



How investor engagement is critical to improving working conditions in the fashion industry

This week is Fashion Revolution Week, and in the 8 years since the collapse of the Rana Plaza factory in Bangladesh that sparked the movement for change, it has never felt more relevant. In a year when statistics around death and injury have become pervasive, this anniversary is an important time to reflect on the human stories in these terrible events.

It is also a year to reflect on the opportunities created by change. Social movements have gathered critical mass and made their voices heard. Companies have shown they can innovate, they can solve our greatest challenges, protect their employees, and engage with their communities.

Finally, lockdowns have reminded us all of our need for properly functioning economies.

We have written previously¹ about the need to integrate the real-world social and environmental impacts of our investee company actions into our investment decisions. We are strong believers in collaboration and its ability to magnify these positive impacts. Successful products, operations and outcomes are more likely when relationships exist as partnerships that can mutually benefit all parties. We can excel as investors if we bring a collaborative approach to our investment ecosystem and engagements with companies.

One area where the need for collaboration is clear is in the protection and promotion of workers' human rights. Poor worker conditions have long been a key issue in industries such as metals and mining, agriculture, and textiles. Too often overlooked, we believe employee issues are fundamental to all industries and material to long term value creation.

Unfortunately progress remains unacceptably slow. Recent high profile examples include: Deliveroo's IPO raising concerns around treatment of employees; Uber's value creation seemingly hinging on classification of their workforce as contractors or full employees; and the working conditions of Facebook's own moderators, who are subject to continual viewing of disturbing content with limited access to professional support².

Last year Boohoo, a UK fast fashion company, attracted concern around worker conditions in their suppliers' factories in the UK after the release of a damning NGO report. Issues that may have taken many years to filter into forecast earnings and stock price valuations are now having more immediate impacts: Boohoo's stock fell ~40% in the 2 weeks subsequent and are still ~16% off pre-crisis highs. While this may seem an abstract issue for the world of finance, in fact many of us are shareholders. Whether through ISAs, savings funds, or pensions, the value lost in these issues affect a great many of us.

Boohoo has acted, cutting over 400 companies from its supplier network, with a list of 78 approved manufacturers in Britain, down from an estimated 500³. The impact on Leicester is vast, with Boohoo prior to the scandal estimated to account for between 75-80% of Leicester's garment industry⁴. However, while unacceptable practices must be stopped, our colleagues' engagements in Bangladesh after Rana Plaza highlighted the risks in the 'cut and run' response to a crisis.

¹https://gibam.com/assets/ESG_Impacting_Impact_November_2019.pdf

² <https://www.theverge.com/2019/2/25/18229714/cognizant-facebook-content-moderator-interviews-trauma-working-conditions-arizona>

³ <https://www.boohooplc.com/sites/boohoo-corp/files/final-report-open-version-24.9.2020.pdf>

⁴<https://labourbehindthelabel.net/wp-content/uploads/2020/06/LBL-Boohoo-WEB.pdf>

We prefer a partnership model that works with suppliers and employees to protect jobs while implementing decent working practices. Rather than cutting suppliers, companies must work with them to understand what went wrong, and agree remediation plans to improve conditions. Guaranteeing supplier volumes and prices can avoid a further race to the bottom, and of course better auditing and transparency remains a key issue.

We believe direct engagement with companies can uncover these issues early, allowing them to be factored into our view of the sustainability of the company and their long term earnings forecasts. We believe a collaborative approach to engagement can deliver the changes we need to improve sustainability, deliver positive impacts and enhance value creation. Both of these tools are a core aspect of GIB's equity offering.

As sustainability investors, we try to consider a company within the myriad of relationships it has with all stakeholders, including regulators, suppliers, clients, and society, as these have a material impact on the financials as well as the world in which we live. Doing so requires the in-depth assimilation and understanding of extra-financial information and the partnerships involved, areas we continue to explore within our investment process. Fashion Revolution Week is a timely reminder of the human cost of some modern business models, and the opportunities created by changing them.



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The hallmarks of our approach are our specialist expertise, deep client relationships and ability to provide customised solutions that meet clients' individual investment objectives. This has driven our development of investment capabilities covering active and passive strategies, using sophisticated technology and data-driven insights to construct portfolios. With sustainability and stewardship at the heart of our business, our clients can always be conscious of the imprint and impact of their investments on the world, wherever they are.

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