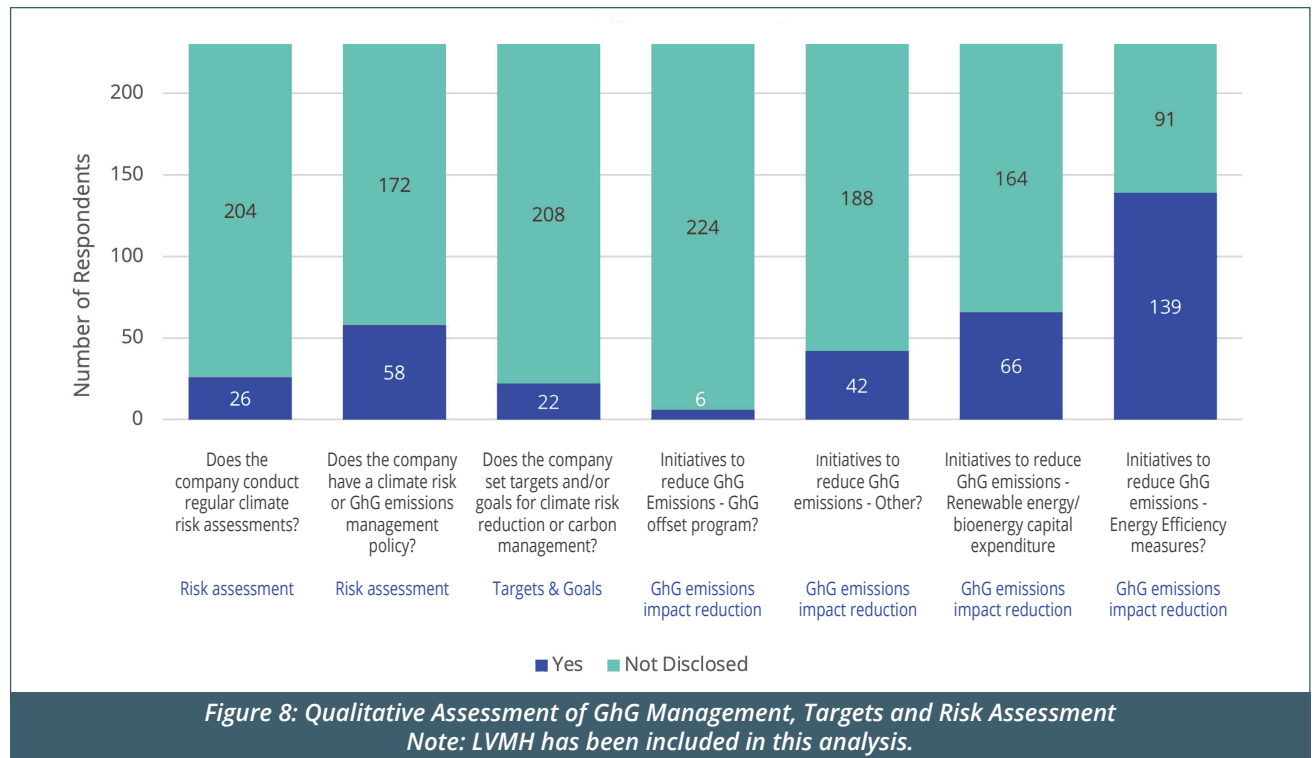
Source: Evalueserve, company reports, Planet Tracker.

⁶ For companies listed on the Hong Kong stock exchange (HKEX), for reporting periods from 1 July 2020 there are mandatory ESG disclosure requirements in place. Requirements include disclosure of significant climate-related issues which have and may impact the issuer, disclosure to explain key ESG performance indicators and published ESG reports within 5 months of the financial year end. These are not in place for this analysis which is based on 2018/2019 disclosure. For more information see: https://www.hkex.com.hk/Listing/Rules-and-Guidance/Environmental-Social-and-Governance/ESG-Reporting-Guide-and-FAQs?sc_lang=en and <https://www.iflr.com/article/b1mx64723h43z/primer-hkexs-new-esg-disclosure-rules>



Wet Processors are more forthcoming with emissions data

In terms of the disclosure categories that we surveyed (water, GhG emissions, energy and chemicals), the disclosure of data around emissions was the most robust. The single question that had the most publicly available information from our assessment was on GhG emissions, “Initiatives to reduce GhG emissions - Energy efficiency measures? (Y/N)” - 60% of the wet processors we sampled were found to have initiatives in place to reduce GhG emissions - see Figure 8. However, despite this positive assertion, only 22% of those respondents provided Scope 1 emissions, with only 11% reporting Scope 3 figure.



Source: Evalueserve, company reports, Planet Tracker.

Given the very heavy GhG footprint of the wet processing industry,⁷ the proportion of energy derived from renewable energy is a key consideration for investors seeking to assess the impact of a transition to a more sustainable approach.

However, due to poor and inconsistent reporting on energy and GhG emissions by our wet processing Universe, Planet Tracker has been unable to identify any meaningful relationship between GhG emissions, energy consumption and the use of renewable energy. For investors focused on decarbonising their portfolios, the inclusion of equities that do not quantify GhG emissions is, again, problematic.

Disclosures regarding energy consumption were better, with more than 20% disclosing energy consumption - nevertheless, less than half of those provided a renewable energy percentage split - see Figure 9.

⁷ Discussed in detail in 'Will Fashion Dye Another Day?' which can be found at: <https://planet-tracker.org/tracker-programmes/materials/textiles/#will-fashion-dye-another-day>

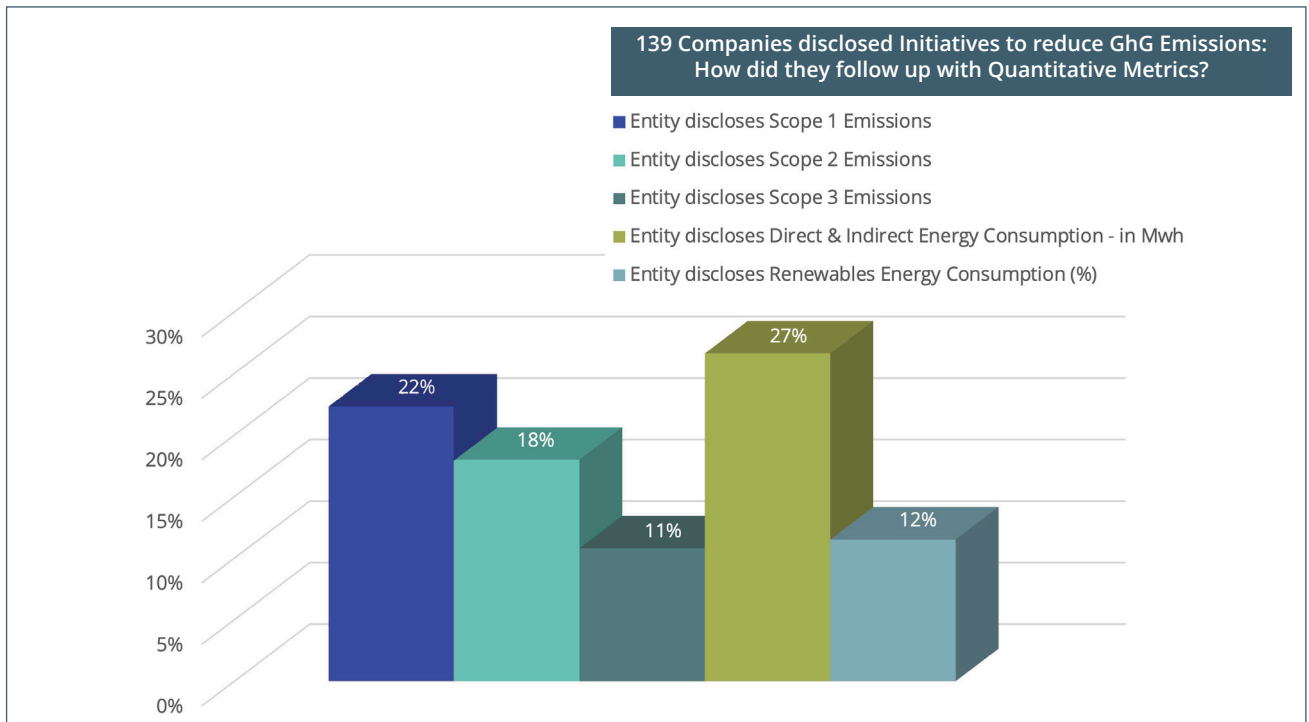


Figure 9: Do Companies Follow up Qualitative Statements with Quantitative Measures? Note: Includes LVMH.

Source: Evalueserve, company reports, Planet Tracker.

Use of chemicals disclosure - not easy to quantify

Disclosures on chemical hazards were the weakest among the broader survey topics, with only a quarter of the sampled firms stating a chemicals management policy currently in place.

We asked three qualitative-based questions as part of our survey. First, on whether there was a chemicals management policy in place, and then the next two questions more focused on specific chemicals-based metrics and measures that are in place for chemicals use management - 'does the company have or claim to be working towards no hazardous waste discharge (e.g., by being, or aiming to be, a member of ZDHC)?' And 'does the company have sustainability-led chemicals use and hazard-based certifications (e.g., OEKO TEX, Greenscreen, REACH etc)?'

Given the extensive use of toxic chemicals in the wet processing industry, it is surprising that so few companies disclose a policy. If one presumes that they are not disclosing a policy because they do not have one, then that is clearly grounds for investors to be concerned.

Only 23% of companies representing 60% of revenues have a chemicals management policy. Only 13% of surveyed companies representing 49% of total revenues claim to be working towards zero hazardous waste discharge - see Figure 10.

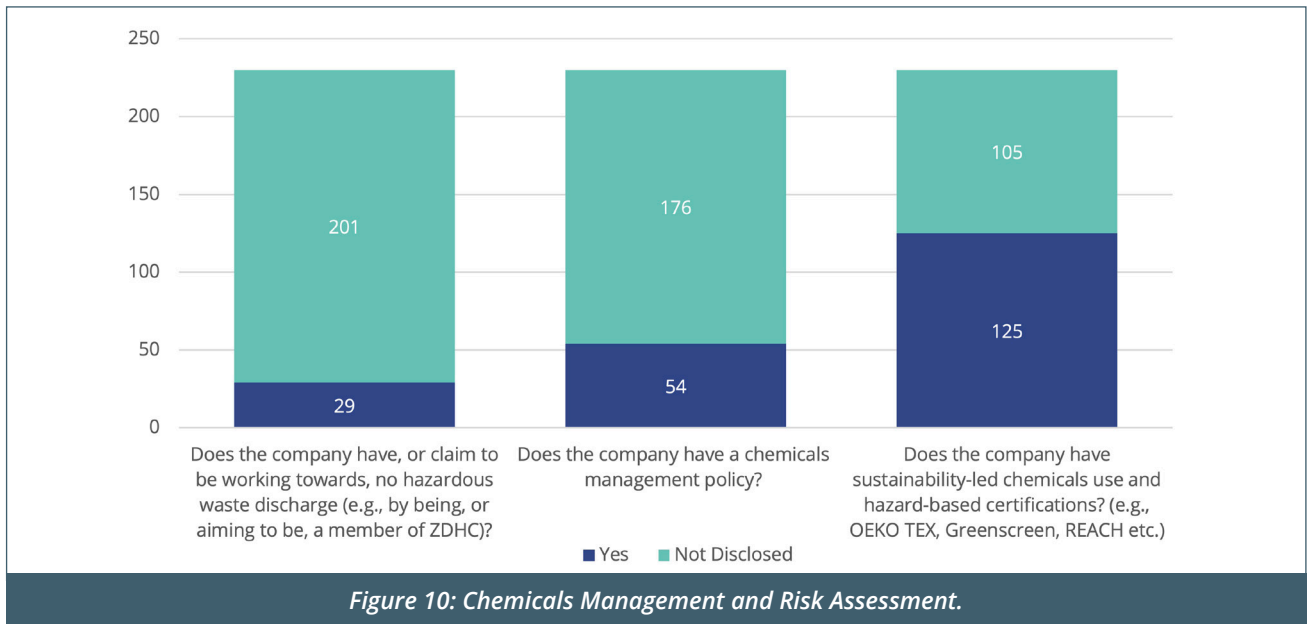


Figure 10: Chemicals Management and Risk Assessment.

Source: Evalueserve, company reports, Planet Tracker.

An important programme focused on the discharge of chemical hazardous waste in the textiles space includes being a member of the ZDHCs.ⁱ The ZDHC Foundation was established in 2011 in response to the Greenpeace Detox campaign and oversees the Roadmap to Zero programme which aimed to achieve zero discharge of hazardous chemicals from the textiles production process by 2020.

The Foundation’s initiatives have included producing a Manufacturing Restricted Substances List (MRSL) and tools allowing companies operating in the textiles supply chain to assess the products they use, identify safe alternatives and test the wastewater they produce against clear benchmarks.

Over 50% of sampled firms declared adhering to a Chemicals- and Hazard-based certification to track chemical hazards in water, however, despite the assertion, only 25% of those respondents provided any quantitative water-related metrics - see Figure 11.

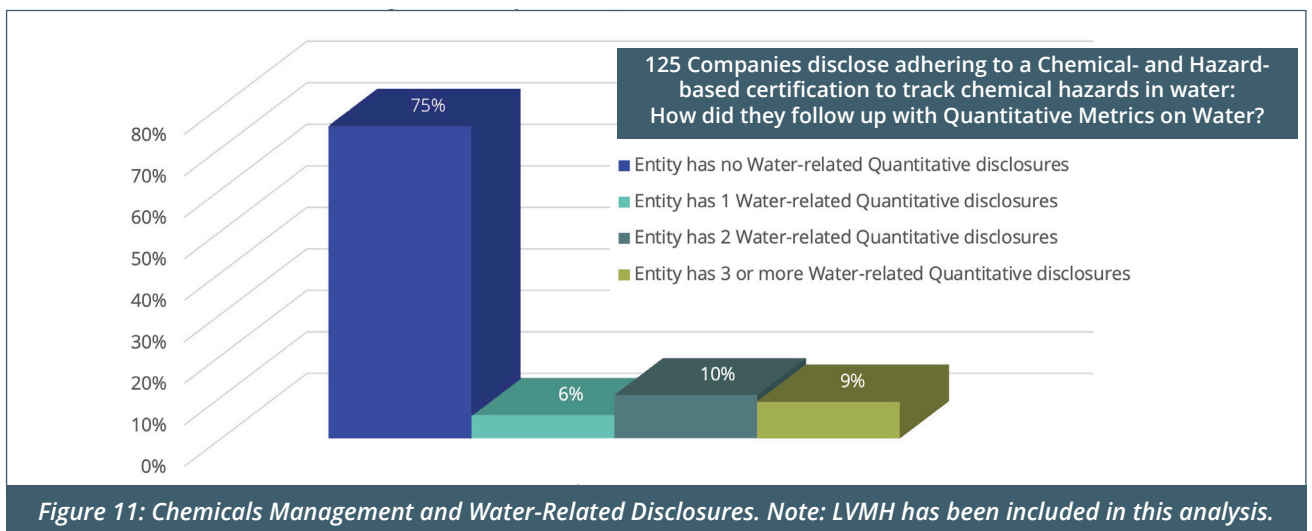


Figure 11: Chemicals Management and Water-Related Disclosures. Note: LVMH has been included in this analysis.

Source: Evalueserve, company reports, Planet Tracker.

To be certified implies the collection of actionable metrics and data analytics for management to consider during strategic and risk management-related discussions. While companies may not be legally obliged to share this data with the financial markets, it would seem an easy way for the companies concerned to satisfy the requirements of investors who are keen to manage their environment-related financial risks.



Investors carrying water risk cannot price it effectively if disclosures are poor

Building on our analysis in ['Will Fashion Dye Another Day?'](#), in this note we extend the analysis showing how investors that are exposed to water risk, are also exposed to disclosure risk through their investments in wet processing companies.

If a high-water risk score is coupled with a low disclosure score, this indicates that the company's material environmental risks that are embedded in the textiles supply chain are hidden from investors and lenders, and this in turn could imply that these risks are not fully priced in from an equity or credit perspective. Our analysis shows that entrepreneurial families/individuals are most exposed to companies carrying high water risk and poor disclosure scores - see Figure 12.

It is possible that some or all these investors can mitigate the risk associated with poor disclosures if they have access to private information through, for example, access to board papers and/or management reports that are not available to minority investors, or via audit or assessment reports based on industry standards (ZDHC, SAC Higg FEM, or other proprietary monitoring tools). If they do not have such risk-mitigating measures in place, then it will be difficult for them to correctly price the water risk they are exposed to.

In contrast, state pension funds (labelled as 'Province/State' in Figure 12) rank second highest in terms of water risk (2.6 compared to 3.0 for families/individuals) but have chosen companies with much higher disclosure scores (on average). It would be reasonable to presume that this result arises from the investment selection processes being applied - in other words the pension funds concerned are mitigating their exposure to water risks by selecting companies that provide better disclosures (but we would need to undertake further analysis to be certain that this is the reason).

Investment managers and other institutional investors do not hold portfolios with such high disclosure scores as the pension funds but the average water risk from their holdings is also lower. One potential explanation for this is that institutional investors are avoiding companies with poor disclosures because they are unable to effectively price in the environmental risks (including water risk) associated with the companies concerned, and by doing so are avoiding those companies that are most exposed to water risks. This approach would be justified given the fact that our analysis has shown a broad relationship between having a poor disclosure score and carrying a high-water risk⁸ - see Figure 12.

When analysing the disclosures, we excluded LVMH when scaling for size to avoid distorting the metrics. We have excluded LVMH from this investor analysis for the same reason (without this adjustment the Arnault family holding is worth USD 129 billion and would overwhelm the 'family/individual' category).

We provide a more granular view of the underlying data in Table 3.

⁸ The correlation between water risk and our disclosure score is negative as expected but not that strong (-0.114 across all 230 companies, -0.16 if companies with zero disclosure scores are excluded)

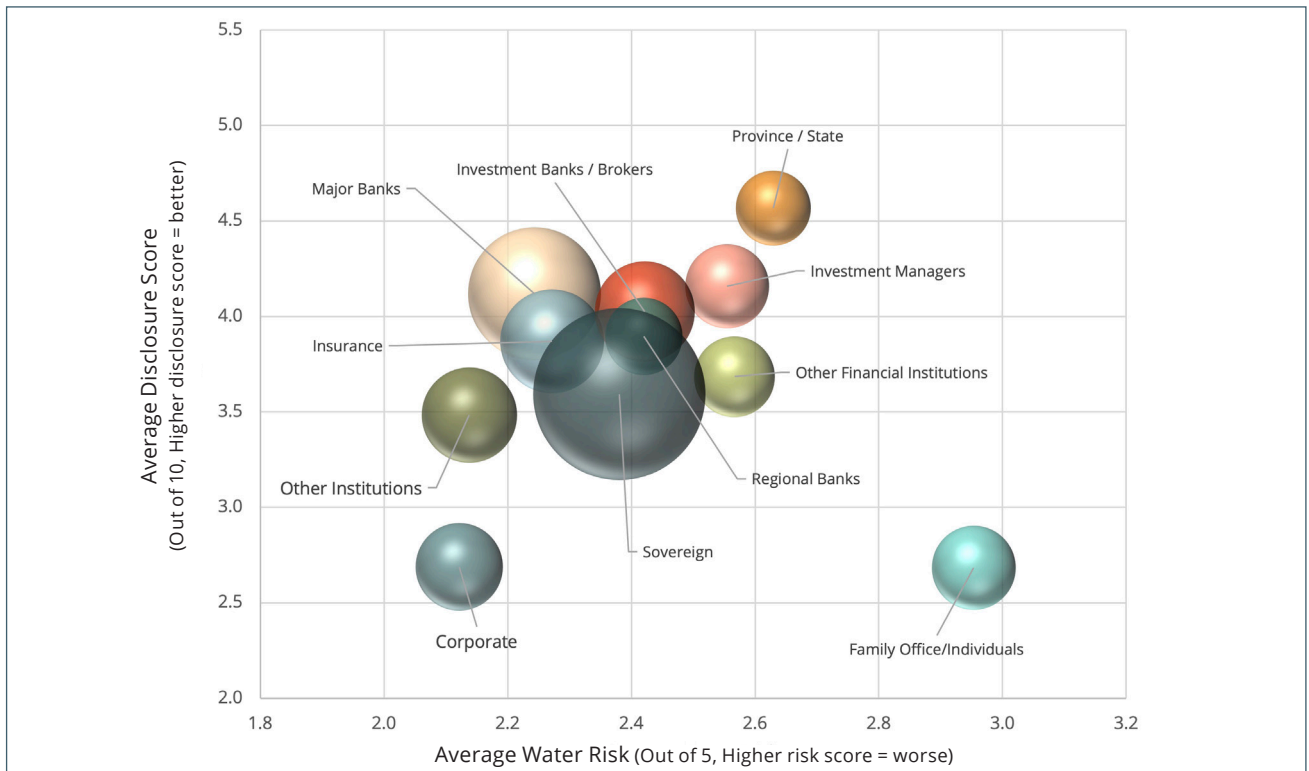


Figure 12: Investor Categories by Water Risk and Disclosure Score (Bubble Size: Average Investment Size USD million). Note: LVMH has been excluded in this analysis. Municipalities have been excluded from the chart due to their low water risk (disclosure score of 4.8 and average water risk of 0.8).

Source: Factset, WRI, Evalueserve, company reports, Planet Tracker.

Table 3: Investor Categories Ranked by Aggregate Investment Value. Market cap priced on 29 March 2021.⁹

Investor Type	Holdings Sum (USD million)	Average Water Risk of Investments (Out of 5)	Average Disclosure Score of Investments (Out of 10)	Number of Investors in category	Average Value of investments (USD million)
Investment Managers	26,937	2.6	4.2	744	36
Family Office/Individuals	17,596	3.0	2.7	485	36
Corporate	8,201	2.1	2.7	209	39
Major Banks	5,440	2.2	4.1	60	91
Other Financial Institutions	4,397	2.6	3.7	132	33
Insurance	4,091	2.3	3.9	74	55
Investment Banks / Brokers	3,338	2.4	4.0	65	51
Regional Banks	2,424	2.4	3.9	79	31
Sovereign	2,289	2.4	3.6	15	153
Province / State	945	2.6	4.6	33	29
Other Institutions	372	2.1	3.5	8	47
Municipality	9	0.8	4.8	1	9

Note: Water Risk Scale from 0 (low) to 5 (high); Disclosure score is out from 0 (no disclosure) to 10 (highest disclosure)

Source: Factset, WRI, Evalueserve, company reports, Planet Tracker. LVMH has been excluded in this analysis.

⁹ Investor types as defined by Planet Tracker



Our universe of 230 companies used for this ownership analysis excludes an additional 106 companies that we included in 'Will Fashion Dye Another Day?' because they do not have identifiable facilities. Some of the excluded companies include several of the larger European and Asian Luxury Goods companies like Hermès, Kering and Prada, where the main investors are families/individuals. As a result, families/individuals form the largest investor category in 'Will Fashion Dye Another Day?' - when we exclude those companies (as in Table 3) this category comes second.

Asset Managers are less exposed to disclosure risk than individuals

Institutional investors have the largest exposure by aggregate investment value (USD 27 billion, excluding LVMH) to the Wet Processing Universe. In most cases this exposure is diversified across many companies, with BlackRock having 42 unique investments totalling USD 6 billion. Vanguard has 40 investments, totalling USD 6.6 billion.

As noted above, the average disclosure score for the companies held by asset managers is higher than that for family offices/individuals. It is noteworthy that both Vanguard and BlackRock have the lowest disclosure score of the top 10 investment managers - see Figure 13 - which could be due to that fact that both have a lot of passive index funds and as such do not choose their investments (the companies they hold will be determined by the index the funds track and indices do not usually factor in disclosure quality).

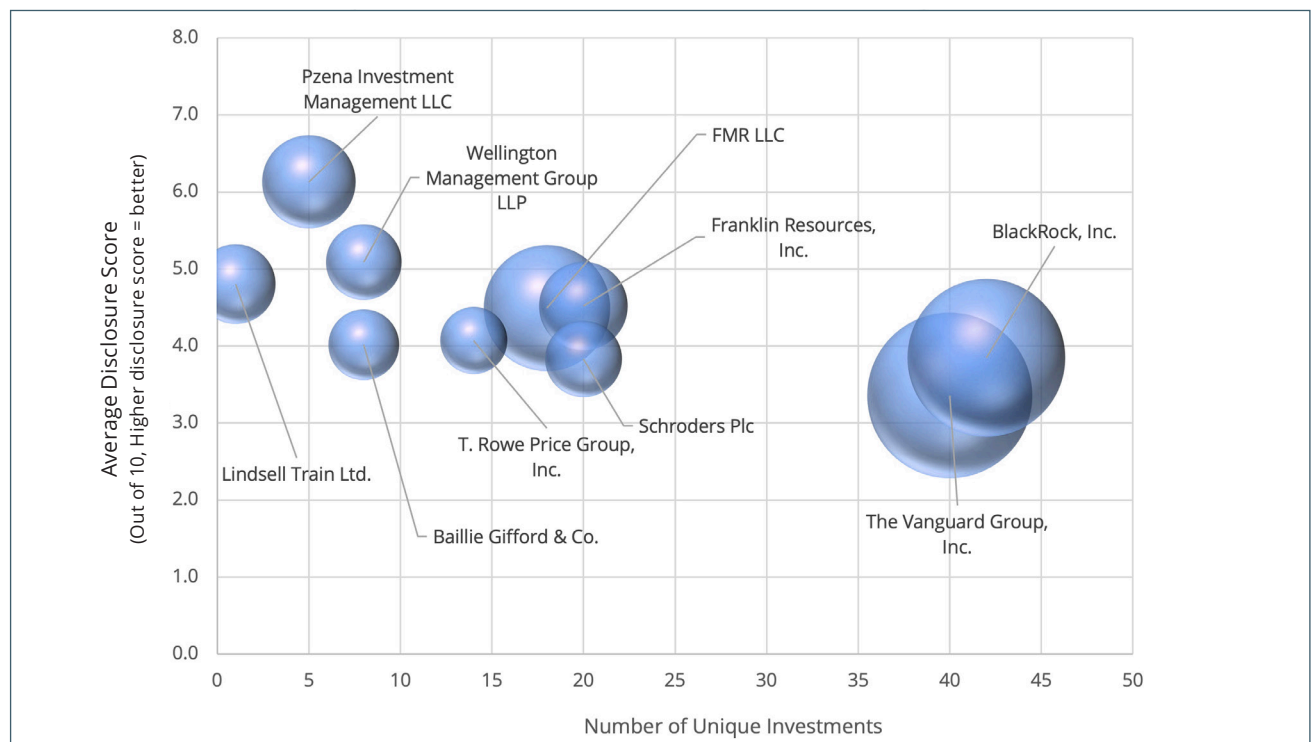


Figure 13: Top 10 Investment Managers by Investment - Disclosure Score vs Number of Investments (Bubble size: Total Investment USD million) Note: LVMH has been excluded in this analysis.

Size Source: Factset, Evalueserve, company reports, Planet Tracker.

Most of these asset managers have a water risk of between 2-3 ('medium-high'). A list of the Top 20 Investment managers with associated disclosure risk and holdings is shown in Table 4.



Table 4: Top 20 Investment Managers by Holdings.

Investment Manager	Holdings Sum (USD million)	Average Water Risk of Investments (Out of 5)	Average Disclosure Score of Investments (Out of 10)	No. of Unique Investments among Universe
The Vanguard Group, Inc.	6,597	2.4	3.4	40
BlackRock, Inc.	6,002	2.2	3.8	42
FMR LLC	3,841	2.7	4.5	18
Pzena Investment Management LLC	2,087	3.0	6.1	5
Franklin Resources, Inc.	1,886	2.5	4.5	20
Lindsell Train Ltd.	1,521	0.8	4.8	1
Schroders Plc	1,406	2.1	3.8	20
Wellington Management Group LLP	1,367	3.1	5.1	8
Baillie Gifford & Co.	1,207	1.3	4.0	8
T. Rowe Price Group, Inc.	1,082	1.9	4.1	14
Janus Henderson Group Plc	883	1.9	5.1	10
Geode Holdings Trust	872	2.4	4.1	22
Invesco Ltd.	722	2.3	4.3	22
Diamond Hill Investment Group, Inc.	706	2.8	6.7	1
Cooke & Bieler LP	660	2.5	5.2	5
Asset Management One Co., Ltd.	646	1.7	2.9	18
Affiliated Managers Group, Inc.	624	2.5	4.6	10
The Capital Group Cos., Inc.	573	1.9	4.2	5
FIL Ltd.	535	2.5	3.4	14
Federated Hermès, Inc.	531	2.7	5.3	6

Source: Factset, Evalueserve, Company Reports, Planet Tracker. Note: LVMH has been excluded in this analysis.

Other Investors

Figure 14 provides a visual summary of the relationship between investor type, and the water risk and disclosure scores derived from the companies they hold. The investor types have a weighted average disclosure score of 3.6 and weighted average water risk of 2.5.

Municipalities stand out with a particularly low average water risk (0.8) and relatively high disclosure score (4.8).

At the other end of the spectrum (as discussed above) family offices and individuals have the worst disclosure score and worst water risk.

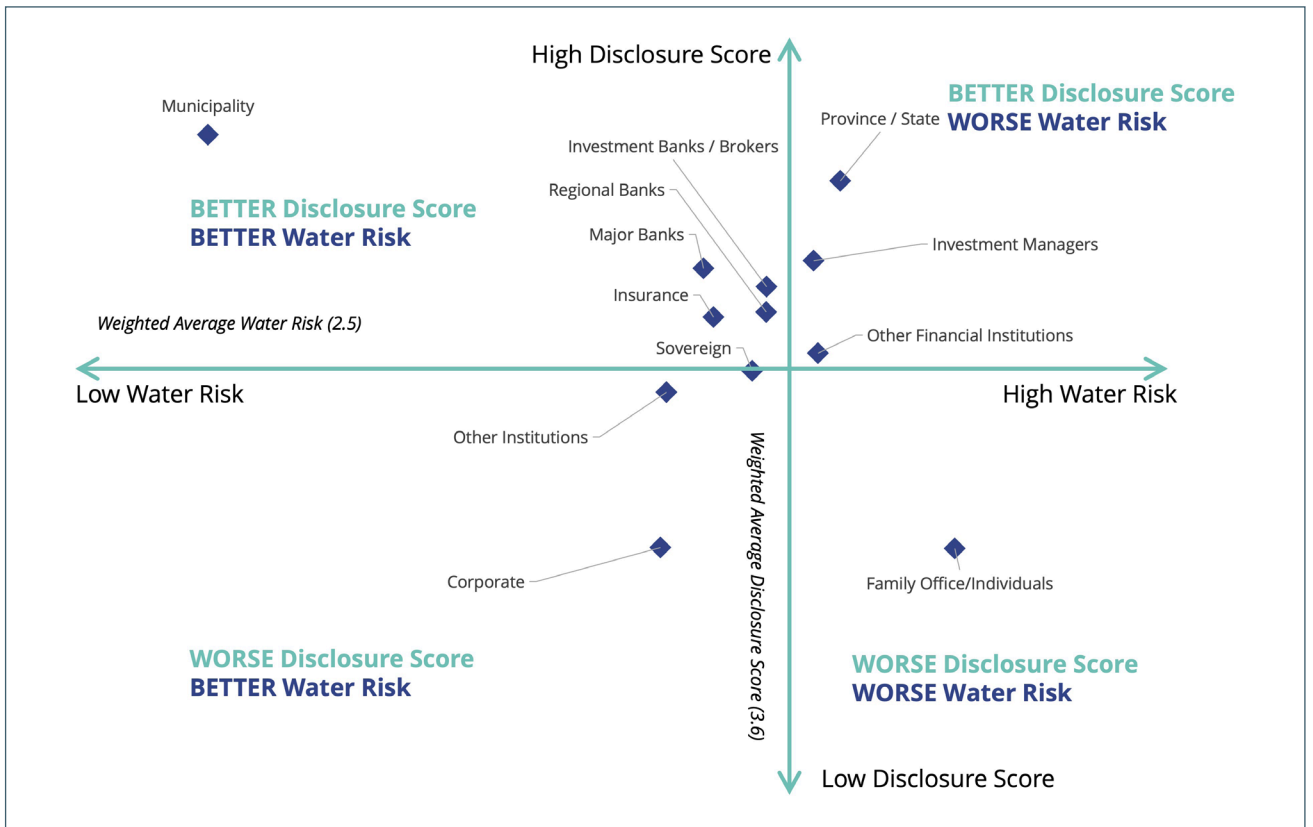


Figure 14: Overview of Investor Type by Water Risk and Disclosure Score, Average Disclosure and Water Risk Weighted by Total Investment. All the underlying data is available upon request. Note: LVMH has been excluded in this analysis.

Source: Factset, WRI, Evalueserve, company reports, Planet Tracker.



Call to Action

Our previous work revealed the water risks to which our Wet Processing Universe of companies is exposed. In the absence of better disclosures, our spatial finance technique provides a reasonable estimate of water risk for investors. However, investors would be better served by actual company disclosure data to better assess not only water, but the broader environment-related financial risk.

Equity investors should use our findings to actively engage with listed textile equities involved in wet processing companies to urgently improve transparency around chemicals, water- and climate-related disclosures to enable them to better quantify and mitigate environment-related financial risks.

There is a clear need for investors, governments and regulators to act together to require a unified, consistent, standardised, global framework for reporting environmental data.

We welcome efforts by the IFRS Foundation and the CDP, CDSB, GRI, IIRC and SASB to work together to create a global sustainability reporting framework. We particularly push for investors to engage with companies to work with reporting standard setters to add disclosure requirements for water efficiency and chemicals use. Investors have an opportunity to develop financing programmes based on disclosure for benchmarking.

Planet Tracker recommends that investors take the following actions:

- Use Planet Tracker's disclosure score when assessing the environmental risks associated with a particular company.
- Use Planet Tracker's water risk score for wet processing companies that do not provide adequate water-related disclosures.
- Request companies to radically improve environmental transparency and related financial efficiencies. Potential measures could include:
 - better disclosure of what strategic steps they are taking or have taken to mitigate environmental-related risks.
 - active management of chemicals risks (for example, by joining ZDHC and/or adhering to the REACH regulations).
 - consistent reporting of comparable metrics around water, chemicals and energy use, for example on a per kg of production basis.

Company Call to Action

The pressure for wet processing companies will come from both downstream fashion retail brands which will require their suppliers to improve their processes and reduce their environmental footprint, as well as from their own investors, and governmental led country-based regulation.

The momentum about better and more in-depth disclosure is underway. Wet processing companies have a commercial opportunity to get ahead of any required environmental reporting measures now and gain market share by adopting more sustainable approaches and then ensuring they proactively disclose their environmental policies and the data required to enable their customers and investors to assess their progress.

The heavy environmental footprint of the wet processing industry is partly due to inefficient practices. More in depth, quantitative, reporting of energy, water and chemicals data would enable investors to identify more efficient practices, and perhaps provide support for companies looking to invest in improving their environmental performance.



For GhG emissions data, reporting Scope 1, 2 and 3 should be standard. Other metrics around energy reporting could include data on consumption per unit or kg of production and by business unit, cost of purchased energy, and/or how much energy consumed is renewable.

For water, companies should install water meters as standard. Then they can report accurate water consumption data. We suggest companies also report the average cost per m³ of water, as well as cost of water per unit or kg of production. We expect more detailed reporting around water use, such as consumption, wastewater discharged, water withdrawn and water reuse data.

For chemicals management, we expect companies to have a clearly defined chemicals management policy. Wet processors should endeavour to sign up to ZDHC where they can.



APPENDIX A: State of Environmental Disclosures of The Listed Wet Processing Sector

One repeated issue we have encountered when assessing the environmental impact of companies and facilities is the lack of freely available standardised environmental reporting. This is not an issue solely in the textiles space; at present there is no single, global, reporting framework that provides financial analysts with an accessible and comparable data set across companies. There are moves to change this, with a statement of intent from five of the main international ESG standard setters¹⁰ published in September 2020, in a call to align sustainability reporting frameworks.ⁱⁱ We believe an internationally adopted, standardised ESG reporting framework for companies will be crucial to enable investors to compare and contrast the environmental performance of companies across sectors and industries.

In general, companies are not required to report environmental data and while many of the listed equities in North America, and particularly Europe, report some environmental data, much is neither consistent nor comparable. Most of the wet processing companies in our Universe are listed in emerging markets where disclosure requirements tend to be even lighter, so it is perhaps not surprising to find that the data provided are generally poor.

Analysis of corporate disclosures has been done from a brand perspective, with most recently The Business of Fashion publishing their inaugural “The BoF Sustainability Index”ⁱⁱⁱ for fifteen of the largest fashion companies. The Higg Index¹¹ also provides a self-reported measure of sustainability, but these reports are no substitute for improved reporting by individual companies. A summary of these measures is shown in Table 5.

Part of the challenge for companies (and for investors) is that there is a huge diversity in environmental reporting frameworks. We see this more in water and chemicals, whereas there is slightly more cohesiveness for energy.

For water (and to a certain degree, chemicals), there are a number of reporting frameworks wet processors can choose from. Most notable and extensive in scope are the Alliance for Water Stewardship’s standard,¹² the CDSB framework for environmental disclosure standards, and the Global Reporting Initiative’s (GRI) performance indicators. Given that wet processors are not mandated by markets regulators to report this information to the markets in a specific format, it is no surprise that those companies that are voluntarily disclosing water- or chemicals-related data will choose a format that suits them. However, this makes it challenging to harmonize this data across the wet processing portfolio.

For chemicals management there is the Zero Discharge of Hazardous Chemicals (ZDHC) programme which was started in 2011 and comprises a group of apparel and footwear brands and retailers working together to lead the industry towards zero discharge of hazardous chemicals. Currently there are 30 signatory brands, 101 value chain affiliates and 19 associates signed up.^{vii}

In contrast, corporate GhG reporting aligns with the GhG accounting protocol to which frameworks such as CDSB, CDP and GRI align, making corporate GhG accounting data comparable and easier to work with.

¹⁰ CDP, CDS, GRI, IIRC & SASB

¹¹ Developed by the Sustainable Apparel Coalition, the Higg Index is a suite of tools that enables brands, retailers and facilities of all sizes - at every stage in their sustainability journey - to accurately measure and score a company or product’s sustainability performance.

¹² Many textiles factories use the AWS and it is listed as standard for large retailers like H&M. A list of AWS certified sites can be found at: <https://a4ws.org/certification/certified-sites/>



For water and chemicals reporting, each framework has worked around the challenges in processing water and chemical data by developing their own methodologies that cover a limited number of companies and presenting it in a consistent format. Planet Tracker is faced with the same challenge of developing a data collection methodology depending on the way chemical and water disclosures have been made by the 230 wet processors in its basket.

Table 5: A Sample of Who Collects and Measures Sustainability Data in The Fashion and Textiles Space.

Name	What	Who	How	Positives / Negatives
Sustainable Apparel Coalition's Higg Index^{iv}	The Higg Index is a suite of tools that enables brands, retailers, and facilities of all sizes - at every stage in their sustainability journey - to accurately measure and score a company or product's sustainability performance. The Higg Index has several environmentally focused indices, focused on facilities, brands, materials and products, assessing a range of environmental and social indicators for each.	15,000+ facilities have adopted the Higg Facility Environmental Module (FEM), 500+ brands have adopted the Higg Brand and Retail tool.	Self-reported to Higg with some third-party verification. Extensive - the Higg Brand and Retail module has 2,000+ questions. Data has been collected for several years and is constantly adapting.	<p>Positives The most extensive data set out there purely focused on the textiles and garment space. Broadly used in the industry.</p> <p>Negatives Self-reported and infrequently verified</p>
BoF The Sustainability Index^v	Snapshot of corporate disclosures around Transparency, Emissions, Water & Chemicals Materials, Worker's Rights and Waste	Fifteen of the largest fashion brands - the five biggest public companies by annual revenue in each of three parts of the fashion industry, luxury, high street and sportswear	Collected from corporate reports and publicly disclosed information. 300+ Y/N questions answered. Inaugural publication March 2021. Likely to be an annual update.	<p>Positives Collected from publicly available information.</p> <p>Negatives Small sample size (15 companies). Only one year of data. Focused solely on brands.</p>
CDP	The CDP collects GhG emissions data (Scope 1,2 & 3) as well as water- related disclosures from various sectors, including the textiles, apparel, and clothing sector. The organisation also ranks companies based on the quality of their disclosures.	9600+ companies in total, but just 62 fashion & textiles companies provided data (136 companies across all parts of the value chain were asked by customers and investors to disclose to CDP) ^{vi}	Self-reported to CDP by companies. Data has been collected since 2000.	<p>Positives Long data series (20+ years)</p> <p>Negatives Self-reported and sparsely verified.</p>



APPENDIX B: Equity List and Data Set

In our ‘Will Fashion Dye Another Day?’ report, Planet Tracker provided an asset level insight on water-related financial risks to the 230 listed textile wet processing equity universe using the World Resources Institute’s (WRI) water risk tool. The 230 list was narrowed down from 740 wet processing companies and consists of those equities with wet processing facilities where we could link facilities to companies and to investors - see Table 6.

Total number of companies (initial screen)	1207
Number of companies matched to factories	821
Number of companies directly involved in wet processing	740
Number of companies directly involved in WP with factories	607
Number of companies with ownership details	336
Number of companies with ownership details and factories	230

We commissioned Evalueserve to collect data across these 230 equities by answering the set of questions detailed in Table 7. The full data set of qualitative and quantitative analysis of the 230 companies is available upon request.

Our qualitative and quantitative inquiries into how wet processing companies account for water, GHG emissions, energy and chemicals-related risks are broadly categorised into:

- Measuring and monitoring
- Risk assessment
- Targets & goals
- Actions or reductions in environment-related impacts

These categorisations are inspired by those used in the Taskforce for Climate Related Financial Disclosures’ inquiry (TCFD) and more recently adopted by the Taskforce for Nature Related Financial Disclosures (TNFD), which is still in its formative stages.

Our water-related quantitative indicators have been developed in-house and are a harmonisation of water-related reporting formats adopted by the companies in our basket that do report on water-related risks, in the absence of a standardised reporting format used by the sector. The water impact reduction-related qualitative indicators are derived from the most common capital expenditures made by textile wet processors to reduce their water related impacts, based on a review of corporate literature.

A positive answer to the qualitative data points meant that we could find confirmation from published literature that the company was addressing the question. If no data were collected, it meant the company did not publish anything to indicate that they were pursuing the metric.



Our GhG emissions-related quantitative indicators are derived from the GhG accounting protocol, which is the most applied corporate GhG accounting and reporting methodology. We have furthered our quantitative inquiry on GhG emissions to also include energy-related indicators with a specific focus on how much captive energy production and consumption is sourced from renewable sources.

Our chemicals-related qualitative indicators have been developed in-house and are harmonised derivatives based on how chemicals-related disclosures are reported by companies in our basket.

Table 7: Planet Tracker's Corporate Environmental Reporting Framework. Source: Planet Tracker analysis

	Area	Metric Type	Qual/Quant	Metric
1	Water	Measuring & monitoring	Quantitative	Total water withdrawn (2018-2019) (total/absolute '000m ³)
2	Water	Measuring & monitoring	Quantitative	Total water consumed (2018-2019) (total/absolute '000m ³)
3	Water	Measuring & monitoring	Quantitative	Total wastewater discharged (2018-2019) (total/absolute '000m ³)
4	Water	Measuring & monitoring	Quantitative	Total water treated (2018-2019) (total/absolute '000m ³)
5	Water	Measuring & monitoring	Quantitative	Total water reused (2018-2019) (total/absolute '000m ³)
6	Water	Measuring & monitoring	Quantitative	Total water recharged (2018-2019) (total/absolute '000m ³)
7	Water	Measuring & monitoring	Quantitative	Total cost of withdrawn and/or consumed water (\$/'000m ³)
8	Water	Measuring & monitoring	Quantitative	Water related taxes and penalties (\$)
9	Water	Risk assessment	Qualitative	Does the company conduct regular internal water risk assessments? (core: 1 for Yes, 0 for No)
10	Water	Risk assessment	Qualitative	Does the company have a water risk or water management policy? (score: 1 for Yes, 0 for No)
11	Water	Targets & goals	Qualitative	Does the company set targets and/or goals for water risk reduction or water management?
12	Water	Targets & goals	Quantitative	Total capital expenditure on water technologies in (2018-2019) - \$ '000
13	Water	Water impact reduction	Qualitative	Initiatives to reduce water footprint - Zero Liquid Discharge (score: 1 for Yes, 0 for No)
14	Water	Water impact reduction	Qualitative	Initiatives to reduce water footprint - Waterless wash/ Dynamic rinsing (score: 1 for Yes, 0 for No)
15	Water	Water impact reduction	Qualitative	Initiatives to reduce water footprint - Water treatment plant/Effluent treatment plant (score: 1 for Yes, 0 for No)
16	Water	Water impact reduction	Qualitative	Initiatives to reduce water footprint - Rainwater harvesting (score: 1 for Yes, 0 for No)
17	Water	Water impact reduction	Qualitative	Initiatives to reduce water footprint - Other
18	GhG emissions	Measuring & monitoring	Quantitative	Scope 1 (metric tons of CO ₂ equivalent)
19	GhG emissions	Measuring & monitoring	Quantitative	Scope 2 - unspecified (metric tons of CO ₂ equivalent)
20	GhG emissions	Measuring & monitoring	Quantitative	Scope 2 - market based (metric tons of CO ₂ equivalent)
21	GhG emissions	Measuring & monitoring	Quantitative	Scope 2 - location based (metric tons of CO ₂ equivalent)
22	GhG emissions	Measuring & monitoring	Quantitative	Scope 3 (metric tons of CO ₂ equivalent)
23	GhG emissions	Measuring & monitoring	Quantitative	Total (Scope 1+2+3) (metric tons of CO ₂ equivalent)
24	GhG emissions	Measuring & monitoring	Quantitative	Direct and indirect energy consumption (excluding for purchased energy) - in '000 US\$
25	GhG emissions	Measuring & monitoring	Quantitative	Direct and indirect energy consumption (excluding for purchased energy) - in Mwh
26	GhG emissions	Measuring & monitoring	Quantitative	Renewables energy consumption (%)



	Area	Metric Type	Qual/Quant	Metric
27	GhG emissions	Risk assessment	Qualitative	Does the company conduct regular climate risk assessments? (score: 1 for Yes, 0 for No)
28	GhG emissions	Risk assessment	Qualitative	Does the company have a climate risk or GhG emissions management policy? (score: 1 for Yes, 0 for No)
29	GhG emissions	Targets & goals	Qualitative	Does the company set targets and/or goals for climate risk reduction or carbon management?
30	GhG emissions	GhG emissions impact reduction	Quantitative	Total capital expenditure on energy efficiency and GhG emissions reduction (2018-2019) - \$ '000
31	GhG emissions	GhG emissions impact reduction	Qualitative	Initiatives to reduce GhG emissions - Energy Efficiency measures (score: 1 for Yes, 0 for No)
32	GhG emissions	GhG emissions impact reduction	Qualitative	Initiatives to reduce GhG Emissions - GhG offset program (score: 1 for Yes, 0 for No)
33	GhG emissions	GhG emissions impact reduction	Qualitative	Initiatives to reduce GhG emissions - renewable energy/ bioenergy capital expenditure (score: 1 for Yes, 0 for No)
34	GhG emissions	GhG emissions impact reduction	Qualitative	Initiatives to reduce GhG emissions - other
35	Chemicals	Risk assessment	Qualitative	Does the company have a chemicals management policy? (score: 1 for Yes, 0 for No)
36	Chemicals	Risk assessment	Qualitative	Does the company sustainability led chemicals use and hazard based certifications? (e.g., OEKO TEX, Greenscreen, REACH etc.) (score: 1 for Yes, 0 for No)
37	Chemicals	Targets & goals	Qualitative	Does the company have or claim to be working towards no hazardous waste discharge (e.g., by being, or aiming to be, a member of ZDHC) (score: 1 for Yes, 0 for No)

REFERENCES

- i ZDHC has developed wastewater guidelines which can be found at: <https://downloads.roadmaptozero.com/output/ZDHC-Wastewater-Guidelines>
- ii There are five framework and standard setters of international significance for sustainability disclosure. The Carbon Disclosure Project CDP, the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB). In September 2020, these five global organisations published a shared vision for the elements of sustainability reporting, which can be found at: <https://29kjwb3arnds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf>.
- iii The Business of Fashion's Sustainability Index can be found at: <https://www.businessoffashion.com/professional/resources/report/the-sustainability-gap>
- iv For a description of the Higg Index along with common questions please see: <https://apparelcoalition.org/common-questions-about-the-sac/>
- v The Business of Fashion's Sustainability Index can be found at: <https://www.businessoffashion.com/professional/resources/report/the-sustainability-gap>
- vi CDP report, Interwoven Risks, Untapped Opportunities, can be found at: https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcdd1d.ssl.cf3.rackcdn.com/cms/reports/documents/000/005/367/original/CDP_Water_Apparel_Report_September_2020.pdf?1602059378
- vii <https://www.roadmaptozero.com/>
- viii Source: Planet Tracker research (2020)



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ABOUT PLANET TRACKER

Planet Tracker is a non-profit financial think tank aligning capital markets with planetary boundaries. It was created primarily for the investor community to analyse the risk of market failure related to environmental limits which, other than climate change, are often not aligned with investor capital. Planet Tracker generates breakthrough analytics to redefine how financial and environmental data interact with the aim of changing the practices of financial decision makers to help avoid both environmental and financial failure.

TEXTILES TRACKER

Textiles Tracker investigates the impact that financial institutions have in funding publicly listed companies across the Textiles, Apparel & Clothing sector.

Fast Fashion has created cheap and abundant clothing globally, but the natural capital cost has been high, with toxic production practices, degradation of natural resources, massive and growing waste as well as labour injustice. By providing information and analysis on these problems, placing a value on them and quantifying the negative impact on profits and investor returns, Textiles Tracker will support and stimulate a transition to greater sustainability in the industry. Textiles Tracker identifies the nodes in the textiles supply chain that are creating the greatest damage, analyses their financial value, provides transparency of ownership and, through owners and investors, pressures for change in industry practices.

This paper reveals the state of environmental disclosures by publicly listed wet processing companies in the global textiles value chain and draws out a relationship between those environmental disclosures and financial performance, providing financial ratios that investors can utilise to determine nature related financial risk and opportunities.

Textiles Tracker is a part of the wider Planet Tracker Group of Initiatives.

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