

Textiles **COMPEN SATION**

THE SUSTAINABILITY-PAY DISCONNECT

April 2023

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EXECUTIVE SUMMARY

Textile companies account for c. 10% of global CO2 emissions. They are also significant water users and polluters. For companies in the sector, addressing sustainability issues, including those related to upstream supplier activity, should be a priority.

In the words of Foot Locker: *“Sustainability is an important part of the Company’s business... Climate Change is one of the greatest challenges of our time...Sustainability and protecting the environment are priorities to the Company”.*ⁱ

This sort of comment, or a derivation of it, is common across leading textile brands. Given this acknowledged importance, **Planet Tracker has reviewed the executive remuneration and sustainability policies of 30 of the top consumer facing textile companies to see if there is a link between delivering on sustainability initiatives and executive compensation: ‘sustainability-linked performance-based pay’.**

For a majority of the 30 companies we have analysed there is no link. This report analyses all 30 companies and provides summaries of key features and flaws in their approach to sustainability and pay and examines what best practice looks like...but in short: **the situation needs to improve.**

‘Counting the cash’

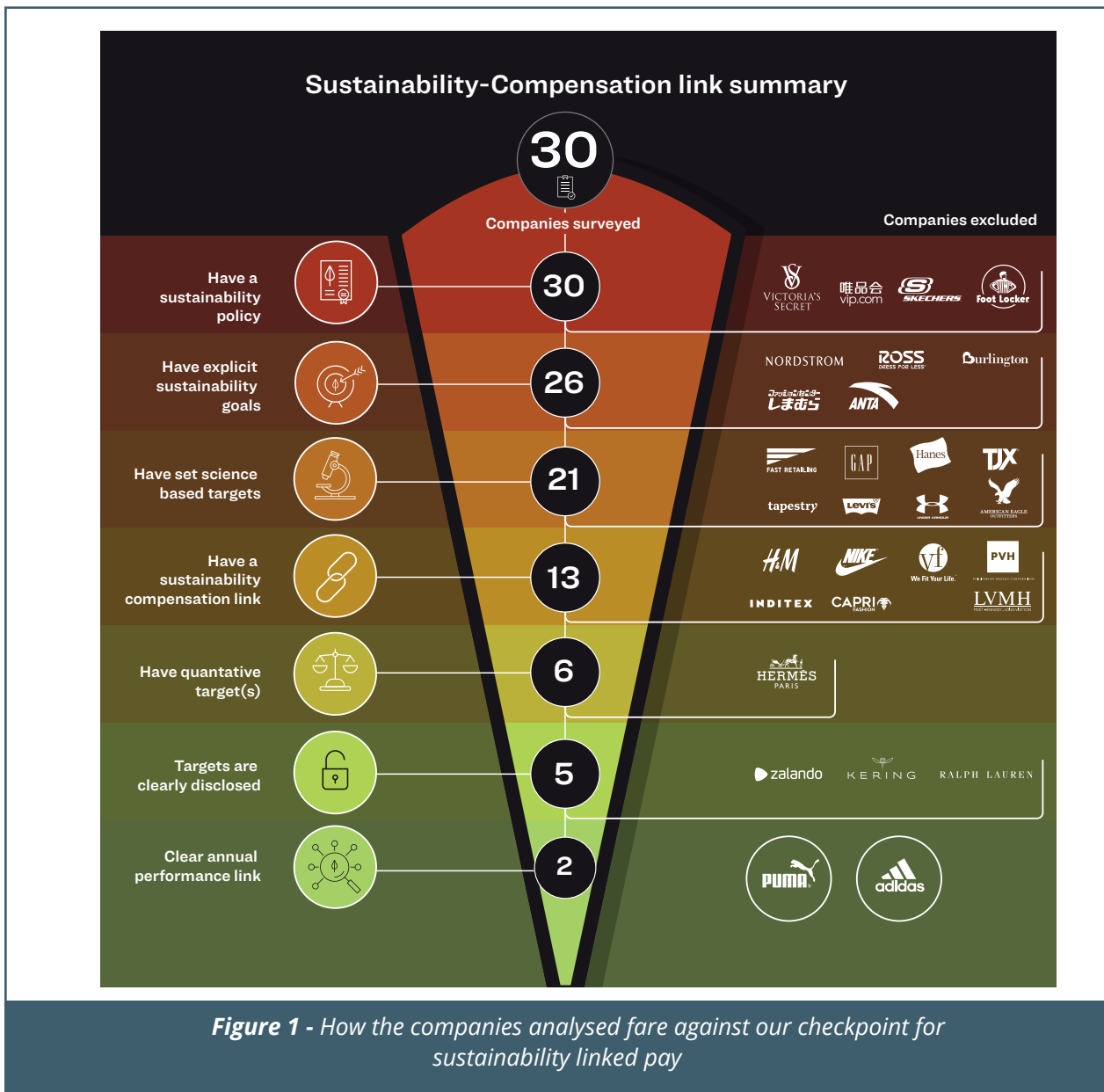
All 30 of the companies we looked at have sustainability policies and 28 have executive remuneration policies that incorporate performance based executive pay. Most notably:

- For **13** of the 30 companies there is a link between performance-based pay and sustainability action.
- For **17**, including companies like Anta Sports, Gap, Levi Strauss, Nordstrom, Under Armour and Victoria’s Secret, there is no such link.
- This disappointing lack of linkage we discovered is in keeping with the results of the *“ESG+Incentives report 2022” from consultancy firm Semler Brossy,*ⁱⁱ with Consumer Discretionary last of the 11 industry sub-sectors in the S&P500 when it comes to linking compensation to ESG: **last is not good!**

‘Follow the money’

For the companies where there is a link between sustainability and compensation we note the following:

- **All 13 have adopted** sustainability goals linked to Science **Based Targets**. This openness to be externally evaluated and scored points to a performance-based mind-set and provides a back-drop of verified data on which to base remuneration decisions.
- **Europe leads** the way, with all the European companies in our sample having a link between sustainability and performance-based pay. America is a mixed bag and Asia lags.
- **Founder/family-owned companies** are more likely to have an element of performance-based pay linked to sustainability. Eight out of the 11 founder/family-owned companies have sustainability-linked performance pay. We view this as illuminating.



'Different denominations'

Even where there is a link between performance-based pay and sustainability (13 companies), in many instances this comes with flaws which bring into question the materiality of the link...

- For **seven** of the 13, the link is based on **qualitative rather than quantitative criteria**
- Of the six that have quantitative criteria, **only three have clear targets**
- Of these, **only two**, Adidas and Puma, have **clear annual targets and reporting**.

In terms of the most notable flaws...

- Some **prioritise profit**, with financial thresholds before sustainability pay kicks in
- Some have an **immaterial ('small change')** impact on total compensation
- Some are **very narrow** and some are **very wide** in terms of stated targets

INVESTOR CALL TO ACTION - 'SHOW ME THE MONEY'

Our analysis shows that the top 30 consumer facing/brand companies are predominately equity funded. BlackRock, Vanguard, Capital Group, State Street and Fidelity (FMR) are the leading investors.

Based on data as of 20 February 2023 combined, the **top 20 independent shareholders have USD 278 billion invested** in these 30 companies and account on average for **29% of the free float**¹. Of the 20, **9 investors own all 20 companies**. These are material numbers and suggest **a real ability to influence**.

- **Planet Tracker strongly advocates:**
- **Performance-based pay**
- **sustainability as a key deliverable for executive teams**
- **linking the two together**

Shareholders, including those featured in this report, **should require all companies**, but particularly the leading companies in the sector, to extend their pay for performance policy beyond purely financial metrics and **include a sustainability-linked performance pay** element.

Planet Tracker also believes these shareholders should apply the **appropriate level of scrutiny and hold to account** these companies when it comes to the **actual mechanics** of sustainability-linked performance pay. In particular, this includes:

- **Performance-linked pay that is material** – so NOT a 10% portion of a cash pay-out which accounts for 20% of total remuneration...an effective 2% pay for performance. Rather we would like to see a meaningful percentage of compensation (10%+) at risk based on sustainability performance.
- **Independently verified targets and results** – Independently verified targets on sustainability provide a defence against greenwashing and can allow comparison between companies. A good example is the “Science Based Targets” initiative which requires firms to set independently verified targets for emissions reduction and report on these in a set format; there is a strong linkage between this and pay for sustainability.
- **Quantitative targets where possible** – financial performance accounts for the bulk of pay and typically links to clear defined quantitative targets – for instance profit margin. Sustainability targets should align with this clear, quantitative approach.

1 Free float is the shares of a company which are available to be traded publicly

- **Targets for sustainability rewards should be annual as well as longer term** - There is a tendency for sustainability awards to use longer-term direction-of-travel targets i.e. evidence that things are improving towards a medium-term goal. We believe annual (cash) awards need annual sustainability targets not just vague indications of travel.
- **Independent payment triggers.** Financial targets often trump sustainability ones making them potentially obsolete, for instance, when a profitability target must be achieved before any sustainability-linked targets are considered. Sustainability delivery needs independent reward.
- **Clear disclosure** of what has and hasn't been achieved. Direction-of-travel targets and qualitative targets lend themselves to opacity. Clear delivery links are needed.

Of the companies examined in this report, Adidas provides the best blueprint of what good looks like, although we would not say they are perfect in the way their pay scheme is structured. We include a write-up on the key features of the Adidas sustainability compensation scheme in this report.



EXECUTIVE COMPENSATION SHOULD COME WITH SUSTAINABILITY BUILT IN.

INTRODUCTION - MAKING THE RIGHT NOISES

*"Sustainability is an important part of the Company's business...Climate Change is one of the greatest challenges of our time...Sustainability and protecting the environment are priorities to the Company"*ⁱⁱ - **Foot Locker.**

"Environmental challenges transcend boundaries, affecting people and communities everywhere. Protecting our planet is fundamental to our sustainability business strategy"^{iv} - **Gap.**

"We must continue on enhancing the Group's sustainable development"..."Global climate change and the world's political and economic situation are closely related, in which the risks should not be ignored"..."committed to contribute our effort to sustainable development of the world"^v - **Anta Sports.**

"Shaping a positive, more inclusive and sustainable future isn't news to us, but it is becoming more important than ever'..."We're focused on reducing our own impact while supporting greater systemic changes to reduce global greenhouse gas emissions"..."We are committed to a sustainable future"^{vii} - **Nordstrom.**

"Our commitment to humankind and conservation is integral to our brand"^{vi} - **Skechers.**

"We must lead by example and inspire all of our stakeholders to join us on our journey to Build a Better World"^{viii} - **American Eagle.**

"Sustainability is so much bigger than VS&Co" this is about the fashion industry at large"..."We want to understand what we can do as an industry that meets the needs of our customers while also being better for the planet overall"^x - **Victoria's Secret.**

The company *"recognizes that our long-term success is supported by our commitment to act in sustainable ways"..."being a successful company means also being a responsible steward of the natural environment"*^x - **Burlington Stores.**

"Core values including Act Sustainably and Stand for Equality"..."the company "has an important role to play in addressing impending challenges facing our society, industry and planet"^{xi} - **Under Armor.**

"We believe being responsible is a business imperative, not a choice"^{xiii} - **Tapestry.**

"An expression of the company's guiding philosophy of profits through principles"..."all companies have to show measurable impact over time and find ways to work together to bring scale to these efforts, especially around climate"..."The fashion industry has to be sustainable, full stop"^{xii} - **Levi Strauss.**

"Going green and low-carbon has been one of the most crucial responsibilities and obligations of Vipshop as an excellent corporate citizen"^{xiv} - **Vipshop.**

Statements like these are prevalent in the corporate literature of large textile brand companies that make up the Planet Tracker Textile Company database. These quotes acknowledge the importance of climate change and environmental breakdown as an existential threat. They also nod to the fact that the textile industry has a significant environmental footprint; according to the World Bank,^{xv} the global fashion industry is responsible for an estimated 10% of annual global carbon emissions.

Performance linked pay, where executives are paid for delivering on specific criteria, is another common feature at large textile/fashion companies; it is in place for the C-suite executive of all the major fashion retail companies covered in this report.

We selected the companies analysed in this report using our proprietary Planet Tracker textile universe consisting of close to 3,900 entities. We analysed financial databases to identify public and private entities within the textile space. These were then assigned to five nodes along the value-chain of the manufacture and retail of apparel.

Out of this, Planet Tracker has examined the sustainability and executive compensation policies of the top 30 retail companies (as calculated by adjusted revenue) to create the sample for this paper. Adjusted revenue is calculated by applying an apparel and footwear weighting to actual revenue to account for those entities active in other segments alongside textiles – see Figure 2.



Figure 2 – Companies included in this report

This performance based pay typically takes the form of an annual cash payment and a longer-term share grant. Combined, these often account for over 80% of remuneration for senior executives. Alas when it comes to linking environment/sustainability performance and executive compensation our work suggests that the link is often weak and, in many cases, non-existent.

As a case in point, none of the 12 companies quoted in the opening of this section (Foot Locker, Gap, Anta Sports, Skechers, Nordstrom, American Eagle, Victoria's Secret, Burlington Stores, Under Armor, Levi Strauss, Tapestry, Vipshop) have executive compensation structures that link pay to performance on sustainability issues. The simple conclusion could be that fashion executives who push sustainability improvement are not rewarded for it. We believe this needs to change and we address what the shareholders, particularly institutional ones, of these businesses should be doing to help drive this change.

CORPORATE RISK MATERIALITY PROFILES SUGGEST THE NEED FOR SUSTAINABILITY IS COMMON GROUND

Corporate sustainability reports and corporate websites often contain risk materiality profiles produced by the company. These typically take the form of graphical representations of the perceived risk profiles for the company from two viewpoints:

1. that of the company (internal: business/operations) and
2. that of other stakeholders (external: shareholders, customers etc.).

Materiality (low to high) can vary depending on the viewpoint. By examining these risk materiality matrices, we can see what corporate management teams consider as significant risks to their businesses and as relevant for their key stakeholders.

From the 30 companies reviewed in this report we have included a sample of 'materiality matrixes' below, taken from either their corporate reports or their websites. We group them by where they are listed. We note that the structure of these matrices differs across corporates, but the underlying message of the key risks that management are aware of remains common across these examples.

Climate, GhG emissions, sustainable products, packaging and materials are common high external / high internal (top right quadrant) materiality features in most matrices.

Based on public statements and quotes such as those above, the simple conclusion is that sustainability is a self-confessed widespread priority issue. Given this, incentivising action to tackle this, or indeed penalising executives financially for not tackling the challenge adequately, seems logical.

However, of the companies whose materiality matrices are shown below, only half (four) have performance-based pay structures that recognise and incentivise sustainability action. These are: H&M, Hermes, Puma and PVH.

View from the U.S.

For American Eagle, Climate & Energy is a clear top right (high stakeholder/business relevance) factor – see Figure 3. What is perhaps more surprising is how low Gender Equality and Inclusion & Diversity rank. This compares to these issues being prioritised over sustainability when it comes to linking performance and pay at, for instance, Under Armour (see - *Under Armour – DE&I trumps the environment*).

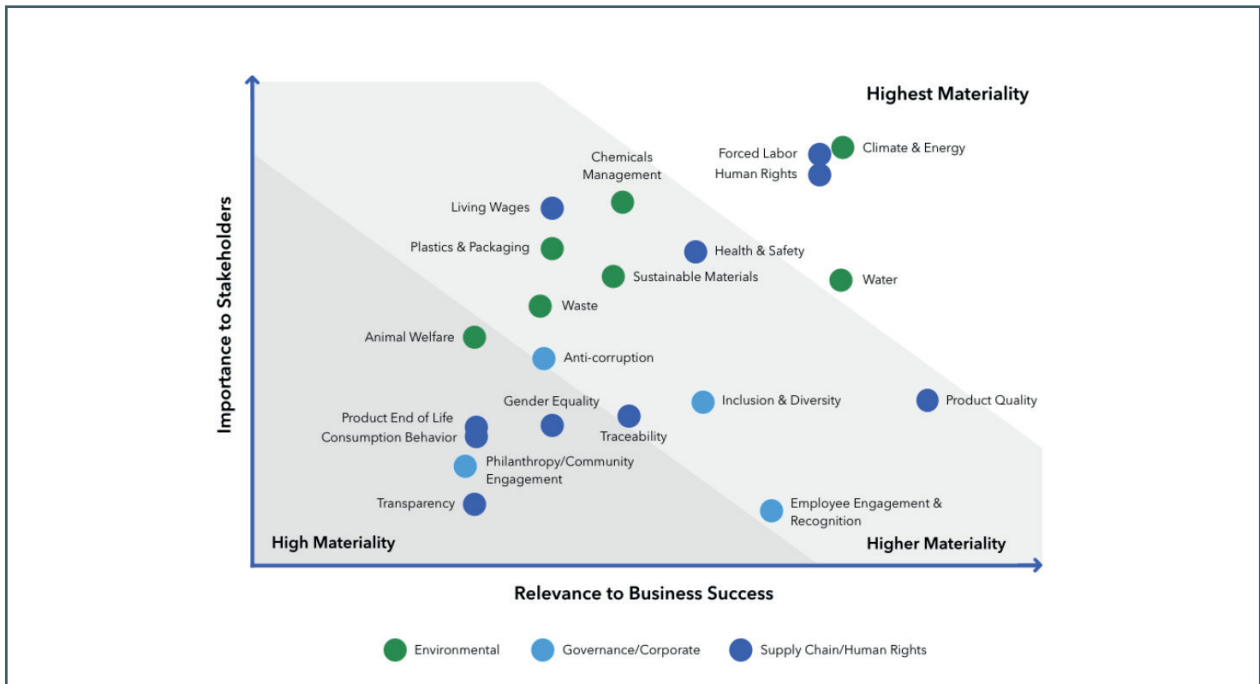


Figure 3 - American Eagle Materiality Matrix (source: American Eagle)

In contrast to American Eagle, Victoria's Secret's (VS&Co) material matrix has a very heavy 'people' element to its highest impact items - see Figure 4. That said, GhG Emissions & Climate Action along with Sustainable Products and Packaging Materials also all occupy the top right (high-high impact) quadrant. Deforestation and Biodiversity occupy the bottom quadrant.

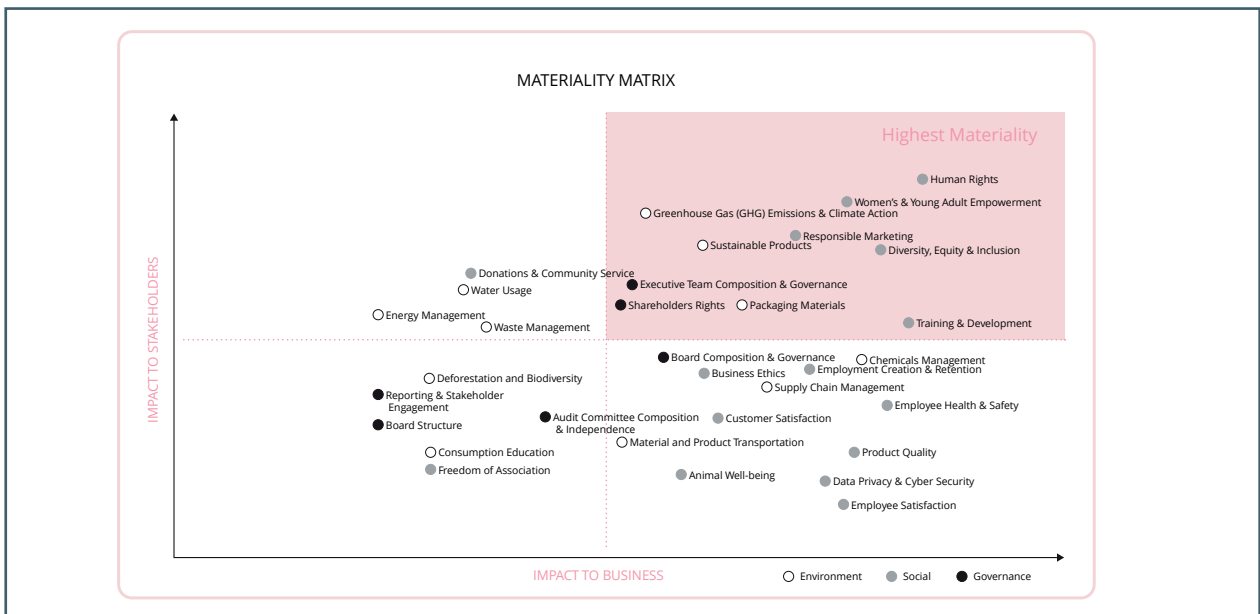


Figure 4 - Victoria's Secret (VS&Co) Materiality Matrix^{xvi} (source: VS&Co)

Burlington Stores, with its North America focused operations, has a materiality matrix focused towards 'people' issues, particularly from an internal stakeholder perspective - see Figure 4 and Figure 5. Climate change at least gets into the red zone (very high priority) driven by external stakeholder importance, while other sustainability items (e.g. water use and sustainable packaging) rank towards the lower end of 'high priority'.

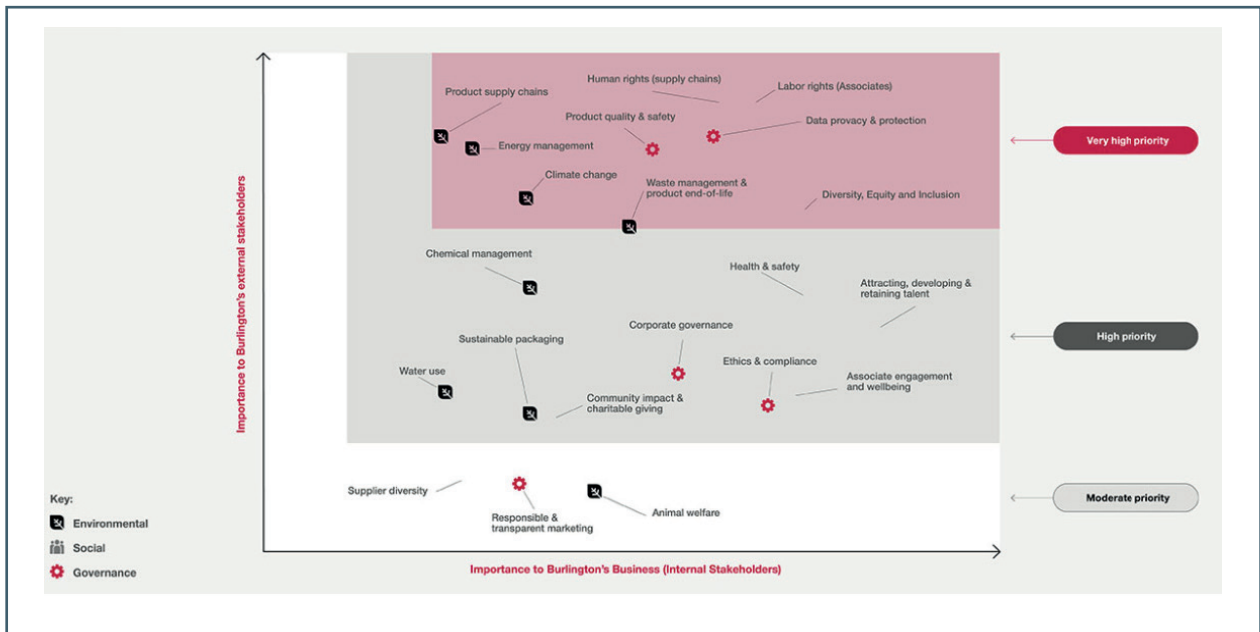


Figure 5 - Burlington Stores Materiality Matrix (source: Burlington Stores)

Sustainable materials, climate change and energy and emission management all rank as top quadrant items for PVH which owns brands like Tommy Hilfiger and Calvin Klein – see Figure 6. These are accompanied by the other top quadrant stalwarts of human rights and inclusion and diversity. Biodiversity is well down the ‘business’ pecking order.

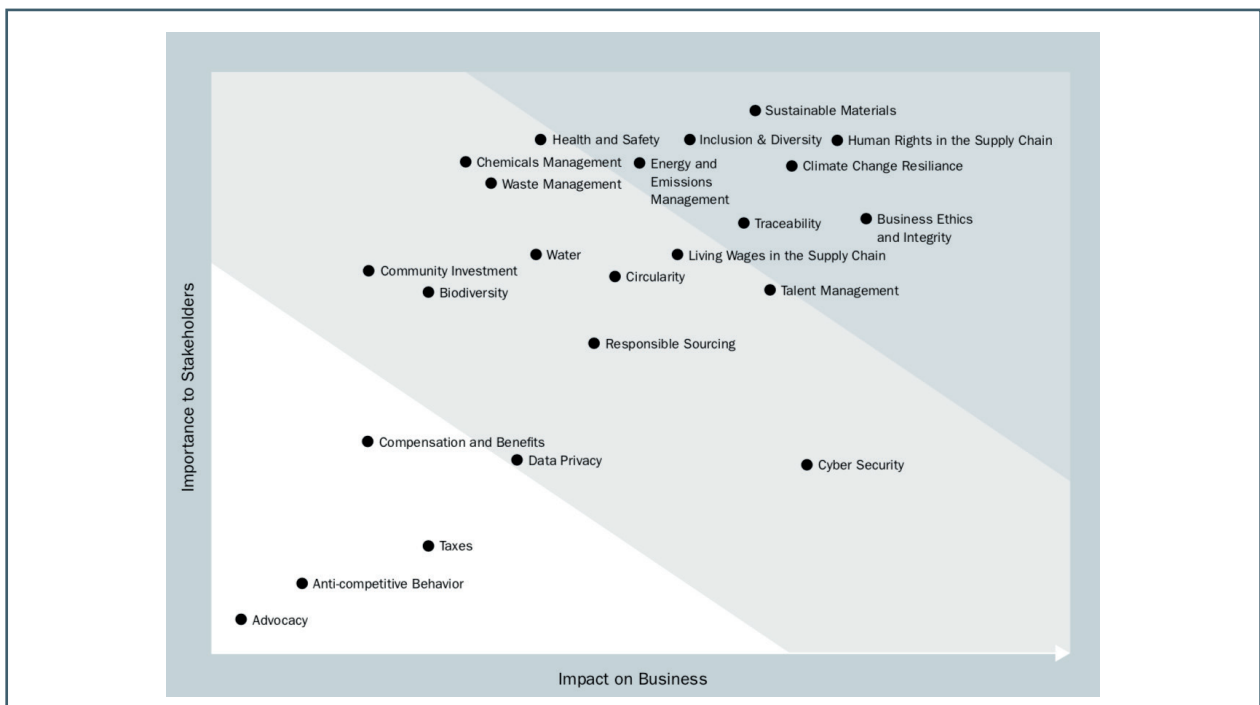
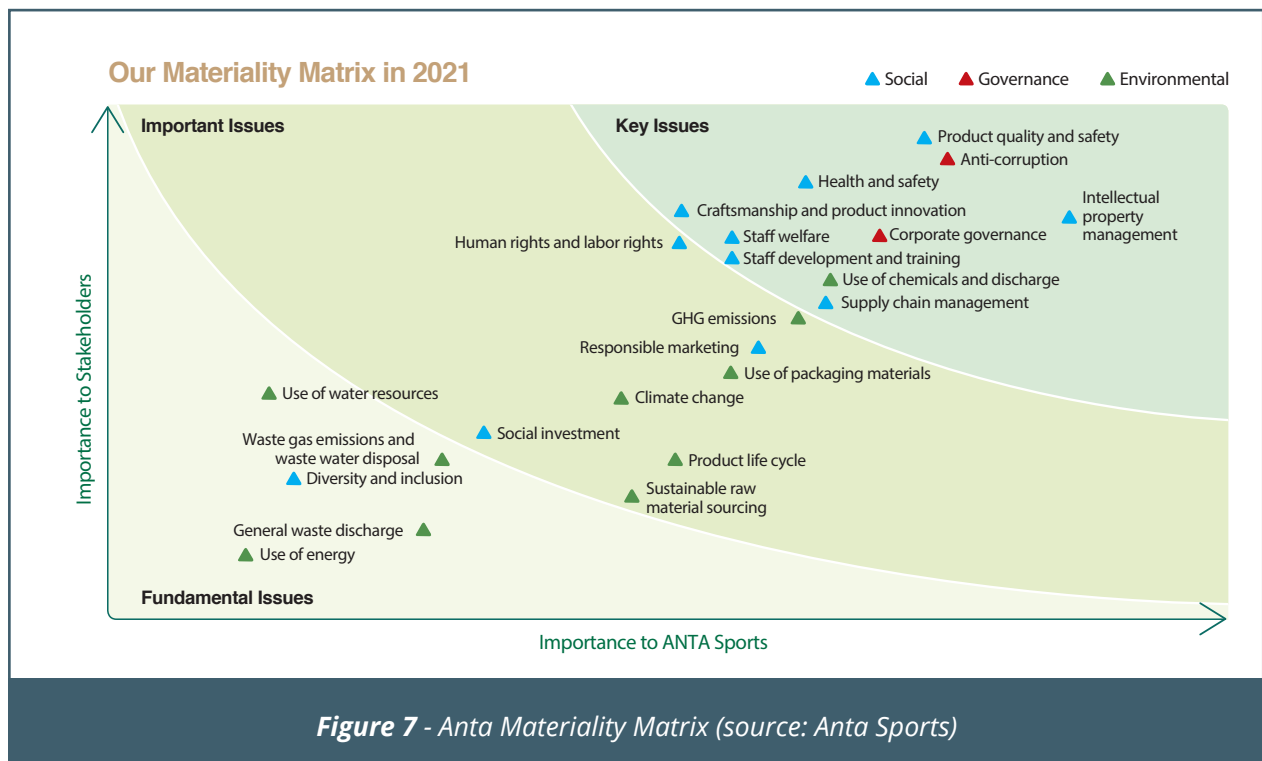


Figure 6 - PVH Materiality Matrix (source: PVH)

The Asian View

A Chinese lens at Anta Sports leads to an unsurprisingly different set of conclusions, with 'product quality and safety', 'anti-corruption' and 'intellectual property management' spearheading the top right materiality quadrant - see Figure 7. 'Climate change' is very much in the middle of the pack and more worryingly 'use of energy', 'general waste discharge', 'waste gas emission and wastewater disposal', and 'diversity and inclusion' all rank at the bottom end of materiality (fundamental issues rather than important or key ones). A stark contrast to elsewhere.



The European View

Hennes & Mauritz's (H&M) matrix adopts what is most commonly raised by stakeholders and what is the relative level of significance of economic, environment and social impacts. Climate is the top-ranking item of stakeholders, whereas sales, circular ecosystems, scale innovation and recycled materials top the impact list (so two of the four are sustainability-linked). Diversity and inclusion are also top right items - see Figure 8.



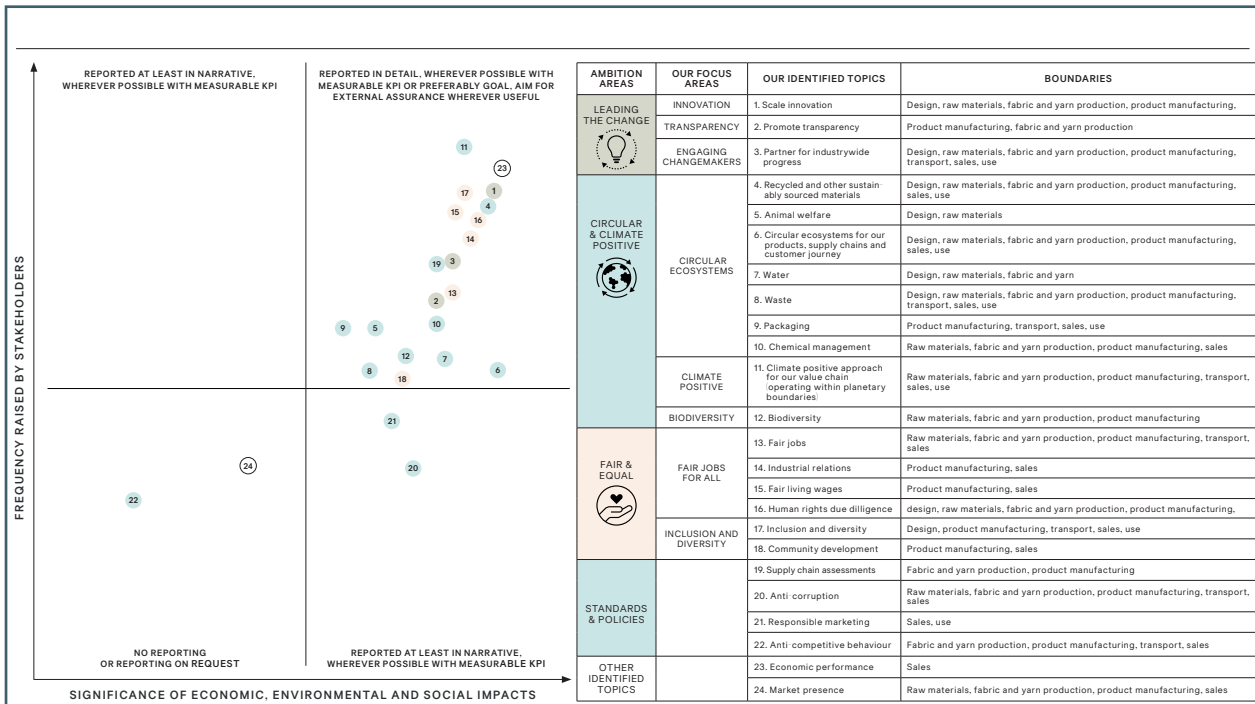


Figure 8 - H&M Materiality Matrix^{xvii} (source: H&M)

Hermes presents a very clear picture with climate, circularity and diversity and inclusion all ranking in the middle of its materiality matrix from both an internal and external perspective – see Figure 9. We note the higher ranking of biodiversity, which is a standout, and features in its compensation structure as detailed in the section ‘Hermes’.

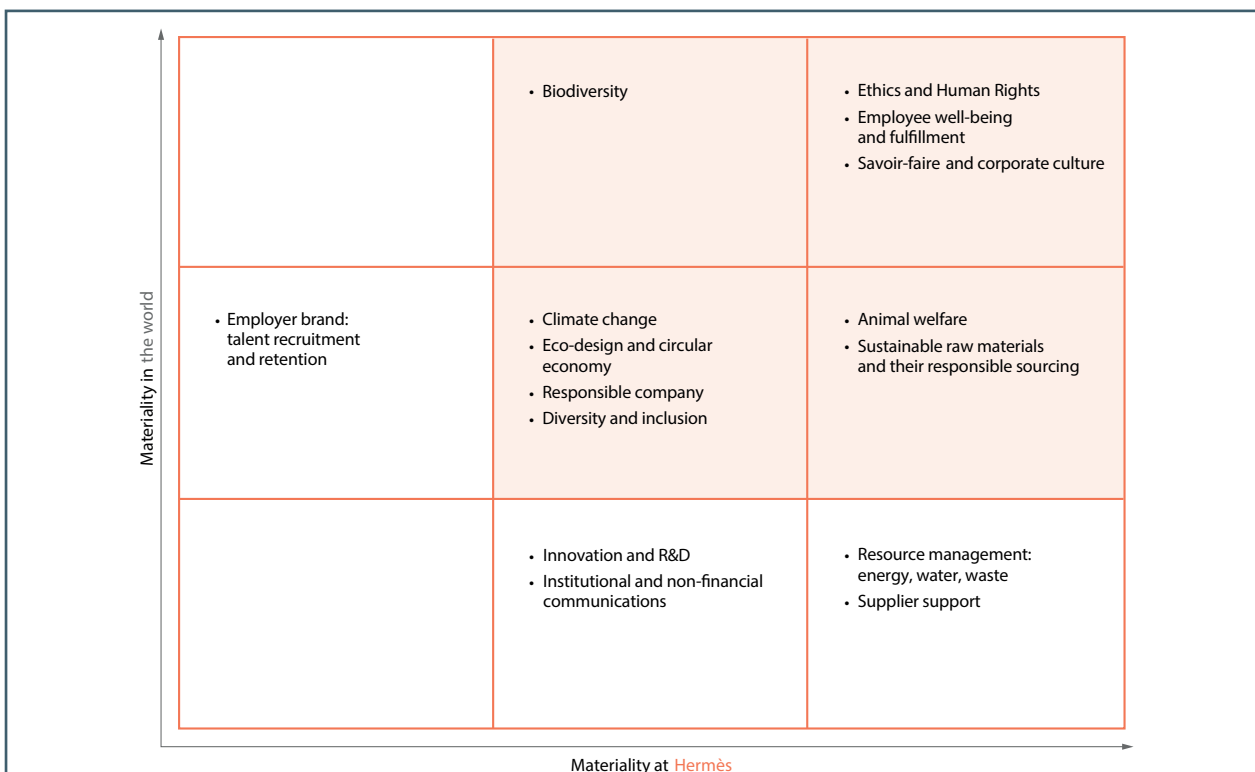


Figure 9 - Hermes materiality matrix (source Hermes)

In contrast to Hermes, Puma ranks biodiversity as a bottom left quadrant risk. Climate change ranks as a mid-level issue for the company, but still far from highest, for external stakeholders. Sustainability is however still a core top-right (high-high) feature in terms of product, packaging, raw materials and chemical usage and discharge – see Figure 10.

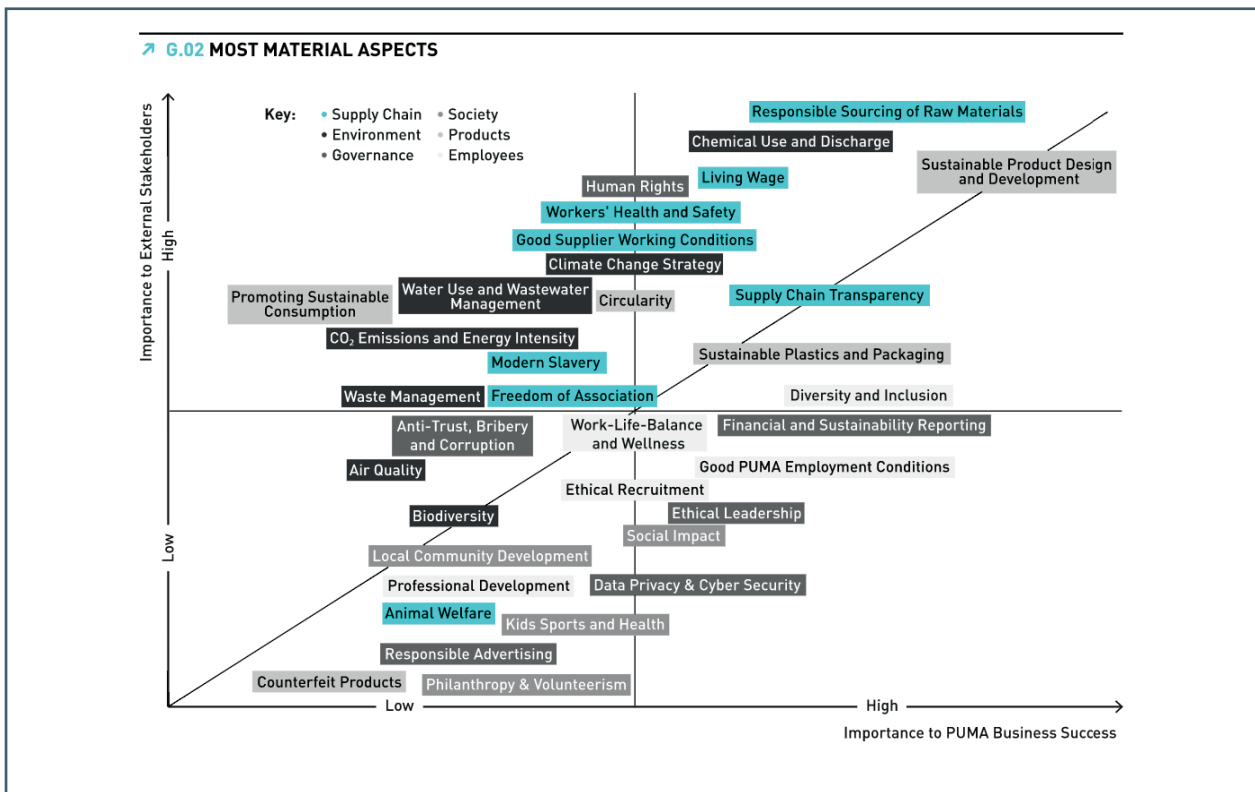


Figure 10 - Puma Materiality Matrix^{viii} (source: Puma)



TOP FASHION BRANDS: DO MANAGEMENT GET PAID FOR SUSTAINABILITY?

Planet Tracker has developed a unique textile universe consisting of close to 3,900 entities. We analysed financial databases to identify public and private entities within the textile space. These were then assigned to five nodes along the value-chain of the manufacture and retail of apparel.

Out of this, Planet Tracker has examined the sustainability and executive compensation policies of the top 30 retail companies (as calculated by adjusted revenue) to create the universe for this paper. Adjusted revenue is calculated by applying an apparel and footwear weighting to actual revenue to account for those entities active in other segments alongside textiles.

Our objective in this report was to understand where the sector is in terms of rewarding positive sustainable action and what could be improved. This deep dive at a company level (see 'Companies - in alphabetical order' later in this report: [page 36](#)) was overlaid with a simple set of yes/no 'does the company have' questions:

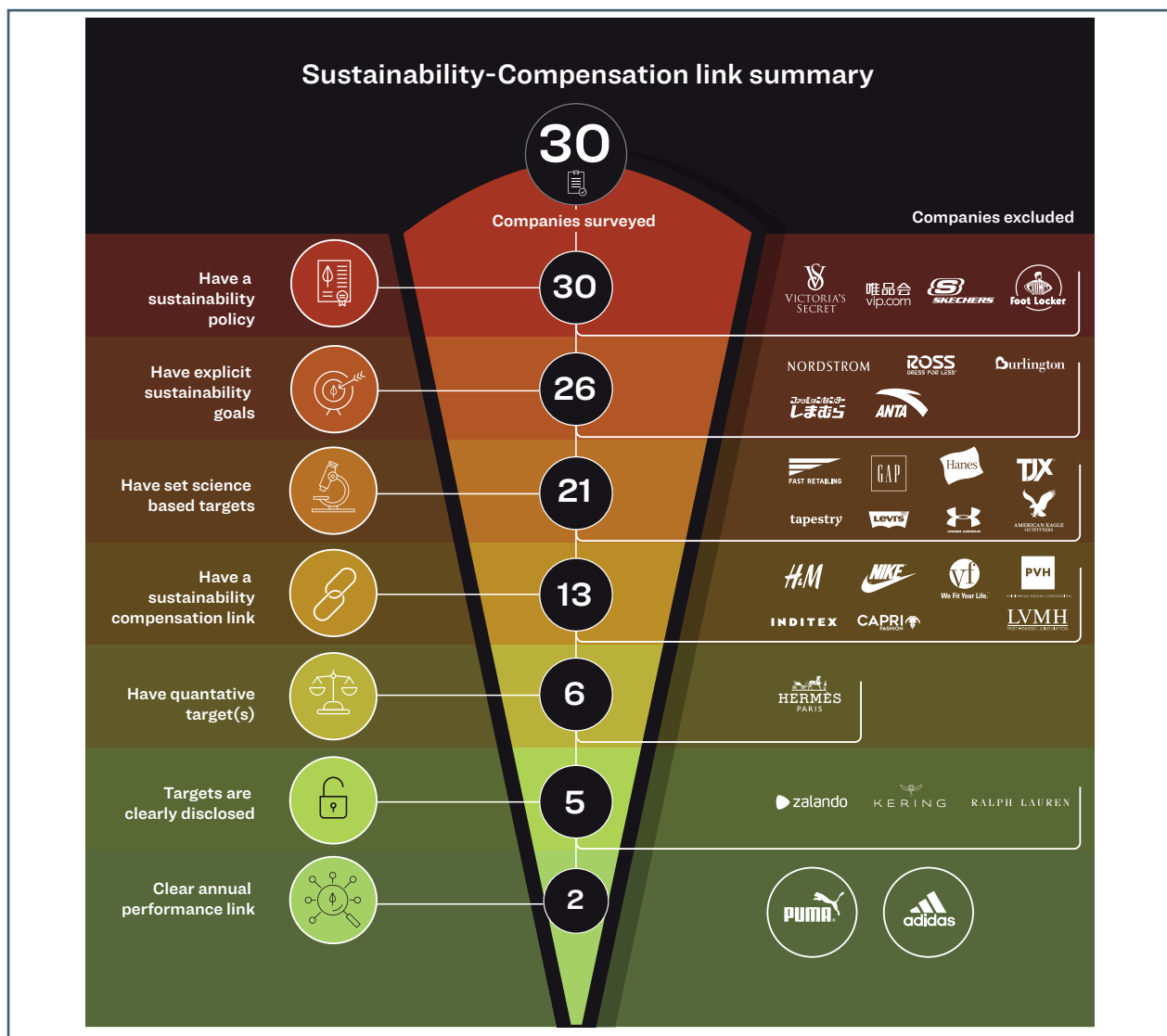


Figure 11 - Sustainability-Compensation link Summary

All 30 analysed companies have sustainability policies and typically stress the importance of their sustainability initiatives. However, as illustrated in Figure 11, the link between these comments and rewarding actions aimed at addressing the issue (“Sustainability-Compensation link”) is absent in over half of the companies.

We do however see a clear mind-set/attitude link. **Of the 21 that have adopted climate goals that align with Science Based Target initiative, 13 have also introduced links between executive compensation and performance on sustainability goals.** The basic message appears to be that the executives at these companies want to have their performance on sustainability measured and rewarded.

Disappointingly, **in roughly half of the cases this sustainability linked performance-pay is based on qualitative assessment** by compensation committees and the like. **Only six of the 30 companies have adopted quantitative sustainability goals** for management remuneration. With the exception of Ralph Lauren, these are all European: Adidas, Hermes, Kering, Puma and Zalando. Of these, in only two instances is the actual target both clearly disclosed and measured and reported on annually: Adidas and Puma – two German sportswear companies with common founding families.

That is not to say that many of the sustainability goals are not reported annually. Rather how they then link to compensation (be it qualitative or quantitative) is opaque. This appears unsatisfactory given the importance placed on sustainability by both the company and their multiple stakeholders.

The value of sustainability targets can be a judgement call

This report does not attempt to compare the quality of sustainability targets set by different corporates. We are rather looking to see whether such targets are included in management compensation schemes and how they are included.

We acknowledge that a sustainability target to, for instance, increase the percentage of sustainably sourced cotton a brand uses is very different to, for instance, cutting Scope 3 carbon emissions. Both of these example targets can also be critiqued as to their value and how a corporate is approaching the challenge. Such comparisons and criticisms is beyond the scope of the current report, but is worthy of bearing in mind when examining any particular corporate scheme in greater detail.



Company level summary

Our findings at the company level are summarised in Figure 12. More detailed individual company write-ups can be found in the Companies section towards the end of this report (page 36). As flagged above, Adidas and Puma are the only company that deliver a Yes tick to all the questions.

Zalando joins Adidas and Puma with the disclosure of a clear quantitative target(s) for its CFO. However this is multi-year in nature (linking to a vesting period) and annual performance/attainment isn't clear.

Kering and Ralph Lauren are only scored half-points on clarity of target as there is a number of targets, including some qualitative ones, and multi-year rather than annual targets. Both features are, as we flag below, understandable, but we would encourage greater clarity where it can be given.

Top 30 'Textile' companies by revenue	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
LVMH	✓	✓	✓	✓	⊗	⊗	⊗
Nike	✓	✓	✓	✓	⊗	⊗	⊗
Inditex	✓	✓	✓	✓	⊗	⊗	⊗
Adidas	✓	✓	✓	✓	✓	✓	✓
H&M	✓	✓	✓	✓	⊗	⊗	⊗
Fast Retailing	✓	✓	✓	⊗	⊗	⊗	⊗
GAP	✓	✓	✓	⊗	⊗	⊗	⊗
Nordstrom	✓	✓	⊗	⊗	⊗	⊗	⊗
Kering	✓	✓	✓	✓	✓	1/2	⊗
TJX	✓	✓	✓	⊗	⊗	⊗	⊗
Ross Stores	✓	✓	⊗	⊗	⊗	⊗	⊗
VF Corp	✓	✓	✓	✓	⊗	⊗	⊗
PVH	✓	✓	✓	✓	⊗	⊗	⊗
Victoria Secret	✓	⊗	⊗	⊗	⊗	⊗	⊗
Vipshop	✓	⊗	⊗	⊗	⊗	⊗	⊗
HanesBrands	✓	✓	✓	⊗	⊗	⊗	⊗
Ralph Lauren	✓	✓	✓	✓	✓	1/2	⊗
Hermes	✓	✓	✓	✓	✓	⊗	⊗
Tapestry	✓	✓	✓	⊗	⊗	⊗	⊗
Levi Strauss	✓	✓	✓	⊗	⊗	⊗	⊗
Burlington Stores	✓	✓	⊗	⊗	⊗	⊗	⊗
Under Armour	✓	✓	✓	⊗	⊗	⊗	⊗
Skechers	✓	⊗	⊗	⊗	⊗	⊗	⊗
Shimamura	✓	✓	⊗	⊗	⊗	⊗	⊗
ANTA Sports	✓	✓	⊗	⊗	⊗	⊗	⊗
Foot Locker	✓	⊗	⊗	⊗	⊗	⊗	⊗
Zalando	✓	✓	✓	✓	✓	✓	⊗
Capri	✓	✓	✓	✓	⊗	⊗	⊗
Puma	✓	✓	✓	✓	✓	✓	✓
American Eagle	✓	✓	✓	⊗	⊗	⊗	⊗

✓ = Yes
 1/2 = Partial
 ⊗ = No

Figure 12 - Summary of sustainability link to performance-based pay

WHAT DO WE LIKE / DISLIKE?

We have outlined some of the features that we like or believe are necessary when it comes to sustainability-linked performance pay. We have also outlined some of those that we don't like. Examples are contained throughout this report and the italicised comments link to specific sections within this report.

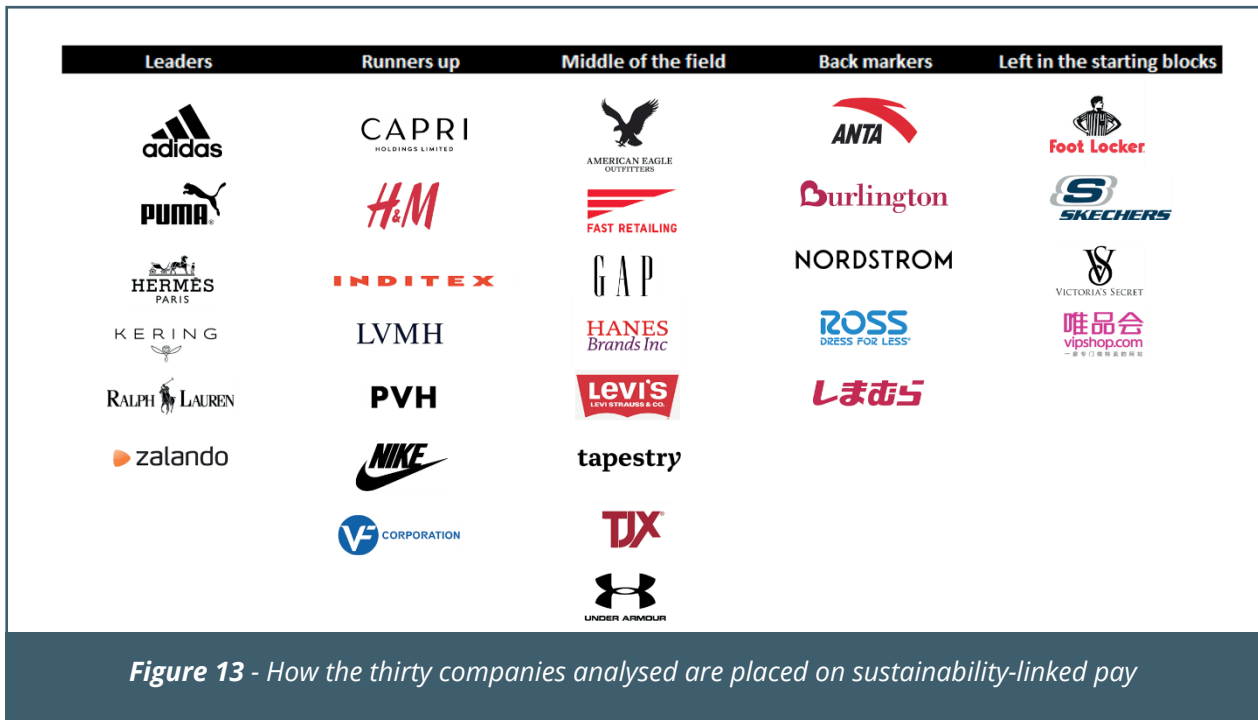
Likes

- **A *"Pay for performance philosophy"*** – with an appropriate mix of short and long term goals and rewards and a performance benchmark that extends beyond purely financial metrics.
- **Pay linked to sustainability performance** – these companies claim sustainability is a risk so executive pay should feature a link to addressing this risk.
- **Performance-linked pay that is material** – so NOT a 10% portion of a cash pay-out which accounts for 20% of total remuneration...an effective 2% pay for performance. Rather we would like to see a meaningful percentage of compensation (10%+) at risk based on sustainability performance.
- **Independently verified targets and results** – Independently verified targets on sustainability provide a defence against greenwashing and can allow comparison between companies. A good example is the *"Science Based Targets"* initiative which requires firms to set independently verified targets for emissions reduction and report on these in a set format.
- **Quantitative targets where possible** – financial performance accounts for the bulk of pay and links to clearly defined quantitative targets. Sustainability should align with this.
- **Annual targets for rewards that are granted annually** - there is a tendency for longer-term direction-of-travel targets. We believe annual (cash) awards need annual sustainability targets.
- **Clear disclosure of what has and hasn't been achieved** - direction of travel targets and qualitative targets lend themselves to opaqueness. Clear delivery links are needed.

Dislikes

- **The need to hit financial targets first** before sustainability 'top-up' occurs – this is a common feature. We cover this in the *"Profitability trumps sustainability"* section.
- **Shareholders who don't use their holdings to support positive change** when the current structure is sub-optimal. *"Say-on-Pay – worrying support for the Status Quo"* illustrates this.
- **An *"Inward looking"* approach**, such as peer benchmarking or heavy reliance on consultants, which lends itself to greencrowding, a *"Greenwashing"* sub-category.

Based on these likes and dislikes, we show how the thirty companies analysed are placed in Figure 13.



WHAT DOES GOOD LOOK LIKE?

The obvious follow-on question is ‘what does good look like? We use Adidas, as an example of ‘what good looks like’

Adidas – best in class example

Adidas is one of only two companies to tick all of our ‘sustainability-linked-compensation’ boxes. As such it acts as a good blueprint for others in the sector to follow. We have highlighted some of the key features of their remuneration policy using images copied from the company’s compensation report.^{xix}

Like many companies, Adidas has a mix of a Short Term Incentive (STI) plan and a long-term incentive plan (LTIP) with multi-year vesting. It also has an atypical higher weighting towards the LTIP.

In the case of Adidas, performance against sustainability criteria can be (but isn’t definitely) a feature of the short-term scheme (up to 20%, with sustainability listed as one of the 16 possible non-financial metrics).

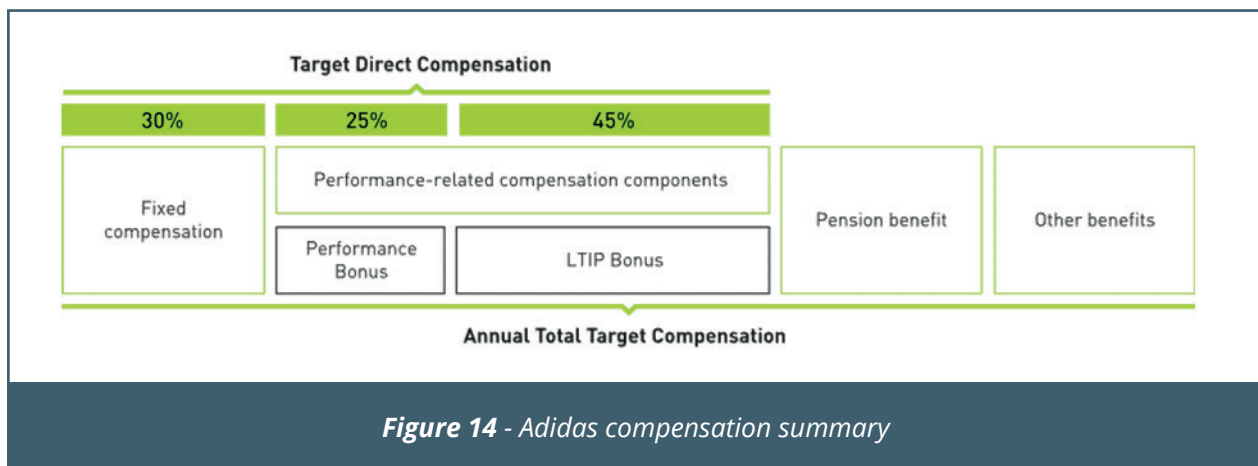


Figure 14 - Adidas compensation summary

Note – LTIP = Long-term incentive plan

More importantly, it is a definitely and clearly defined feature of the LTIP bonus, accounting for 20% of the payout if targets are met. This is a material amount accounting for a material 9% of total compensation (45% LTIP x 20% sustainability) weighting.

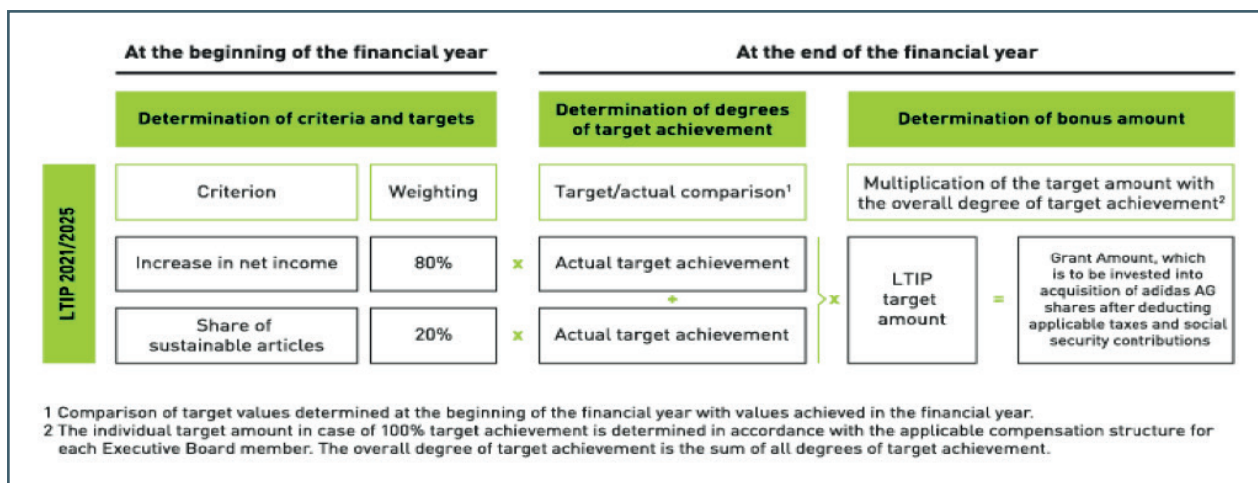


Figure 15 - Adidas Long-Term Incentive Plan (LTIP) structure

Importantly, it is based on a clear sustainability goal, 'share of sustainable articles' with clearly defined and communicated annual targets. Delivery also has clear positive implications for upstream (Scope 3 emissions) where a significant amount of the climate impact happens.

Furthermore, these targets align with the company's five year goal. This timeframe element (both goals and LTIP scheme) aligns well with the ongoing journey that is sustainability.

LTIP 2021/2025: ESG CRITERION	
Performance year	Share of sustainable articles offered
2021 ¹	+8pp
2022 ²	70%
2023 ²	78%
2024 ²	84%
2025 ²	90%

1 Percentage point increase in the share of sustainable articles [by count] offered at the points-of-sale compared with respective previous season (comparison of Spring/Summer 2021 with Spring/Summer 2022). The percentage of sustainable articles (by count) offered at the points-of-sale in Spring/Summer 2021 amounted to 60.6%. The definition of sustainable articles is based on the proportion of environmentally preferred material content. For apparel and accessories/gear, the environmentally preferred material content is based on article weight (at least 25% recycled content or 50% sustainable cotton; excluding trims), for footwear (only upper part) it is based on material components (at least 25% of the components used contain 50% or more recycled content) or article weight (at least 25%). Only articles with verified environmentally preferred material contents are included. Licensed articles are excluded. Without Reebok.
2 Percentage of sustainable articles (by count) offered at the points-of-sale leverage of Fall/Winter season of the current financial year and Spring/Summer season of the following financial year). The definition of sustainable articles is based on the proportion of environmentally preferred material of the article weight. For apparel (excluding trims), the environmentally preferred material content is required to amount to at least 70%, for accessories/gear (excluding trims) at least 50% and for footwear (full shoe) at least 20% of the article weight. Only articles with verified environmentally preferred material contents are included. Licensed articles are excluded. Without Reebok.

Figure 16 - Adidas LTIP ESG Criteria

The other company aside from Adidas which gets a tick on all of our checks is Puma, (both are German sports companies founded by members of the same family). This is worthy of positive recognition and is in keeping with a strong and well communicated strategy on sustainability.

However, Puma's commitments, in our view, aren't as categorical as those at Adidas. In particular, we would flag the following caveats:

- The goals are disclosed retrospectively – for 2021 in the 2022 AGM notice.^{xx}
- The goals are complex, covering eight areas in 2021.
- The majority appear to be quantitative in nature, but not all.
- Achievement of target described as attained for all, but with no granularity...

...and probably most significantly, the level of compensation leverage is relatively immaterial; the combined eight goals contribute 5% to the short-term incentive cash bonus. The aim is that the cash bonus accounts for 20-25% of CEO total compensation and 27-33% for other executive officers. Taking a simple average of these two ranges implies a target of 26%. On this basis sustainability-linked pay accounts for just 1.3% (5% x 26%) of total compensation.

Noteworthy other mentions

While Adidas' clarity is very welcome, there are other positive examples that warrant a mention. These have strong pay for sustainability performance linkages, but clarity breaks down because of the breadth of goals, which incorporate both qualitative and quantitative elements and multi-year targets. These respectively introduce an element of subjectivity and make assessing annual performance difficult. Examples would include Kering, the owner of the Gucci brand amongst others, and Ralph Lauren.

PROFITABILITY CAN TRUMP SUSTAINABILITY FOR SOME

While corporates bang the drum on the importance of sustainability and the introduction of sustainability linked targets, **in many cases profitability trumps sustainability, particularly when it comes to pay-for-performance.**

In the most extreme examples, we are talking about the complete omission of sustainability in pay-for-performance targets: the situation at 17 of the 30 companies reviewed. At least this is upfront and obvious.

What we find more disappointing is where a corporate is saying one thing (*we link pay with sustainability performance*) but then actually does something else (*base pay solely on financial metrics*). This can come about because of a flaw in the incentive structure.

- **Example 1:** where maximum pay out level (typically 200% of target) has already been reached because of over-performance versus financial goals. This potentially renders achievement and pay linked to sustainability criteria irrelevant (e.g. Ralph Lauren, which, despite having a good pay-sustainability link rating, faced exactly this scenario in FY2021). Keeping the remuneration pool linked to sustainability separate (e.g. Puma) is one way of mitigating against this. In the case of underperformance versus sustainability targets, another is to penalise (e.g. impose a downward adjustment) if sustainability targets are not met: e.g. Zalando, which imposes a penalty reduction of up to 20% of long-term incentives if ESG goals are not met.
- **Example 2:** the requirement for financial targets to be met before sustainability goals can count towards final pay out – this is a much more worrying example. H&M is a good example of this structure: it first requires an operating profit threshold to be cleared before payments linked to three other metrics (one sustainability linked) can be potentially triggered.

Structures that incentivise profit over, and potentially in detriment to, sustainability actions are bad news. Having a sustainability-linked compensation target and then rendering it irrelevant smacks of greenwashing.



INDEPENDENTLY VERIFIED TARGETS

Robust, independently verified environmental goals provide an ideal scorecard for linking pay to performance on a quantitative basis. Without this type of benchmark, goals risk being more qualitative in nature and the threat of greenwashing raises its head. The Science Based Target initiative^{xxi} (SBTi) is a good example of independent sustainability targets and can be a driver for a transition to quantitative linked pay for performance.

SBTi is a partnership between CDP, the United Nations Global Compact, World Resources Institute (WRI) and the World Wide Fund for Nature (WWF), which:

- Defines and promotes best practice in emissions reductions and Net Zero targets in line with climate science.
- Provides technical assistance and expert resources to companies who set science-based targets in line with the latest climate science.
- Brings together a team of experts to provide companies with independent assessment and validation of targets.

Company level SBTi goals are a good ‘quantitative’ starting point. Of 30 leading companies we examined, **21 have signed up to SBTi within the past three years – see Figure 17.** These have had their climate linked goals independently verified. They have a wide-geographic footprint, with US, Europe and Asian companies included.

YES	YES	YES	YES	NO	NO
					
					
					
					
					
					

Figure 17 - Science Based Target initiative (SBTi) participants

SBTi requires a set of targets aligned with keeping global warming to 1.5 degrees and a commitment towards Net Zero in a specified time-frame. H&M is a good example. It is a SBTi member and has had its climate goals independently verified. The net result, as shown in Figure 18, is a clear set of targets and performance against those targets.

CIRCULAR & CLIMATE POSITIVE KPIS			2021	2020	2019
KPI	GOAL				
Climate: % absolute reduction scope 1,2 and 3 in CO2e emissions compared with 2019 baseline.	-56% by 2030		Scope 1 & 2: -22% Scope 3: -9	Scope 1 & 2: +17 Scope 3: -14	-
Climate: % renewable electricity in own operations	100% by 2030		95	90	96
Water: % reduction in production water use (water intensive tier 1 and 2 suppliers) from 2017 baseline	-25% by 2022		-10.3	-3.8	-5.9
Commercial goods: % of recycled or other more sustainably sourced materials used.	Total	100% by 2030	80.0	64.5	57.1
	Other more sustainably sourced	-	62.1	58.7	54.9
	Recycled	30% by 2025	17.9	5.8	2.2
Packaging: % of recycled or other more sustainably sourced materials used.	100% by 2030		68	89	-

Figure 18 - Example of a climate-based goals and scorecard (source: H&M)

These targets lend themselves naturally to an annual progress scorecard and thus set up the potential for a link of performance achieved against these to compensation. We hope that setting SBTi targets can be one factor in pushing more companies to introduce material sustainability targets in management compensation plans.

INWARD LOOKING

During our review of compensation policies we observed two common features, particularly amongst the American companies in our top 30:

- Benchmarking against peers; both amount paid and structure.
- The use of compensation consultants.

The first, peer benchmarking, is inward looking, has greencrowding (for more on greencrowding, see Planet Tracker's paper [The Greenwashing Hydra](#)) characteristics and has the capacity to feed inertia...why change if others don't and why lift your head above the parapet by introducing a different (non-financial) goal and then potentially failing to achieve it?

As for the use of consultants, these are typically large, well-known firms. We are surprised they aren't driving a more rapid rate of change towards the adoption of sustainability-linked performance pay criteria.

Both factors are a concern given the sector has a meaningful environmental footprint and is a laggard, as illustrated in consultancy firm Semmler Brossy's ESG+Incentives report 2022,^{xxii} when it comes to incentivising environmental change.

Inertia is dangerous. Shareholder inactivity, and even high shareholder approval ratings for pay schemes, don't help.

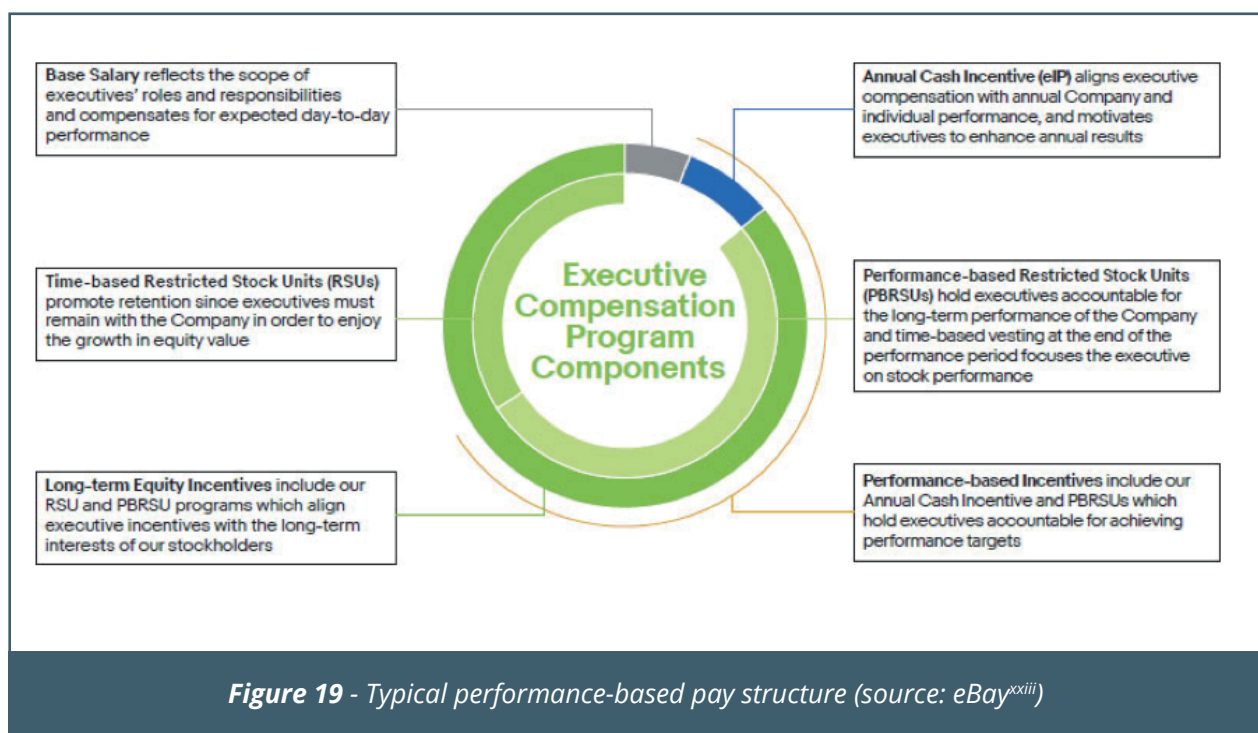


PAY FOR PERFORMANCE PHILOSOPHY

While we are not advocating a one size fits all approach to compensation, we do note a very strong level of commonality in overriding structure when it comes to performance linked pay. This is not surprising given a significant proportion of the 30 companies reviewed have a developed structure having been in existence for many years, employ consultants, benchmark against peers and get feedback from the same shareholders.

We would surmise a typical structure for Named Executive Officers (NEOs) is:

- 80% plus at risk and often over 90%, particularly for executive chair / CEO
- basic pay and short-term performance compensation made in cash – combined <40% cash
- significant stock component for short-medium and long-term incentive plans, with multi-year vesting period – combined >60% in shares or related instruments

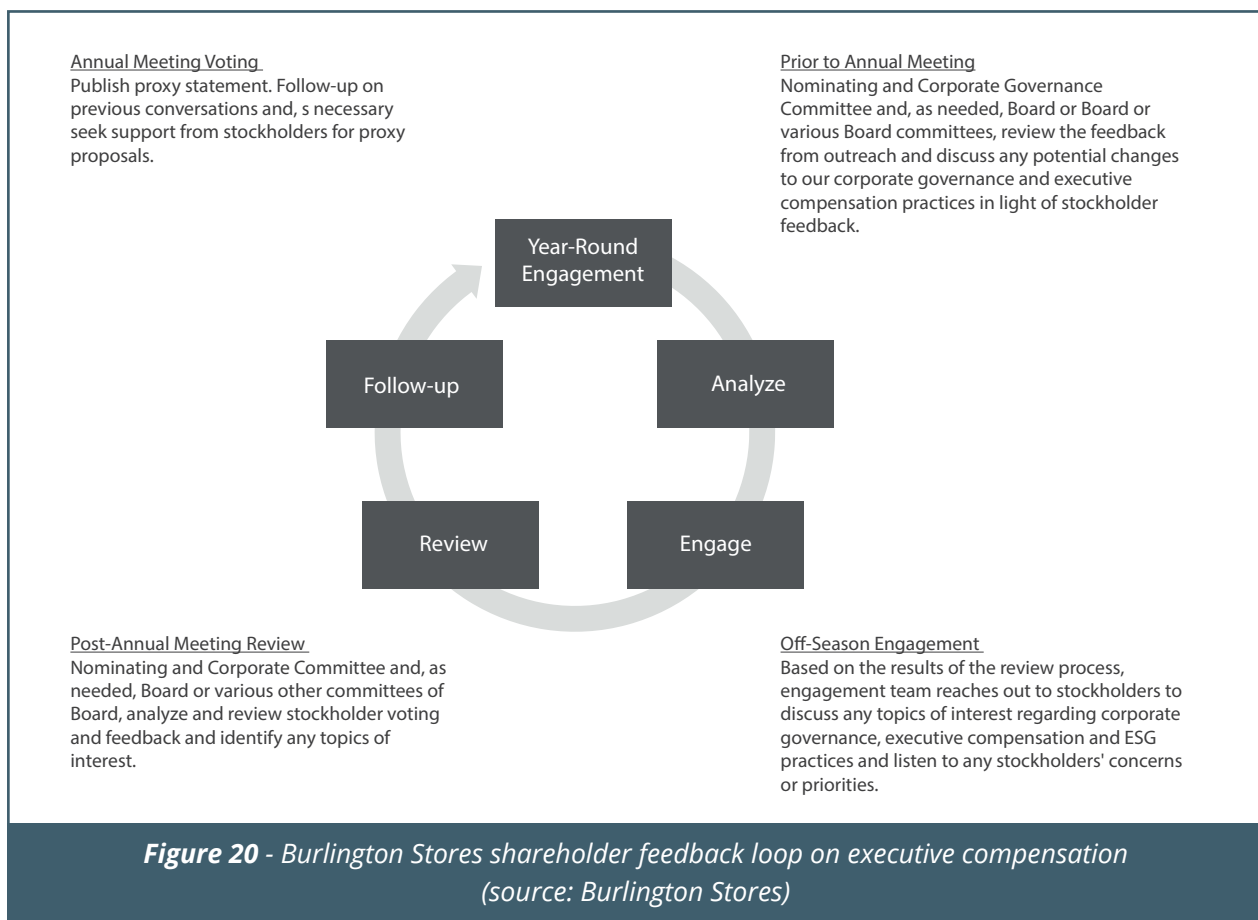


But the performance element is in most cases predominantly, if not completely, skewed to financial performance, even if there is explicit linkage to ESG factors. As already flagged, H&M is a good example. ESG is a factor in both the annual cash incentive element and the longer-term share based incentive programme. However for this to be triggered it first requires an operating profit threshold to be cleared. Faced with a conflicting financial/ESG dilemma, it would appear that favouring the financial component is encouraged.

SAY-ON-PAY: WORRYING SUPPORT FOR THE STATUS QUO

Large, listed corporates actively engage with the large institutional shareholders, both existing and potential owners. Structure and size of executive remuneration is a common topic, particularly in the US where Section 14A of the Exchange Act, requires companies listed in the US to ask stockholders to approve, on an advisory basis, the compensation of Named Executive Officers (NEOs). This is commonly referred to as 'Say-on-Pay'.

The Burlington Stores feedback loop, as shown in Figure 20, succinctly summarises this process. Burlington Stores has a sustainability policy with explicit goals. However when it comes to NEO compensation, its pay-for-performance structure has no link to performance related to sustainability matters. Despite this lack of linkage it achieves a 96% shareholder 'approval' rating (96% of shareholders voting) for its NEO remuneration structure. Given the lack of a link we find such a high positive vote surprising.

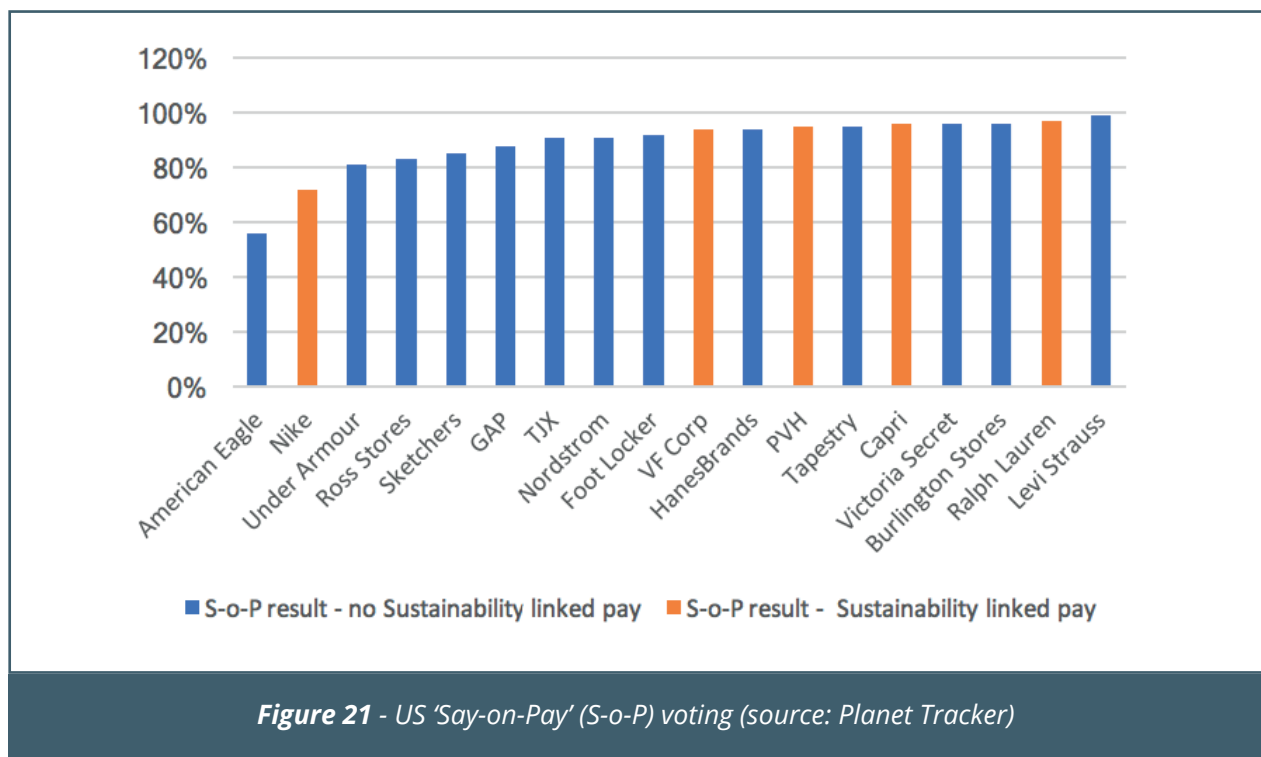


Foot Locker Inc. has a similar say-on-pay approval rating of 96%, suggesting it must be doing something right. As detailed on page 37 of this report it certainly makes a lot of the right noises on sustainability and it has *"a pay-for-performance philosophy that aligns compensation payouts with the achievements of our annual operating plan and long-term strategy"*.

As part of this, part of the annual cash incentive plan is linked to what the company calls NPS²: a metric used to measure customer experience and predict future business growth, which is calculated using the answers to questions posed to customers scored on a 0-10 scale. Footlocker believes “NPS is an ESG metric because it measures customer satisfaction and brand perception, which are dependent on factors that include ESG”. We think it is somewhat of a spurious argument.

Again we find the high approval score surprising, especially given the availability of more direct tangible ESG measures, and believe it is more indicative of ‘status quo’ shareholder voting.

This mismatch on ‘Say-on-Pay’ voting results and what we would view as a sensible linkage of pay to sustainability performance is clearly illustrated in Figure 21; there is no clear link. There appears to be no correlation between ‘Say-on-Pay’ voting results and having sustainability linked pay schemes.



That said, it is noteworthy that with the exception of Nike, the other companies with sustainability-linked performance pay occupy the top half of those in our sample and all score above 90% for say on pay approval. Disappointingly, Ralph Lauren, which has sustainability-linked pay based on clear quantitative targets with the results clearly communicated (the only US listed company in our top 30 with this ‘ideal’ mix) is kept out of the top spot in terms of support for its pay scheme structure as illustrated in Figure 21, by Levi Strauss, which does not.

At the other end of the scale, American Eagle has performance-linked pay, but no link within this to sustainability. At least the company ‘is committed to accelerating sustainability improvements across our operations’ and has scope to incorporate delivery on this into its 25% performance pay for non-financial factors. Shareholders need to start demanding action – see the section ‘What needs to happen next?’ for what they should be demanding.

2 Net Promoter Score (NPS) is a measure used to gauge customer loyalty, satisfaction, and enthusiasm with a company

And rather ironically, the lack of sustainability- and performance-linked pay is most prevalent in America, the home of Say-on-Pay voting. All the European companies in our sample, as shown in Figure 22, have already adopted performance-linked pay, even if some schemes require some improvement in our view.

		EUROPE	N. AMERICA	ASIA
PERFORMANCE PAY	LINKED TO SUSTAINABILITY	Adidas ✓ H&M ✓ Hermes ✓ Inditex ✓ Kering ✓ LVMH ✓ Puma ✓ Zalando ✓	Capri ✓ Nike ✓ PVH ✓ Ralph Lauren ✓ VF Corp ✓	
	NO LINK TO SUSTAINABILITY		American Eagle ⊗ Burlington Stores ⊗ Foot Locker ⊗ GAP ⊗ HanesBrands ⊗ Levi Strauss ⊗ Nordstrom ⊗ Ross Stores ⊗ Skechers ⊗ Tapestry ⊗ TJX ⊗ Under Armour ⊗ Victoria's Secret ⊗	ANTA Sports ⊗ Fast Retailing ⊗ Shimamura ⊗ Vipshop ⊗

*Figure 22 – Sustainability-linked compensation, by company geography.
(Source: Planet Tracker)*



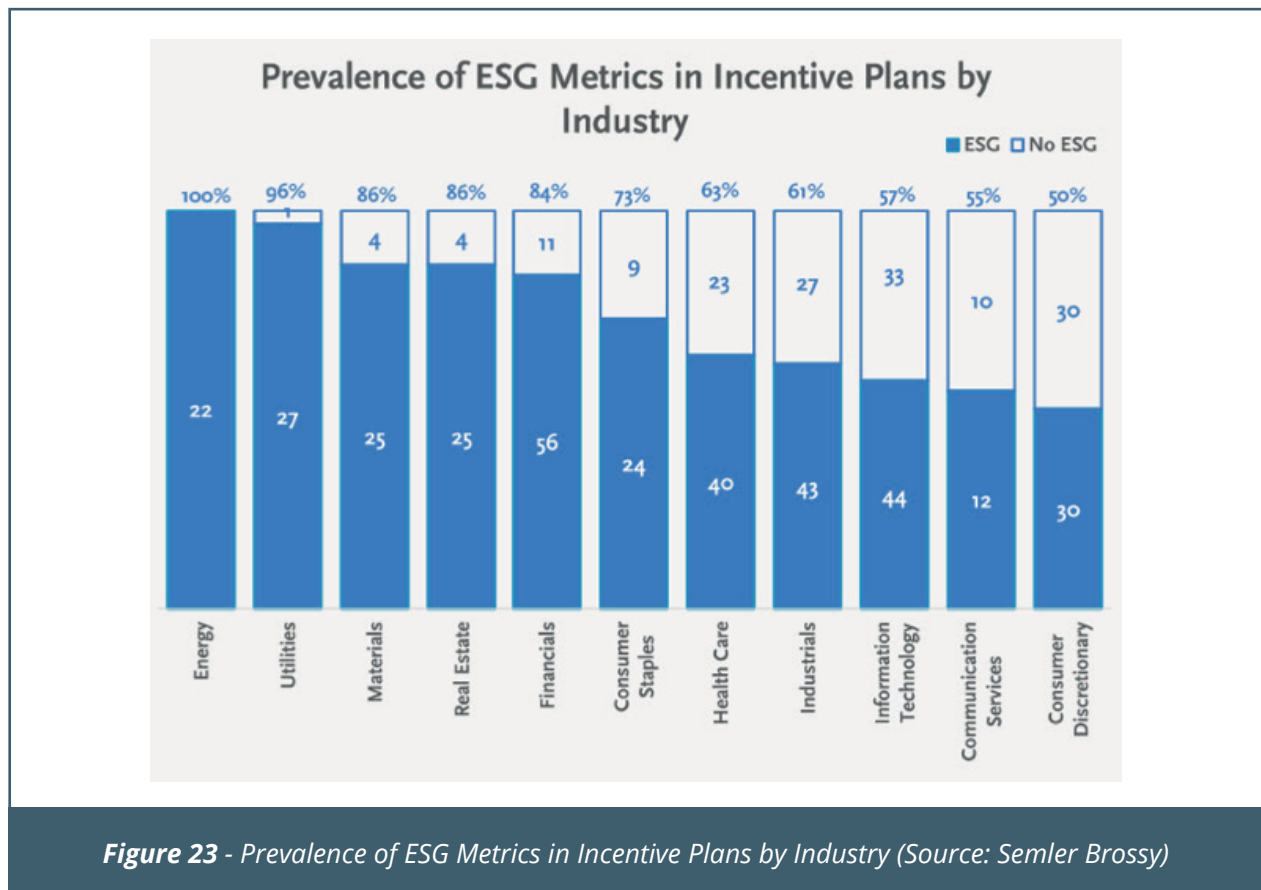
ESG+INCENTIVES REPORT 2022

Consultancy firm Semler Brossy publish an annual report covering the link between ESG items and executive compensation for companies in the S&P500.^{xxiv}

The results mirror our own work, which is global rather than US centric, in pointing to relatively weak linkage to ESG metrics, and in particular environmental elements.

In the Semler Brossy report, S&P 500 companies are classified into 11 sub-sectors. Energy, Utilities and Materials show the highest level of ESG and pay linkage at 100%, 96% and 86% respectively.

Consumer Discretionary, which includes textiles, apparel & luxury goods, ranks last of the sectors at 50% - see Figure 23. While the rate of positive change for the sector is the greatest, it is clear, as we outline in this report, that it still has a long way to travel.



Looking into the detail, the biggest area of underperformance for 'Consumer Discretionary' is in the linkage of environmental metrics: of the 60 companies in the sector, only five include compensation links to environmental factors. While these companies show greater linkage to human capital management ESG metrics, such as diversity and inclusion, with a score of 50%, they still rank at the bottom of 11 sub-sectors - see Figure 24.

Consumer Discretionary (n=60)

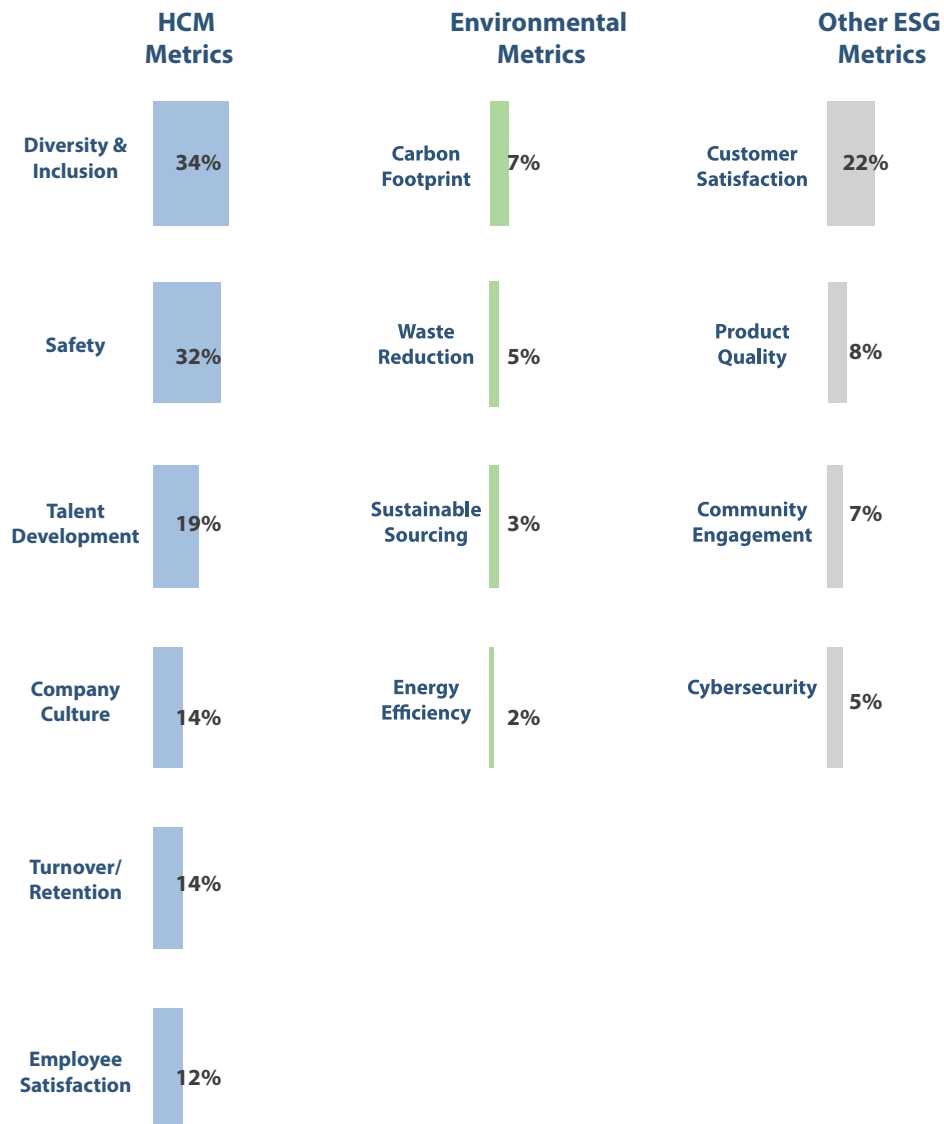


Figure 24 - Metric Prevalence Among Consumer Discretionary (Source: Semler Brossy)

UPSTREAM – A SIMILAR STORY, BUT EVEN WORSE

While our focus in this report has been on the consumer facing/brand companies, we have also reviewed the sustainability and compensation policies of the top five 'fibre manufacturing' companies in the Planet Tracker textile database. These upstream fibre manufacturing companies are all Asian.

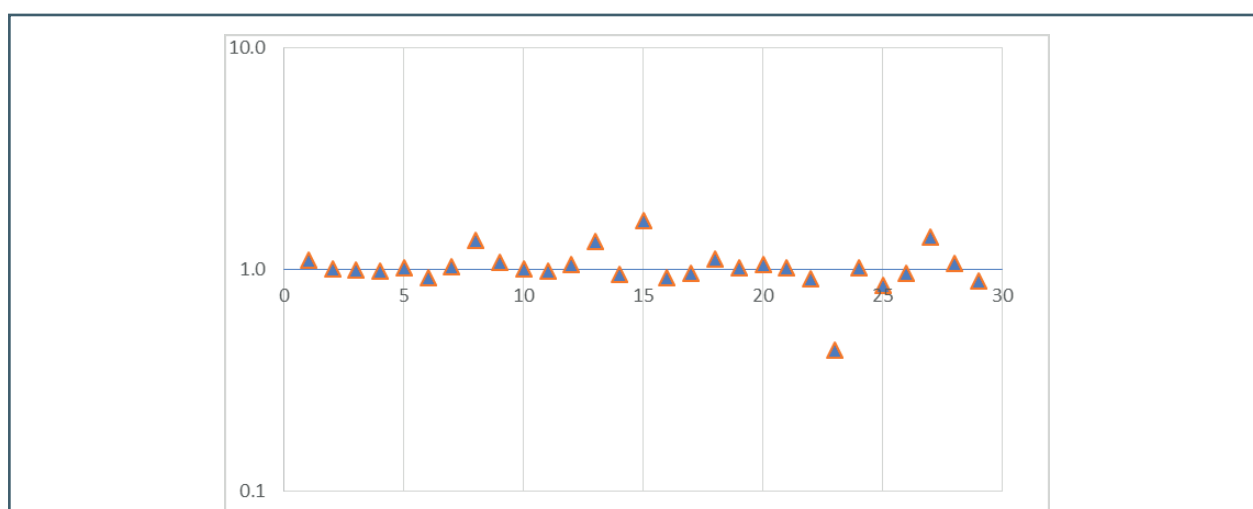
Company	Ticker	Country	Performance based Pay (PBP)	Sustainability Policy (SP)	Link of PBP to SP
Toray Industries Inc	3402.TKY	Japan	YES	YES	NO
Rongsheng Petrochemical Co Ltd	002493.SZE	China	YES	NO	NO
Hengyi Petrochemical Co Ltd	000703.SZE	China	YES	NO	NO
Tongkun Group Co Ltd	601233.SHA	China	???	NO	NO
Nan Ya Plastics Corp	1303.TWE	Taiwan	YES	YES	YES

*Figure 25 - Upstream fibre companies: sustainability and compensation
(source: Planet Tracker)*

Only one of the five, Nan Ya Plastic of Taiwan, has a clear link between sustainability and executive performance-based compensation. From the information we have reviewed this appears to be more qualitative in nature. At the other end of the scale, the three Chinese companies don't even appear to have sustainability policies, putting them well behind their domestic consumer facing/brand peers.

INVESTOR CALL TO ACTION

The companies analysed in this report are predominantly equity funded. This is clearly illustrated in Figure 26 where the ratio of enterprise value (equity market capitalisation plus net debt funding) to equity market capitalisation in the majority of cases is near to 1.0x (the average of our 30 companies is 1.04x)...meaning there is little or no net debt (data as of 20 February 2023).



*Figure 26 - Enterprise value / Market capitalisation of the top 30 companies
(source: Planet Tracker)*

We have therefore focused on the equity holders of these 30 names as we believe these have the greatest relevance and leverage when it comes to driving positive change.

Family/founder owners - appear to support sustainability linked compensation

11 of the 30 companies we examined have significant family/founder ownership. This can be over 50%, as is the case at both Inditex and Hermes.

Eight of these are companies that occupy our 'green zone'; companies that have a link between performance-based compensation and sustainability. These are H&M, Inditex, Hermes, Kering, Zalando, Puma and Adidas.

Equally noteworthy, none of the companies that occupy our 'red zone' - companies that have compensation and sustainability policies, but no hard published targets for sustainability performance - have significant family/founder ownership.

Top 20 institutional shareholders - in a position to influence positive change

We have identified the top 20 institutional investors in the 30 companies examined in this report – see Figure 27 (Data as of 20 February, 2023).

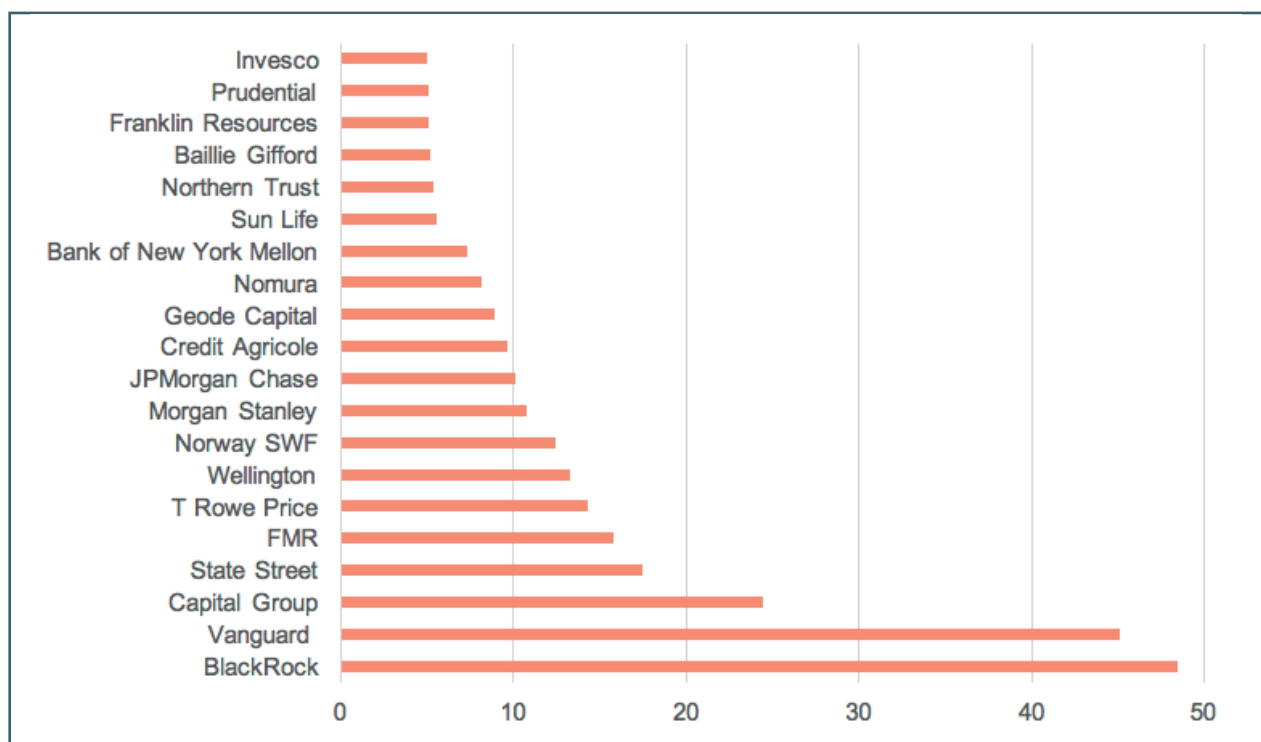


Figure 27 - Top 20 institutional investors, USD billion. (Source: Planet Tracker).

These 20 investors have a combined USD 278 billion invested in the 30 companies (as of 20 February, 2023) and they account on average for 29% of the free float. These are material numbers and suggest real ability to influence compensation strategy.

Ownership analysis - widespread

A more detailed 'who-owns-what' analysis shows that each of the Top 20 investors have positions in a significant majority of the companies: eight of the 30 companies are owned by all twenty investors / eight of the investors own all 30 companies.

Amongst those top 20 investors, Ballie Gifford owns the fewest names at 12 followed by Capital Group at 14. Again indicative of widespread ownership...and ability to influence.

In terms of who owns what, we note a very slightly higher ownership (an average of 19 out of 20 investors) in our 'green zone' companies that have a link between sustainability and compensation. The 'other zone' companies that don't have a link average 18 of the top 20 investors as shareholders. Both are large numbers, but adding one more investor of this size can make a difference to the share price...so companies should take note.

Institutional Investor	Foot Locker Shimamura Skechers Victoria's Secret Vipshop					Anta Sports Burlington Stores Nordstrom Ross Stores					American Eagle Fast Retailing Gap Hanes Brands Levi Strauss Tapestry TJX Under Armour					Capri H&M Inditex LVMH Nike PVH VF Corp					Hermes					Kering Ralph Lauren Zalando Puma Adidas					TOTAL
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	
Black Rock	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
Vanguard	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
Capital Group	.	.	4	4	.	.	4	4	.	.	4	.	4	.	4	.	.	.	.	4	4	4	4	.	4	4	4	.	.	4	14
State Street	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
FMR	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	.	4	4	4	4	4	4	4	4	4	28
T Rowe Price	4	.	4	4	4	.	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	28
Wellington	4	4	4	4	4	4	4	4	4	.	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	28
Norway SWF	4	4	4	4	4	4	4	4	4	4	4	4	4	4	.	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	29
Morgan Stanley	4	.	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	29
JPMorgan Chase	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
Credit Agricole	4	4	4	4	4	4	4	4	.	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	28
Geode Capital	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
Nomura	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
Bank of NY Mellon	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
Sun Life	.	4	4	4	4	.	4	4	4	.	4	4	4	.	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	26	
Northern Trust	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
Baillie Gifford	.	4	.	.	4	4	4	4	.	.	4	.	.	.	4	.	.	.	4	4	.	.	4	4	.	4	.	4	.	12	
Franklin Resources	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	.	4	4	4	4	29
Prudential	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	.	4	4	4	4	4	4	4	4	4	4	4	4	4	4	29
Invesco	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	4	30
TOTAL	20	17	18	18	20	20	19	17	20	20	19	17	18	18	20	18	16	17	18	20	16	18	18	20	17	19	19	19	17	550	

Figure 28 - Top 20 investors, who owns what (Source: Planet Tracker)

What needs to happen next?

The 20 top institutional investors are a who's who of 19 high profile investment firms and one sovereign wealth fund. As detailed in Figure 20 - Burlington Stores shareholder feedback loop on executive compensation – the views of these significant shareholders are actively solicited by corporates. We believe these shareholders need to:

- 1) **Require companies to put the building blocks in place that support the introduction of sustainability linked executive performance pay.** This includes:
 - the setting and clear communication of sustainability targets that align with or better the Paris Agreement goals.
 - basing these targets on scientifically justifiable metrics and have these targets and delivery against them independently verified.
 - reporting clearly, at least annually, on progress against these targets.
- 2) **And then require these companies to introduce sustainability-linked compensation. Features should include:**
 - quantitative targets required to trigger at least part of the compensation.
 - clear communication of these targets, which should incorporate an annual element.
 - clear and timely reporting of annual performance against targets.
 - material amounts of pay for delivery / penalty for non-delivery.
 - standalone structure (ie not subject to delivery on financial and other targets).

COMPANIES

IN ALPHABETICAL ORDER

We have made explicit comments on the companies included in our analysis. These have been done to help give a greater understanding of the differences, complexities and issues being faced. They nearly all point to the need for improvement when it comes to linking NEO compensation to sustainability (pay-for-performance) and wider ESG issues.

Adidas

Adidas ticks all the boxes on our check list for sustainability linked pay. It has a clear ambition that 90% of its articles will be sustainable by 2025. It defines articles as sustainable when “they show environmental benefits versus conventional articles due to the materials used, meaning that they are – to a significant degree – made with environmentally preferred materials”.^{xxv} 20% of its long-term incentive plan (LTIP) is linked to achieving clearly defined annual milestones along this pathway to 90% by 2025. (**Adidas – best in class example**).

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Adidas	P	P	P	P	P	P	P

Figure 29 - Adidas pay-for-sustainability summary (source: Planet Tracker)

Adidas’ incentive scheme is structured with the aim of LTIP being the largest component at 45%. It does however also pay an annual cash performance related bonus which should if targets are met account for a further 25%. This cash element consists of two financial criteria (30% each) and two non-financial goals (20% each). Sustainability is one of the non-financial contained on published list of 16 possible categories. This gives scope for further linkage and increased materiality of sustainability in compensation, but unlike the LTIP scheme the actual linkage and the presence of quantitative targets is opaque.

American Eagle

We view American Eagle’s sharp drop in say-on-pay approval rating to 56% for 2020, at the **bottom end of the US companies in our sample**, as more linked to compensation policy changes during Covid (it was 90% plus pre-Covid) rather than a message from shareholder on their disapproval of a lack of a link between performance-based pay and sustainability.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
American Eagle	P	P	P	⊗	⊗	⊗	⊗

Figure 30 - American Eagle pay-for-sustainability summary (Planet Tracker)

“AEO is committed to accelerating sustainability improvements across our operations...We have a lot of work to do to reach our sustainability goals...We’re not there yet, but we’re on our way”^{xxvi}.

The company, like nearly all others, has a performance based annual cash bonus component. The aim is that this accounts for 26% of CEO and Chairman total compensation. Performance is judged against both financial (75%) and non-financial (25%) goals. The non-financial goals link into the company’s “Real Power. Real Growth.” policy.

Three specific sub-goals are disclosed which incorporate ‘power of people’, ‘power of brands’ and ‘power of operations’. Alas there appears to be no room on the rack for sustainability. This despite ‘climate & energy’ appearing as the most important factor to stakeholders and the second most important factor in relevance to business success in the company’s published materiality matrix.^{xxvii}

Anta Sports

From its Chinese origins, Anta has become an increasingly global company and now owns a number of international sport brands including Fila, Descente, Salomon, Arc'teryx and Wilson amongst others. Its latest annual sustainability report stresses: *"we continue to attach importance to environmental protection and ecological progress. We always adhere to integrating sustainability into the Group's operations and decision making and strive to create greater value with a lower impact on the environment"...* *"we attach great importance to the potential impact of ESG-related risks and opportunities"...* *and..."we will integrate our key ESG performance indicators as the KPI for key departments of the Group, so as to spur the achievement of our ESG goals"*.^{xxviii}

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Anta Sports	P	P	⊗	⊗	⊗	⊗	⊗

Figure 31 - Anta Sports pay-for-sustainability summary. (Source: Planet Tracker)

The group is has stated it is committed to achieving carbon neutrality by 2050^{xxix} and provides annual disclosure on GhG emissions, GhG intensity, waste production and water usage, and also has a number of 2030 objectives including Net Zero emission in self-owned operating facilities, zero use of virgin plastics in self-owned operating facilities and zero landfill of self-generating production waste. While all positive, **we cannot observe shorter-term targets**. This may partially explain the lack of executive compensation linked to sustainability delivery.

Burlington Stores

For Burlington **sustainability isn't currently a feature when it comes to performance-linked pay**.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Burlington Stores	P	P	⊗	⊗	⊗	⊗	⊗

Figure 32 – Burlington Stores pay-for-sustainability summary. (Source: Planet Tracker)

Potentially, a first step towards incorporating sustainability would be the introduction of independently verified science-based targets. These, akin to a number of other US domestic businesses, are currently missing. It's 'sustainability 2.0' strategy^{xxx} is at least a step in the right direction. Climate has been identified as a material risk for external stakeholders, if not for the business itself, and targets have been set for reduction in Scope 1 and 2 GhG emissions (-60%) and renewable energy consumption (-2%) by 2030 versus a 2016 base line. Most recent figures show achievement levels of 44% and 9% respectively.

Capri Holdings

Owner of the Versace, Jimmy Choo and Michael Kors brands, Capri has **introduced its first CSR performance criteria linked compensation structure for FY2023. 10% of executive incentive cash compensation will be linked to “individualized ESG goals”**.^{xxxii} The company states these goals “will hold our leaders accountable for reducing the impact our operations have on the environment, as well as to incentivize our management to promote a more diverse and inclusive workforce while continuing to give back to communities and people in need”.^{xxxiii} We view the timing as interesting, as it follows approval in 2022 of its Science Based Targets covering Scope 1, 2 and 3 emissions by SBTi.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Capri	P	P	P	P	⊗	⊗	⊗

Figure 33 - Capri pay-for-sustainability summary. (Planet Tracker)

While these ‘goals’ will be derived from the company’s CSR strategy,^{xxxiii} there are lots of elements that at this stage aren’t clear. These include: whether the goals will be qualitative or quantitative, whether specific targets and achievements against these will be disclosed, and the relative weightings of the areas mentioned (environment/ D&I/community).

Assuming an equal split, based on a starting total of 10% of c25% (cash incentive/total remuneration), would give an implied element linked to environment sustainability of less than 1%...not particularly material.

Capri Holdings has put the shoe on and taken a step forward. Now for the next step(s), thereby sidestepping any potential accusations of greenwashing.

Fast Retailing

Japan’s Fast Retailing has adopted clear GhG goals, recognised as such by the Science Based Target initiative, something that **makes it stand out relative to the other Asian companies covered in this report.**

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Fast Retail	✓	✓	✓	⊗	⊗	⊗	⊗

Figure 34 – Fast Retail pay-for-sustainability summary. (source: Planet Tracker)

Despite this, and a performance-based pay structure with both short-term and long-term elements, there is no clear link between pay and achieving sustainability goals.

Foot Locker

"Sustainability and protecting the environment are priorities"^{xxxiv} to Foot Locker. Annual cash incentives account for c.20% of overall compensation and these are paid based on pre-tax income performance on Net Promoter Score (NPS), which the company feels is a good reflection of their ESG performance. A 96% say-on-pay approval rating, which is towards the top of the range, would suggest shareholders feel this is a well-designed scheme.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Foot Locker	P	⊗	⊗	⊗	⊗	⊗	⊗

Figure 35 – Foot Locker pay-for-sustainability summary. (Source: Planet Tracker)

We question the use of Net Promoter Score (NPS) as an ESG metric. NPS is an independently produced score that measures customer satisfaction and brand perception, or in the words of Foot Locker "a metric used to measure customer experience and predict future business growth".^{xxxv} We like hard, independently verifiable numbers. We just question whether this is the right one to be using when linking pay to ESG performance, particularly environmental/sustainability which Foot Locker emphasises so clearly as being of vital importance to it. **To us this smacks of an attempt at greenwashing, or more specifically greenlabelling (see our note – [The Greenwashing Hydra](#)).**

GAP

GAP is a good example of clear sustainability data, both in terms of targets and progress relative to these targets. These include: Reduce Scope 1 and 2 GhG emissions by 90% from a 2017 baseline (64% in 2021), Reduce Scope 3 greenhouse gas (GhG) emissions from purchased goods and services by 30% from a 2017 baseline (25% in 2021), Source 100% renewable energy for our company-operated facilities globally (37% in 2021), Source 100% of cotton from more sustainable sources (79% in 2021), and Source at least 45% of polyester from recycled sources (rPET). Despite such clarity in purpose there is no link between NEO remuneration and these environmental goals.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
GAP	P	P	P	⊗	⊗	⊗	⊗

Figure 36 - GAP pay-for-sustainability summary. (Source: Planet Tracker)

As outlined in its 2022 proxy statement,^{xxxvi} ahead of its 2021 AGM, GAP invited its top 30 shareholders (not including members of the Fisher family), representing approximately 45% of its outstanding ownership at that time, to engage in discussion with it on a variety of ESG-related matters including on Executives' compensation. These shareholders subsequently gave GAP an 88% approval rating in its 2021 AGM say-on-pay vote. This suggests shareholders aren't yet placing an importance on linking sustainability and NEO compensation.

Hanes Brands

Hanes Brands (Hanes) has signed the Science-Based Targets Call to Action Commitment Letter. By 2030 it is committed to: a 50% reduction in Scope 1 & 2 emissions, a 30% reduction in Scope 3 emissions, a 25% reduction in energy use in our owned facilities, the use of 100% renewable electricity in our owned operations through direct investment and renewable energy credits, where reasonably possible, and a 25% reduction in water use in our owned operations. As of 2021, reductions of 11% on emissions, 17% energy usage, and 8% on water usage had been achieved. Use of renewable energy or renewable energy credits stood at 48%. Clear targets and clear reporting of progress.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
HanesBrands	P	P	P	⊗	⊗	⊗	⊗

Figure 37 – Hanes Brands pay-for-sustainability summary. (Source: Planet Tracker)

Hanes also emphasises a pay-for-performance culture, with 89% of CEO pay 'at-risk', or in other words dependent upon performance. There are three goals for triggering the short-term cash incentive scheme and two goals for the long-term share-based scheme. Disappointingly, **all five goals are financially based.**

H&M

In September 2022, the SBTi verified H&M's goals to reduce its absolute emissions by 56% by 2030 and achieve net-zero by 2040. H&M's executive compensation consists of an annual basic wage and short and long (five-year) incentive schemes. These incentive schemes have four equally weighted targets: i) total sales, ii) operating profit, iii) fulfilment of the objectives in the various areas of the business plan, which include sustainability, and iv) assessment of leadership and compliance with values.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
H&M	P	P	P	P	⊗	⊗	⊗

Figure 38 – H&M pay-for-sustainability summary. (Source: Planet Tracker)

So we have a reference to sustainability, but **no real idea of how important this is vis-à-vis the 'objectives in the business plan' and no guidance on what is actually being measured and whether this is qualitative or quantitative.** Furthermore, there is a threshold value for the second parameter, i.e. operating profit, which means that if this value is not reached then no short-term variable remuneration will be paid regardless of target fulfilment for the other three parameters. In effect saying we care about sustainability unless it is at the detriment of short-term operating profit.

Hermes

Hermes has a CSR criterion in its variable pay component, with scope for variable pay to be increased by up to 10%. It uses one quantitative environmental criterion, accounting for a third of the potential uplift: “decoupling between business growth at constant scope and exchange rates and the evolution of industrial energy consumption”. **Any actual quantitative target used to assess this measure are however difficult to ascertain and clarity is further reduced by the combination with the two equally weighted qualitative social criteria: “actions implemented in favour of the groups local integration in France and throughout the world, excluding major cities” and “initiatives in favour of gender balance”.**^{xxxvii}

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Hermes	P	P	P	P	P	⊗	⊗

Figure 39 - Hermes pay-for-sustainability summary. (Source: Planet Tracker)

Inditex

Progress in ESG (Environmental, Social and Governance) goals and environmental commitment are relevant levers of Inditex’s compensation scheme, which consists of both performance-based annual and long-term incentives.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Inditex	P	P	P	P	⊗	⊗	⊗

Figure 40 - Inditex pay-for-sustainability summary. (Source: Planet Tracker)

For the short-term component, sustainability factors are one of four areas, the others being corporate governance, diversity and compliance, that combined account for 15% of the payment. For sustainability, eight sub-goals are listed for FY2022, but detail of targets is lacking:

- (i) Increase in the number of sustainable items, measured against the following parameters: a. More sustainable raw materials: cotton, linen, polyester and cellulose fibres. b. Garments featuring the Join Life sustainability label.
- (ii) Number of audits and control of discharges at dyeing facilities (wet processes) within the scope of the Zero Discharge of Hazardous Chemicals (ZDHC) Programme;
- (iii) Percentage of waste reduction in respect of waste generated at Inditex facilities (HQ, logistics centres and own stores) (Zero Waste);
- (iv) Percentage of packaging material collected to be recycled or reused in the supply chain (Green to Pack);
Percentage of internal consumption of renewable energy at Inditex facilities (HQ, logistics centres and own stores);
- (v) Progress in the roll-out of the “Reusable shopping bag” project;
- (vi) Progress in the elimination of single-use plastics from customer sales;
- (vii) Innovation projects related to textile recyclability. Despite the plethora of categories, no attainment targets or relative weightings are given.

A similar list of sustainability sub-goals exists in the long-term incentive scheme element. These account for a combined 25%; a material amount, but again the exact targets are opaque. Performance criteria include three items:

- (i) Sustainable product, measured as the percentage of sustainable garments.
- (ii) Waste management, measured as the percentage of Inditex facilities (headquarters, factories, logistics centres and stores) where a waste management system for an appropriate waste recycle, recovery and processing is in place, preventing it from ending up in landfill.
- (iii) Decarbonisation, measured as the reduction in the volume of greenhouse gas emissions in the company's own operations (Scope 1 and 2). Again, no attainment targets or relative weightings are given.

This combination of a catchall list and opaqueness of what is required and achieved appears to potentially be leaning towards a greenwashing exercise.

Kering

Kering introduced ESG performance linked executive officer compensation in 2016. In 2022 its variable cash and variable share award construct had ESG components accounting for 30% and 20% respectively. Within these ESG amounts environmental sustainability accounts for 10% (one-third of ESG) of the variable cash component and biodiversity accounts for 10% (half of ESG) of the variable share award. With variable compensation accounting for 84% of the executive chairman's pay and 80% for the CEO these are material/meaningful amounts and as such should be applauded.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Kering	P	P	P	P	P	1/2	⊗

Figure 41 - Kering pay-for-sustainability summary. (Source: Planet Tracker)

All the ESG items have a list of targets that are required. Both the environmental and biodiversity elements include both quantitative and qualitative goals. That said, **the quantitative elements are linked to multi-year goals, with no detail on annual attainment level required.** This clearly leads to a level of opaqueness. All we know is that for 2021 all the ESG targets, including environmental, were 100% reached.

Levi Strauss

Levi Strauss (Levi's) achieves a 99% say-on-pay approval vote; a high amongst our sample companies who poll on this. In Levi's own words, *"an indication that the principles of our executive compensation program are strongly supported by our shareholders"*.^{xxxviii} It has adopted Science Based Targets for climate change and also makes Fortune's annual list of the World's Most Admired Companies, ranking second among apparel companies globally.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Levi Strauss	P	P	P	⊗	⊗	⊗	⊗

Figure 42 - Levi Strauss pay-for-sustainability summary. (Source: Planet Tracker)

If targets are met, annual cash incentive payments account for 20% of CEO compensation and 25% on average for other NEOs. Half of this is linked to performance against financial targets and half on individual targets. These can vary but a) are qualitative and b) don't as far as we can ascertain include any elements linked to sustainability.

More specifically, for 2021 the individual targets are *'focused on three key strategies: (1) brand led; (2) direct-to-consumer (DTC) first; and (3) diversified portfolio. These strategies are supported by three "how to win" choices: (1) digital transformation; (2) operational excellence; and (3) financial discipline'*. **Another example putting profit (blue ink) before sustainability (green).**

LVMH

60% of variable compensation (cash) and 90% of bonus performance (shares) relates to achievement of defined financial goals. The remaining 40% (cash) relates to "qualitative criteria" which are strategic, managerial, organizational or operational in nature, and concern in particular societal responsibility and sustainable development. For the 10% share award, certain extra-financial targets under the Group's corporate social responsibility policy need to be met in 2023. There is little if no clarity on the when, how, or what the goals are, which relative to the other European fashion houses is disappointing.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
LVMH	P	P	P	P	⊗	⊗	⊗

Figure 43 - LVMH pay-for-sustainability summary. (Source: Planet Tracker)

This opaqueness has been picked-up by institutions and raised in the form of written AGM questions. For example in 2022 DWS asked *"When does LVMH plan to disclose specific ESG criteria linked to remuneration as well as to individual key performance indicators and corresponding percentage of variable pay linked to compensation for short-term and long-term?"*. LVMH's answer, *"some of the non-financial performance conditions set by the Board of Directors are tied to the results of the LIFE 360 program adopted in 2021. Other conditions relating to strategic, managerial or organizational aspects cannot be specifically disclosed for confidentiality reasons in view of their competitive sensitivity"*.^{xxxix}

Nike

Following a shift to a more stock based incentive structure with the introduction of performance based restricted stock units (PSUs), Nike in 2021 added a 'People & Planet' modifier. This can adjust the PSU grant up or down by 20% (a big swing factor making it material (positive) for both positive and negative results, but subject to both the 200% maximum earnout and the 100% cap if Absolute Total Shareholder Return (TSR) is negative). The 'People & Planet' modifier is based on a holistic assessment of the Company's performance with respect to employee engagement and inclusion, leadership diversity and sustainability.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Nike	P	P	P	P	⊗	⊗	⊗

Figure 44 - Nike pay-for-sustainability summary. (Source: Planet Tracker)

The net result is that sustainability has been added to the pay for performance scorecard, but the level of inclusion (how much of the 20% is sustainability?), what is actually covered (targets?) and what the specific results are for **the sustainability element is opaque. This could suggest greenwashing / and could be part of the reason Nike gets such a low shareholder say-on-pay rating.**

Nordstrom

While the company has reported its energy use and Scope 1 and 2 emissions since 2015 it has yet to establish a science based target to reduce Scope 1, 2 and 3 emissions. Completing this SBT process is however a stated goal. Outside of this it does have other sustainability linked goals including reducing single use plastic use by 50%, 15% of product qualifying as sustainable style and 50% sustainable material usage for house made products.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Nordstrom	P	P	⊗	⊗	⊗	⊗	⊗

Figure 45 - Nordstrom pay-for-sustainability summary. (Source: Planet Tracker)

85% of CEO pay in 2021 was performance-linked, indicating a strong pay for performance culture. However, perhaps unsurprisingly, given the above comments on the SBTs being a work in progress, there is no link within this to performance on sustainability matters. Rather **all performance metrics, similar to a number of the US names in our sample, are financial in nature.**

Puma

Perhaps unsurprisingly, Puma is the only company, aside from Adidas (both are German sports companies founded by members of the same family), that in our sample **ticks all the boxes. This is worthy of positive recognition and is in keeping with a strong and well communicated strategy on sustainability.**

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Puma	P	P	P	P	P	P	P

Figure 46 - Puma pay-for-sustainability summary. (Source: Planet Tracker)

That said, those ticks, in our view, aren't as categorical as they are at Adidas. In particular we would flag the following caveats:

- The goals are disclosed retrospectively – for 2021 in the 2022 AGM notice.^{xi}
- The goals are complex, covering eight areas in 2021.
- The majority appear to be quantitative in nature, but not all
- Achievement of target described as attained for all, but with no granularity...

...and probably most significantly, the level of compensation leverage is pretty immaterial; the combined eight goals contribute 5% to the short-term incentive cash bonus. The aim is that the cash bonus accounts for 20-25% of CEO total compensation and 27-33% for other executive officers. Taking a simple average of these two ranges implies a target of 26%. On this basis sustainability linked pay accounts for just 1.3% (5% x 26%) of total compensation.

PVH

PVH, owner of the Calvin Klein and Tommy Hilfiger brands, has had a 'fashion forward' strategy in place since 2019 which includes clear sustainability linked goals. It also operates a pay out to NEO's based on Strategic Performance Criteria (SPC): *"This component encourages and rewards the NEOs' efforts to improve performance, develop and advance associates under their leadership, and make progress against our Forward Fashion corporate responsibility commitments, as well as take other actions that may have a negative earnings impact in the year taken but are nonetheless considered beneficial"*^{xii}. This provides the Compensation Committee some flexibility to modify pay outs (up or down) by a maximum of 25% of a NEO's base salary.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
PVH	P	P	P	P	⊗	⊗	⊗

Figure 47 – PVH pay-for-sustainability summary. (Source: Planet Tracker)

The actual structure, aside from not visibly being linked to quantitative targets, also has a number of issues, namely:

- i) that if the upper end financial targets are met, and maximum payout triggered, then the ESG performance incentive isn't paid out,
- ii) the relatively small value compared to overall compensation, with base making up 11% of the CEO's 2021 remuneration a 25% addition would amount to less than 3% change, and
- iii) general opaqueness. **There is no indication of how the NEO's are assessed nor the amount of SPC payment actually attributed to sustainability linked performance.** On the plus side, there is scope for a downward adjustment of 25% which helps de-link financial and sustainability related performance.

Ralph Lauren

First introduced for FY2022, Ralph Lauren applies a modifier linked to performance against defined ESG criteria. These criteria include five sustainability and five citizenship elements. The modifier has the scope to decrease or increase the short-term incentive plan pay out upwards or downwards by 5% or 10% - essentially a 20 percentage point swing.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Ralph Lauren	P	P	P	P	P	1/2	⊗

Figure 48 – Ralph Lauren pay-for-sustainability summary. (Source: Planet Tracker)

However, where the short-term incentive scheme has already reached its 200% of target cap, the upward adjustment, even if the various sustainability and citizenship criteria are met or bettered, is not applied...thereby removing the incentivisation of outperformance. This exact state of affairs occurred in its very first year of adoption. Conclusion: **a better than average link between sustainability and pay, but with a structure flaw where financial performance trumps everything else.**

Ross Stores

We home in on one point in Ross Stores' (Dress for Less) compensation philosophy and objectives statement. Namely, that the executive compensation program is designed to "differentiate executive pay to recognize critical skills, contributions, and the current and future potential impact on the organization's success".^{xliii} Recognising sustainability contributions would seem a prime candidate. However it does not feature, with Ross stores instead focusing on financial and share price performance as drivers of its NEO compensation scheme. Rather passé and not very differentiated at all.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Ross Stores	P	P	⊗	⊗	⊗	⊗	⊗

Figure 49 – Ross Stores pay-for-sustainability summary. (Source: Planet Tracker)

The company has set targets for GhG and waste reduction levels, and reports on the progress against these. So it has plenty of quantitative data to base compensation targets on. That said, it appears not to have taken the next step and converted these into independently verified science-based targets under the SBTi. **This places it behind the curve relative to the other US names in our sample.**

Shimamura

Japanese clothing and fashion chain store, Shimamura, has both a sustainability and executive remuneration policy. The sustainability element focuses primarily on waste reduction, although it does also include a purchase target of 20% for “sustainable” products and the use of 100% “sustainable” auxiliary materials”.^{xliii} There are however no further details on initiatives on / targets for tackling GhG emissions and as yet there is no sign-up to the SBTi.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Shimamura	P	P	⊗	⊗	⊗	⊗	⊗

Figure 50 - Shimamura pay-for-sustainability summary. (Source: Planet Tracker)

While executive remuneration contains performance linked compensation in the form of cash payments and stock awards, **there is no clear linkage between these payments and delivery on sustainability-linked goals.**

Skechers

The company does have a sustainability policy, but the **details are patchy with no obvious specific targets.** This lack of detail prompted the inclusion in the 2022 proxy statement^{xliiv} of a “stockholder proposal requesting the board of directors to issue a report for Net Zero climate transition plan”.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Skechers	P	⊗	⊗	⊗	⊗	⊗	⊗

Figure 51 - Skechers pay-for-sustainability summary. (Source: Planet Tracker)

The board recommended a vote against this on the grounds that “we do not believe it is responsible to commit to the Proponent’s requested actions without first completing the necessary foundational steps, many of which we initiated prior to receipt of the Proponent’s proposal. Specifically, we are working with energy and sustainability consultants to define an Environmental, Social and Governance (“ESG”) strategy tailored to our unique circumstances as a footwear and apparel brand operating worldwide. We plan to conduct an ESG materiality assessment to develop and to begin implementing a multi-year roadmap. We believe these actions will allow us to make more informed and responsible decisions about how to prioritize our efforts and allocate our resources in the future”.

Or in short, Skechers appears to be very behind the curve.

Tapestry

Tapestry owns the Coach and Kate Spade brands. Its claims its executive compensation scheme is designed such that the company is “also committed to taking actions that embrace our responsibility as a global fashion company to affect positive change for our people, our industry and the world at large. is focused on pay for performance and reflects governance practices that align with the needs of our business”.^{xlv} Like many other US entities, the company employs a compensation consultant and actively engages with shareholders. Shareholder say-on-pay approval rating is high at 95%.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Tapestry	P	P	P	⊗	⊗	⊗	⊗

Figure 52 - Tapestry pay-for-sustainability summary. (Source: Planet Tracker)

The governance practices that align with the needs of its business extends to equality, inclusion and diversity where there the company have introduced a 10% downward modifier to the annual cash incentive payment linked to not achieving Equity, diversity and Inclusion (EI&D) targets. The annual cash incentive accounts for c.20-30% of target remuneration, making achieving the DE&I targets worth 2-3% of total compensation.

Tapestry is part of the SBTi and has recently updated its targets: reduce absolute Scope 1, 2 and 3 GhG emissions to be -42.5% below FY2021 levels by FY2030 and achieve net-zero by 2050. It also has numerous other quantitative sustainability targets. Alas **sustainability appears not to make the grade when it comes to ‘the needs of our business’^{xlvi} with no pay for performance link between compensation and sustainability.**

TJX

TJX (owner of the TJ Maxx and Marshalls store chains) uses four metrics to determine performance-based compensation. All four are financial in nature with no reference/linkage to sustainability. We note a failed shareholder vote brought as far back as 2016 to introduce an ESG element to performance-based compensation.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
TJX	P	P	P	⊗	⊗	⊗	⊗

Figure 53 - TJX pay-for-sustainability summary (source: Planet Tracker)

With 91% say-on-pay approval rating in 2021 shareholders don’t seem too bothered about including sustainability targets.

Under Armour

Under Armour has an extensive and clearly defined set of targets aligned with its objective to “protect the home we share, always striving to leave our ‘home field’ better than we found it”.^{xivii}

These targets cover three areas:

- Reduce our GhG footprint and source renewable energy to reach Net Zero
- Advance low impact manufacturing and greener chemistry
- Source materials with lower impact

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Under Armour	✓	✓	✓	⊗	⊗	⊗	⊗

Figure 54 – Under Armour pay-for-sustainability summary. (Source: Planet Tracker)

It also has clearly defined diversity, equity and inclusion targets as part of its wider sustainability policy. These are included as a performance linked pay metric, with quantitative targets, and account for 20% of the cash performance-based bonus. While the inclusion of diversity equity and inclusion targets should be welcomed, unfortunately in contrast, the ‘home field’ targets are not included.

Under Armour also **adopts a profit over ‘sustainability’ attitude**: “the adjusted operating income goal must be met for the Net Revenue and Diversity, Equity & Inclusion performance metrics to be funded for pay out”.^{xiviii} Which means, no profit, no pay out for delivery on non-financial metrics.

VF Corporation

VF Corporation’s target for its CEO and CFO is that annual cash incentive (AIP) accounts for 20% of total compensation. Of this AIP, 80% of this is linked to enterprise goals (revenue/profit) and 20% linked to individual strategic goals. These include “Individual goals and metrics focused on progress against key enterprise, region and/or brand transformational programs, portfolio/function optimization, Inclusion and Diversity, and Sustainability goals”. It’s unclear how much of this 20% relates to sustainability, but relative to total remuneration the maximum must be 4% (20% x 20%), and realistically a lot less.

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
VF Corp	✓	✓	✓	✓	⊗	⊗	⊗

Figure 55 - VF Corp. pay-for-sustainability summary. (Source: Planet Tracker)

Actual targets relating to sustainability, including whether they are quantitative or qualitative, and attainment of these are not given. Overall achievement (i.e. how much of the 20% paid out) is given...but **shareholders are left with no idea as to whether any underperformance is in sustainability linked targets or in another completely unrelated area**. You would expect the owner of ‘outdoor’ linked brands like North Face and Timberland would be much clearer in how it operates its pay-for-performance programme.

Victoria Secret

A quick review of Victoria Secret's published materiality matrix reveals people factors being considered much higher risk than environmental ones. This relative importance manifests itself both in terms of sustainability policy and performance rated pay.

In terms of sustainability policy, the company published its first ESG report as recently as 2022. This was a first step in transparency with key metrics including carbon impact, workforce diversity, pay equity, and more. In the words of the company "our next step is to translate these priorities into VS&Co ESG efforts that are actionable and have measurable targets and goals".

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Victoria Secret	P	⊗	⊗	⊗	⊗	⊗	⊗

Figure 56 – Victoria Secret pay-for-sustainability summary. (Source: Planet Tracker)

Without measurable targets and goals it is no surprise that performance linked pay has no link to sustainability performance. There is however reference towards achieving the strategic plan – maybe this has a sustainability element, but at this stage it is unclear.

Vipshop

Vipshop is a Chinese online retailer (vip.com) that is listed on the New York Stock Exchange. Despite its listing status **we have been unable to identify a formal compensation policy and by default we cannot identify any link between compensation and performance related to sustainability.**

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Vipshop	P	⊗	⊗	⊗	⊗	⊗	⊗

Figure 57 - Vipshop pay-for-sustainability summary. (Source: Planet Tracker)

In 2021 Vipshop did assess its carbon footprint based on its business activities and spend data, in accordance with the GHG Protocol Corporate Account and Reporting Standards. It's total GHG emissions were 463,989 tons and it pro-actively works towards achieving the 30-60 Decarbonization Goal; China's version of the Paris Agreement.

Zalando

Zalando's remuneration scheme is skewed to long-term performance with a one-off grant given at the start of a contract accounting for 60% of target remuneration. Terms depend on the vintage of the grant, but encouragingly the most recent (awarded to its CFO appointed in 2021) vests based on achievement of two criteria: gross merchandise value and ESG targets. These ESG targets cover four environmental targets (combined 40% weighting of the ESG factor – equal weighting so 10% each):

- reduction of Scope 1 and 2 greenhouse gas (GhG) emissions by 80% by the end of the performance period against a 2017 base year
- the increase of the annual sourcing of renewable electricity to 100% by the end of the performance period
- the reduction of Scope 3 GhG emissions from private label products by 40% per million euros gross profit by the end of the performance period from a 2018 base year
- ensuring that 90% of suppliers of the company (by emissions covering purchased goods and services sold on its platform, packaging and last-mile-delivery) will have science-based targets by the end of the performance period

...and four diversity and inclusion targets (the remaining 60%, also equal weighted) until the end of the performance period...

- 40%-60% share of women in a Senior Contributor (SC)1 role
- 40%-60% share of women in a Senior Contributor (SC)2 role
- 40%-60% share of women in an Executive Contributor (EC)1 role
- 40%-60% share of women in an Executive Contributor (EC)2 role

	Sustainability policy	Explicit sustainability goals	Science Based Targets	Sustainability-Compensation link	Quantitative target(s)	Clear target disclosed	Clear annual performance
Zalando	P	P	P	P	P	P	⊗

Figure 58 - Zalando pay-for-sustainability summary. (Source: Planet Tracker)

Significantly, ESG factors are set up with a minimum expected target structure. Failure to achieve targets results in a downward adjustment (which Zalando term a 'modifier') of up to 20%...20% of 60% = 12% so material overall. However for just the environmental element the impact is lower at 4.8%, or 1.2% for each of the four criteria. A failure to achieve a goal in just one area is therefore reasonably immaterial. Despite this **we like the structure of needing to perform to avoid a penalty over the typical top-up for achievement structure.**

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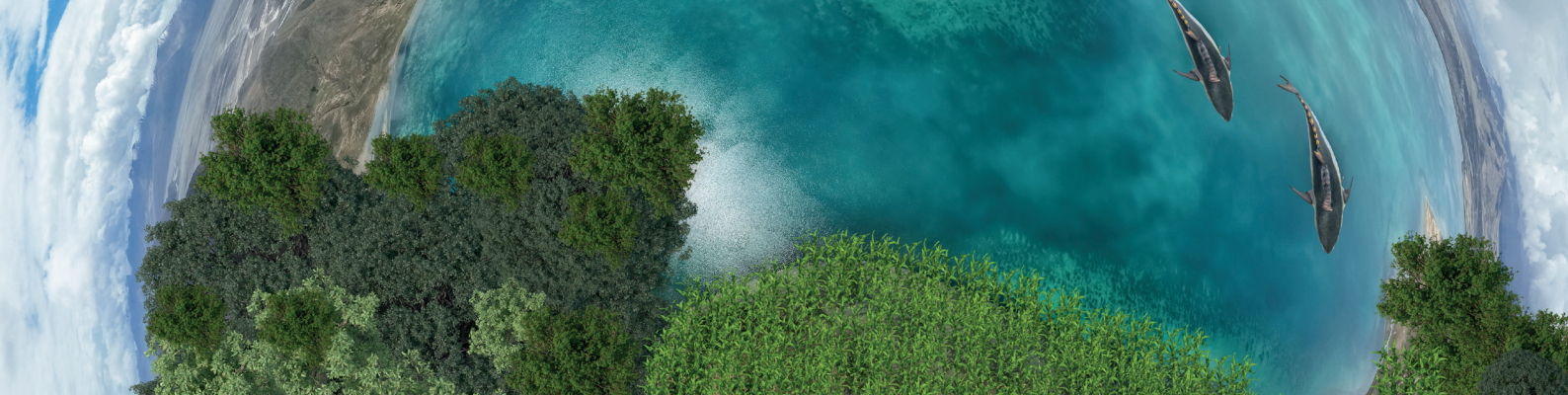


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Planet Tracker is a non-profit financial think tank producing analytics and reports to align capital markets with planetary boundaries. Our mission is to create significant and irreversible transformation of global financial activities by 2030. By informing, enabling and mobilising the transformative power of capital markets we aim to deliver a financial system that is fully aligned with a net-zero, nature-positive economy. Planet Tracker proactively engages with financial institutions to drive change in their investment strategies. We ensure they know exactly what risk is built into their investments and identify opportunities from funding the systems transformations we advocate.

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

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For further information please contact:
Nicole Kozlowski | Head of Engagement, Planet Tracker

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