

# Our Supply Chain

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We are building a digital platform with end-to-end visibility and transparency for customers and suppliers.



# Our Supply Chain

We are creating the supply chain of the future by developing new and innovative ways to deliver end-to-end supply chain and logistics solutions for global brands and retailers.

## Top five sourcing countries

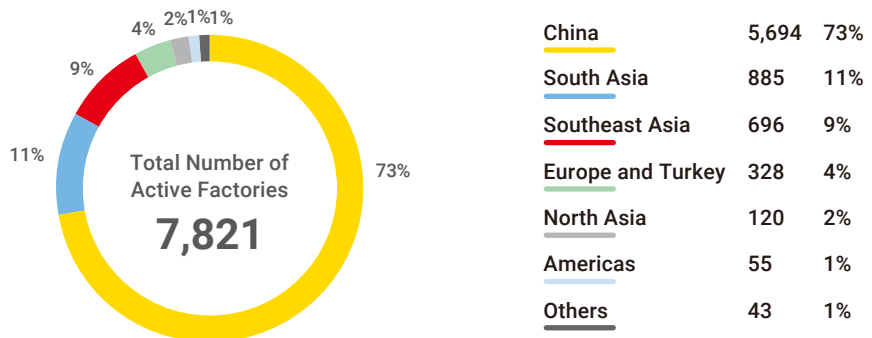
-  China
-  Vietnam
-  India
-  Bangladesh
-  Indonesia

We design, source and deliver a diverse range of products – including apparel, accessories, furniture and household products, among others – from a network of 10,000 suppliers in over 50 production countries, to over 2,000 customers<sup>1</sup> globally.

Our goal is to make life better for a billion people along the supply chain. We are enhancing visibility into our supply chain through digitalization and collaborating with suppliers and other industry stakeholders to improve industry standards and practices at scale. Our intended impact is to have all the products that pass through our supply chain, regardless of the end customer, production country or factory, made in safe workplaces that meet core social and environmental standards.

Our key sourcing countries by business volume remain China, Vietnam, India, Bangladesh and Indonesia. In 2018, we sourced from 7,821 factories with 1,324 factories contributing 80% of the value of goods shipped to our customers. These 1,324 factories represent approximately 17% of our total active factories. Despite recent trade developments, our overall factory churn rate decreased from 30% in 2017 to 26% in 2018, and we maintained long-term relationships (five years or more) with approximately 50% of our suppliers, reflecting our belief that through longer-term relationships we can enhance sustainability performance.

**Number and Percentage of Active Factories by Region**



<sup>1</sup> Customer data has been adjusted from the Annual Report 2017 as a result of the strategic divestment of our three product vertical businesses, Furniture, Beauty and Sweaters, which, as Discontinued Operations, are no longer part of our reporting scope.

## Our Approach

The diversity of our supply chain and variation in customer requirements makes adopting a single approach to managing risk difficult. We accommodate twelve different social and/or environmental compliance standards and over 183 customer-specific programs. Within this diversity, three core elements remain at the center of Li & Fung's sustainability and compliance program.

## Identifying, benchmarking and mitigating risk

Li & Fung monitors compliance with international and national standards related to: building and fire safety, occupational safety and health, human and labor rights, business ethics and transparency, and environmental compliance and performance.

It is increasingly understood that audits alone do not yield a sustainable supply chain. In fact, duplicative audits can divert a factory's time and resources to hosting and managing audits, away from activities that drive improvement. We are working to reduce audit duplication to shift resources to the sustainable improvement of issues and empowering suppliers to take ownership of their factory's improvement.

## Collaboration with our supply chain partners

Despite current geopolitical turbulence, an overarching trend for collaboration across industries and governments continues, understanding that the most significant challenges cannot be solved individually. Companies have made commitments to the Paris Climate Agreement, the UN SDGs, and other leading frameworks which align the long-term interests of business and public policy. Likewise, industry organizations such as the Sustainable Apparel Coalition facilitate collaboration among companies in the apparel and footwear industries. By working

The supply chain of the future will be digital, smart and connected. This creates challenges and opportunities for those in the supply chain.

**Spencer Fung**  
CEO

toward a common goal of a sustainable future, collective approaches to address global risks in the supply chain furthers improved social and environmental conditions and performance for all. Li & Fung has inked several such partnerships to support collaboration, ensure alignment of goals and approaches, and leverage an industry voice to better drive progress. More information on how we collaborate is provided later in this section.

## Focus on digitalization

Connected, digital supply chains are, by nature, more transparent. This facilitates greater visibility to supply chain partners further upstream, with the potential to identify and influence the practices of these partners with respect to human rights, workplace safety and environmental performance.

In addition, digitalization results in larger volumes of more accessible data. As supply chains become increasingly complex, as a result of trade barriers and sourcing in frontier markets, and deep, with visibility further upstream, technology has become increasingly important in the effective management of large supply chains.

Tools such as predictive analytics can identify the nature and level of risk at a supplier level to support more targeted and accurate assessments, interventions and capacity-building programs.

**Global Fashion Agenda**

The Global Fashion Agenda (GFA) is one of the most significant fashion and supply chain initiatives driving sustainability in fashion, with a mission to “make sustainability fashionable” and “ensure prioritization of sustainability at a highly strategic level”<sup>2</sup>. Through industry-wide collaboration and leveraging the latest technologies, it aims to create solutions for our deepest challenges and in doing so, build a better, more sustainable fashion industry.

As one of nine members of the organization’s select Steering Committee and representing the Supplier caucus, Li & Fung provides leadership for change among its peers. The GFA’s ambitious CEO Agenda, published in early 2019, outlines eight sustainability priorities to address, through specific company programs and collective industry action:

1. Supply chain traceability
2. Combatting climate change
3. Efficient use of water, energy and chemicals
4. Respectful and secure work environments
5. Sustainable material mix
6. Circular fashion system
7. Promotion of better wage systems
8. Fourth industrial revolution

These priorities are supported directly by the CEOs of the member companies, ensuring alignment of sustainability and business goals. Our aim is that through continued engagement with GFA to implement the CEO Agenda, within our supply chain and across the industry, will we collectively achieve transformational change.

**Circular Economy**

The circular economy is a key sustainability priority identified by the GFA and other sustainability leaders. The Ellen MacArthur Foundation is the leading advocate for new business models that incorporate circular economy principles. Li & Fung is a member of the Ellen MacArthur Foundation’s Make Fashion Circular initiative, which provides member companies with leading insight and a platform for collaboration and joint action to create the circular business models of the future. In 2019, we will collaborate with Make Fashion Circular to build the evidence base to promote new business models that increase the reuse of clothing, with a focus on the scalability potential of these models.



Spencer Fung, our CEO, was speaking about the initiatives for building a better and more sustainable fashion industry at the Copenhagen Fashion Summit.

2 <https://www.globalfashionagenda.com/mission-strategy/#>

## Managing Risk and Furthering Compliance in our Supply Chain

### Structure and Governance

Li & Fung is committed to the principles of good governance. Our Corporate Sustainability & Compliance (CSC) team sits at the Fung Group level and maintains its independence from other external and internal stakeholders by reporting directly to the Office of the Group Chairman. Further oversight is provided by Li & Fung's Risk Management & Sustainability Committee (RMSC), a Board-level committee, which is led by the Honorary Group Chairman and meets quarterly to review the Company's management of supply chain and other risks and provide recommendations for improvement, as well as report on performance to the Board.

CSC has over 50 employees based in 14 countries across the globe, from North and Central America to Europe and the Middle East to Asia, with a central governance team based in Hong Kong.

### Code of Conduct and Onboarding

Managing supply chain risk starts with the Li & Fung Supplier Code of Conduct (Code). The principles enshrined in the Code are grounded in the United Nations Universal Declaration of Human Rights and the International Labour Organization (ILO)'s 1998 Declaration on Fundamental Principles and Rights at Work, as well as local law. We continue to update our Code in line with emerging requirements, including strengthened standards on modern slavery in accordance with the UK and Australia Modern Slavery Acts and the California Transparency in Supply Chains Act.

All suppliers must commit to adhere to these minimum standards as a condition of doing business with us. The Code is available to suppliers in multiple languages, including Guidelines on social, environmental and security standards as well as practical resources for implementing standards within factory operations.

We believe that rigorous factory onboarding is a crucial step in mitigating risk. We offer regular onboarding training to new factories and our own business units to ensure they understand both the Code as well as the consequences of non-compliance.

### Auditing

Compliance against the Code is assessed by one of our designated third-party audit firms. All of our direct suppliers (tier 1) are audited on a schedule, which varies according to their level of risk. Audit data is then combined with industry and country data to provide an overall understanding of risk. We audit beyond tier 1 when requested by a customer or in high risk instances such as child or forced labor.

The performance of our third-party audit firms is monitored by a robust system of key performance indicators covering areas such as integrity, performance and accuracy. Wherever possible, we use our rich audit data to compare audit findings, measure performance and provide feedback to audit firms on missed findings or unidentified risk as part of our overall assurance program. We also rotate audit firms who conduct our onsite audits to maximize the various strengths of each firm and to reduce the risk of corruption.



Li & Fung also accepts audits conducted against other standards that meet our requirements as part of our audit “equivalency” program. This mutual recognition program has drastically reduced audit duplication and allows supplier resources to be reallocated to the sustainable improvement of critical issues. As part of our assurance program on factories audited against industry standards, we conduct unannounced spot checks on factories, with a particular focus on those with longer approval periods. Spot check ratios are higher in countries where there are increased risk factors (such as a lack of transparency or other key non-compliance issues).

Where data from a spot check suggests critical compliance issues have been systemically missed by an industry standard, we share that information with the audit firm for improvement. Over the year, one particular insight was the payment of excessive recruitment fees, and we advocated for improvement in the way some industry standards are monitoring this issue. In 2018, Li & Fung completed unannounced spot checks in 400 factories across 15 countries.

As part of our commitment to reduce duplicative audits, Li & Fung has been involved in the Social & Labor Convergence Project (SLCP) since 2016 and in 2017, we joined its Steering Committee. The SLCP’s aim is to create ‘one single assessment for all, more resources and improvements for everyone’ through a Converged Assessment Framework (Assessment). The Assessment supports stakeholders’ efforts to improve working conditions in global supply chains and allows resources previously designated for compliance audits to be redirected toward the improvement of social and labor conditions. We engaged three of our suppliers in Guatemala, Cambodia and China to join the pilot of the Assessment.

In addition to converged assessments, the future of supply chain due diligence will rely on real-time data and sophisticated analytics to drive quicker, smarter decisions. In 2018, we formed a partnership with Elevate, one of our third-party auditing firms. This partnership, known as LF.VATE, supports these goals for the supply chain by providing our suppliers with benchmarking, risk assessment, and the support and guidance they will need to drive improvement.

The diversity and breadth of our supply chain means we have multiple sources of compliance data and information available. This means we can make informed and quick decisions and move production to suppliers who have greater capabilities and a lower risk score.

This ability to access and analyze multiple data points, provides a much fuller picture of our compliance landscape. We are continuing to pair this data with new technology and advanced algorithms to better predict the likelihood of risk before it occurs and take steps to prevent it.

Since 2014, the Observer Development Program remains an important part of managing supply chain risk with our quality assurance and quality control (QA/QC) teams identifying critical red flags when visiting factories and immediately raising them to the Corporate Sustainability & Compliance team for action. As of the end of 2018, 85% of our QA/QCs have been trained and 43% of factories in our supply chain were regularly observed.

[Refer to our website for further detail on the Observer Development Program.](#)

## Rating Suppliers

Li & Fung measures supplier performance through our internal rating system. Factories are approved for a period of time (approval period) depending on this rating. When non-compliances are identified, factories must commit to remediating the issue through a corrective action plan, with varying timelines from three to six months.

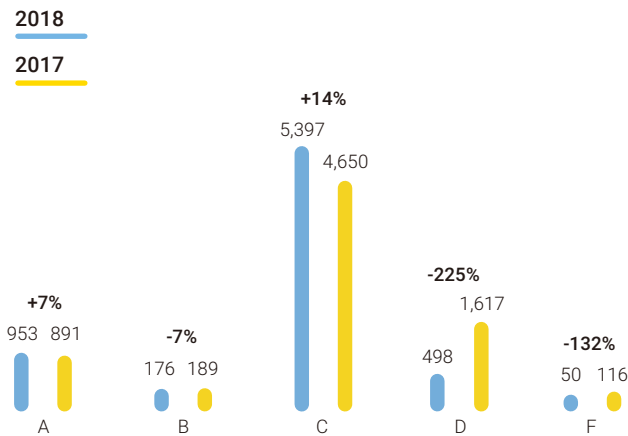
Criteria for rating factories are as follows:

- Both A- and B-rated factories may have one or more non-critical issues identified. A-rated issues are “approaching compliance” and those that are B-rated have “improvement required”
- C-rated factories have one or more critical issues identified. Generally, C-rated issues are identified issues which require financial investment or a longer period to remediate and sustain

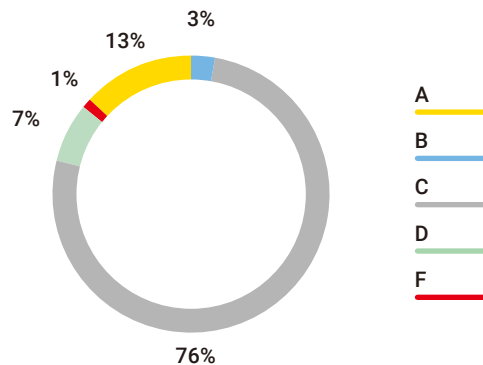
- D-rated factories have one or more severe issues identified
- Factories that have one or more zero-tolerance issues that have not been systematically remediated are discontinued, and business is terminated with a responsible exit plan

In 2018, we saw dramatic improvements to the overall rating performance of our factory base. Overall our ratings of A and B rated factories remained static. A positive result of our strategic factory rationalization, the implementation of our remediation program, and our more robust entry requirements for new factories, has been a reduction in the number of factories in the D and F categories. This reduction in D-rated and F-rated factories resulted in the 14% increase in C-rated factories.

### 2017/2018 Rating Trends



### 2018 Rating Distribution






## Continuous Improvement

Since launching our remediation program in 2017, we continue to observe improved performance in our supply chain. While the specific remediation steps vary according to the severity of the issue, we have evolved our remediation guidance in line with the UN Guiding Principles on Business and Human Rights.

In general, non-compliances are identified through audits or other means and then discussed with the factory. The factory develops a corrective action plan with a root cause analysis and focus on prevention. We monitor and support the factory improvement process and verify the remediation of issues.

After a final audit, the factory must achieve a C-rating or higher to receive new business with Li & Fung. Where zero-tolerance issues are identified, we terminate business with the factory and agree on a responsible exit plan with the customer.

 Refer to our website for a diagram of the key elements of our audit, remediation and continuous improvement process.

## Regional and Country Risks

The use of aggregated audit and incident data gives us a bird's eye view of risk according to country and region. Some of the challenges identified in 2018 are listed below. Our risk and compliance management process focuses on proactive identification of non-compliances, capacity building and industry collaboration, as well as remediation to address these challenges.

- In China, there remain challenges relating to the payment of social security and other legal benefits to workers, as well as workplace safety (i.e. incorrect use of Personal Protective Equipment (PPE) and chemical management). China is also a key country for excessive overtime, transparency and integrity issues.

- In South Asia, workplace safety, including electrical, fire and building safety, as well as overtime are priorities we focus on. While Bangladesh showed improvement in workplace safety, non-compliances related to human and labor rights, including industrial strife and excessive overtime remain challenges that we continue to address
- In Southeast Asia, similar to China, there remain challenges related to the payment of social security and other legal benefits to workers, as well as workplace safety (i.e. incorrect use of PPE and chemical management)
- In Turkey and the Middle East, challenges related to the Syrian refugee crisis and recruitment fees paid by migrant workers continue. In Jordan, we participated in the Better Work Program which negotiated a "no fee charging" policy for workers. Audits continue to show workplace safety risks related to the incorrect use of PPE and chemical management

## Leveraging Technology to Manage Risk

In 2018, Li & Fung participated in a pilot project with biotech analytics company Phylagen to use microbial DNA analysis for greater transparency in the supply chain. In this trial, Phylagen collected microbial DNA signatures from factories in Bangladesh, China, Indonesia and Vietnam.

A Factory Reference Database was created using dust samples from these factories as well as from two that were not taken from any of the reference factories. The dust particles were taken from indoor surfaces in the production area and from products on the production line. In a blind test, a total of 24 origin assertions on 12 products produced were then tested, with Phylagen accurately identifying their factory origin through the invisible history encoded in the tiny, naturally-occurring dust particles on each product.

Phylogen correctly identified 23 of the 24 origins, for a success rate of 96%. Microbial DNA analysis is an effective way to monitor and test for unauthorized subcontracting. In 2019, we plan to explore opportunities to enhance the methodology and utilize the data to harness more insights, providing information on the social and environmental compliance of factories.

☞ Refer to our website for other examples of how we are using new technology to manage risk.

## Grievance Mechanisms

Effective communication and functioning grievance mechanisms are a critical component of ensuring factories achieve sustainable improvement. We encourage grievance mechanisms at a factory level to empower factory managers to better engage their workers and provide support and guidance to ensure these mechanisms are representative, unbiased, and used effectively to remediate issues. Some of our approaches to supporting effective grievance mechanisms are summarized below.

- Li & Fung is a Better Work Partner with 170 factories enrolled in the Better Work program. Better Work's advisory services begin with the development of a Performance Improvement Consultative Committee. This committee is comprised of worker and management representatives and provides a platform for dialogue and improvement which addresses the needs of all stakeholders
- Li & Fung's Social Dialogue program, developed in partnership with Just Solutions, provides factories with training to set up formal grievance mechanisms to enable better communication between workers and managers. You can read more in the "human rights" section

- Due to the serious fire and building safety risks in Bangladesh, we supported the development of the Alliance helpline, Amader Kotha, which encourages workers to engage outside help for critical fire and safety risks. The worker helpline provides support to callers, in partnership with local government, factory managers or brand and retail partners, as appropriate. While the helpline is intended to focus on workplace safety, critical non-safety issues are also reported. Li & Fung is alerted of critical issues in our factories, and we take steps to verify and remediate these cases

## Capacity Building and Collaboration to Address Systemic Issues

To support factories in their efforts to improve performance, we offer tailored programs to meet their needs for training and capacity building on a variety of social, environmental and other topics. Our goal is to equip suppliers with the skills to develop their businesses sustainably and drive their own continuous improvement. In 2018, Li & Fung developed a new e-learning tool for forced labor and offered training on other key areas such as health and safety and environmental performance.

☞ Refer to our website for detail on these and other capacity-building initiatives, including our Sustainability Resource Center and training for suppliers and the Fung Manufacturing Excellence Program.

## Updated Supply Chain Sustainability Strategy

In 2018, we updated the Supply Chain Sustainability pillar of our corporate Sustainability Strategy to align with three focus areas. Our priorities for these areas are outlined below.



Safe Workplaces



Human Rights



Environmental Resilience

These focus areas have performance indicators that support our contribution to the following UN Sustainable Development Goals (UN SDGs):



### Safe Workplaces



192 supplier factories score 100%<sup>3</sup> on worker safety under the Bangladesh Accord or Alliance

### Safe Workplaces

We work closely with our suppliers, industry peers and external partners to help ensure safe workplaces for the people who work in our supply chain.

During 2018, we continued as advisors to The Bangladesh Accord on Fire & Building Safety (the Accord) and the Alliance for Bangladesh Worker Safety (the Alliance), to improve factory safety in Bangladesh.

While the Accord and Alliance 1.0 have completed their initial tenure in Bangladesh, we remain committed to the safety of the people who work in our supply chains in Bangladesh. We have joined the Nirapon initiative, which will continue to oversee monitoring and training, supporting factories' continued progress towards improved safety conditions and practices.

Factories in Li & Fung's supply chain under the Accord remediated an average of 84% of findings identified in initial inspections, with 46 factories (26%) achieving 100% remediation. For those under the Alliance, factories remediated an average of 86% of initial findings, and 109 factories (94%) have now achieved full remediation of material findings.

The results achieved by the Accord and Alliance demonstrate the value of collective action. They have driven measurable improvements in safety through in-depth assessment and remediation of findings, supplemented with worker empowerment and worker safety training programs. In recognition of this value, we are scaling the learnings from these organizations to other key countries. In support of this, we partnered with the Dutch Sustainable Trade Initiative and leading brands and retailers to implement the Life & Building Safety Initiative (LABS). This initiative will apply best-in-class assessment, remediation and safety training to additional countries beyond Bangladesh.

<sup>3</sup> A score of 100% means that factories have corrected 100% of the material safety findings in their Alliance or Accord corrective action plan, validated through a final inspection by an independent third party.

## Human Rights

Our human rights framework is guided by the United Nations Guiding Principles on Business and Human Rights. We define human rights as those identified in the International Bill of Human Rights and the ILO's 1998 Declaration on Fundamental Principles and Rights at Work. These principles, and in particular, their application to national law and real-life contexts, help inform and shape our own human rights policies and processes.

In 2018, we advanced human rights in our supply chain through key areas related to social dialogue, gender, worker wellbeing, modern slavery, child labor and wages.

## Social Dialogue

In Bangladesh, we continue to implement the Social Dialogue program, which was developed in partnership with Just Solutions to strengthen the relationship between factory workers and management, through constructive dialogue. Our objective is to create an atmosphere of trust through fostering a sense of cooperation, participation and commitment. Results from phase 1 of the program (Feb 2016 to Dec 2017), showed that the worker turnover rate reduced from 4.13% to 3.16% and absenteeism declined by 8%. Phase 2 of the program launched in July 2018 and has so far trained 305 participants (both middle management and workers) in 11 factories on topics such as freedom of association, participation committees, safety committees and grievance mechanisms.

## LF Workers' App

With the joint efforts of the Fung Academy and Li & Fung's Corporate Sustainability & Compliance team, the LF Workers' App is a digital platform that enables two-way communication between workers and factory management and for engaging workers through surveys, announcements and educational content about nutrition, health, finance, personal hygiene and wellbeing. In early 2018, we successfully launched the LF Workers' App in Vietnam to ten suppliers, reaching over 15,000 workers. Just six weeks after its launch, the App garnered over

26,000 screen views. The rollout continues and in October 2018, we targeted Indonesia, inviting over 30 suppliers in Jakarta and over 20 in Semarang to introduce the App in their factories.

## Eradicating Modern Slavery

Li & Fung is taking a proactive approach to combatting all forms and enablers of modern slavery, including abusive recruitment practices. At the start of 2018, we undertook a detailed due diligence assessment to better understand our risk in key countries and also reviewed our audit and investigation protocol and related guidance, such as interview guides, to see whether they sufficiently addressed the issue. The due diligence assessment identified China and Bangladesh as our key risk countries for modern slavery due to their geographical breadth and variation in types of exploitation, including forced overtime and state-imposed, debt-bondage. Some countries within Southeast Asia and also in the Middle East and North Africa region were at a higher risk of forced labor because of practices related to the recruitment of foreign migrant workers.

We publish an annual statement<sup>3</sup> on our efforts to address and eliminate modern slavery and human trafficking in compliance with the regulations of the California Transparency in Supply Chains Act (SB 657) and the UK Modern Slavery Act of 2015.

➦ Refer to our website for detail on our activities in 2018 to work towards the eradication of modern slavery. These include: training our colleagues and factories, developing e-learning tools, conducting spot checks of factories, supporting the American Apparel & Footwear Association and Fair Labor Association Pledge on Responsible Recruitment, working with organizations such as the Mekong Club, the United Nations University and Dignex to use mobile-based apps and blockchain to identify forced labor risk and engaging our suppliers in China to pilot a new, modern slavery digital education package developed by the Ethical Trading Initiative and the Swedish-based training company, QuizRR.

## Human Rights



15,000 female workers connect to health education on the LF Workers' App

### Eradicating Child Labor and Hazardous Forms of Work for Young Workers

Li & Fung’s Supplier Code of Conduct prohibits the employment of juveniles younger than 15 years of age, or younger than the age of completion of compulsory education, or legal employment age of the relevant country, depending on which is higher. It also prohibits the Worst Forms of Child Labor as defined by the ILO Convention No. 182.

In 2018, we developed a specialized procedure to improve and standardize internal processes for identifying and remediating cases of child labor, and provided training for our colleagues. As China and Bangladesh remain our highest risk countries for child labor and hazardous forms of work for young workers, we continue to raise awareness of these issues and engage external organizations, such as the Center for Child Rights and Corporate Social Responsibility (CCR CSR) to support our work in these two countries. For example, we work closely with CCR CSR to ensure any cases of child labor are remediated in line with international best practices and the best interests of the child, and we participated in its study of young workers in China<sup>4</sup>.

➦ Refer to our website for detail on these activities and our work with UNICEF and Norges Bank on a guidance document to improve the impact of the apparel and footwear supply chains on children’s rights.

### Gender: Health and Digital Wages

From 2014 to 2018, Li & Fung implemented the HERhealth project in partnership with Business for Social Responsibility (BSR), focusing on health and nutrition, in over 80 factories across Bangladesh, Cambodia, India and Vietnam. Over the course of the project, we have engaged over 175,000 workers, yielding significant results ranging from an overall increase in productivity of 11% in India, to a decrease in female resignations by 28% in Vietnam, to a decrease in women taking sick leave by 4% in Bangladesh.

In 2018, we supported the launch of the HERfinance Digital Wages program. BSR developed the HERfinance Digital Wages program with support from the Bill & Melinda Gates Foundation, bringing together global brands, their suppliers and expert local partners to help factories and their workers make the transition to digital wages.

Globally, over 1.7 billion people have no access to formal financial services. For low-income workers, cash payments mean a lower likelihood of saving money and therefore higher vulnerability to unexpected economic shocks such as illness or loss of employment. Transitioning to digital payments benefits all workers, especially women, as it often provides them with ownership and access to a formal account. Digital payments establish a record that workers are paid properly and on time, providing a transparent, efficient and secure process. This is not only important for Li & Fung to be able to confirm that workers are being paid properly, but also as an early indicator of potential financial issues that could affect factory performance, business continuity and workers’ livelihoods.

Supporting our factory base to move to digital wages aligns with our goal to progressively digitalize the supply chain and make life better for a billion people.

**Harsh Saini**

EVP Corporate Sustainability & Compliance<sup>5</sup>

4 2018 Snapshot Study of Young Workers in China’s Manufacturing Sector, <http://www.ccrs.com/resource/948>  
 5 Formerly known as Vendor Compliance & Sustainability.

## Environmental Resilience

Our approach includes identifying and mitigating environmental risk in our supply chain, while supporting solutions for improved environmental impact at scale. We partner with thought leaders, brands, retailers and suppliers to support industry-wide improvement. Key environmental risks in the supply chain include:

- wastewater and chemical pollution from fabric production, dyeing and finishing
- water scarcity, which is intensified by raw material sourcing and processing and fabric production
- energy consumption, and greenhouse gas and air emissions, at all levels of the supply chain

## Environmental Attributes in Sourcing

We aim to meet customer requests for sustainably-sourced materials and products with reduced environmental impact from well-managed factories.

Virtual design and sampling for our customers not only enables us to quickly share concepts, perfect designs, select materials and tweak product attributes, but to avoid environmental impacts from travel and transportation and reduce wastage from the sample and product production.

[Visit our website to download more examples and details of how we source items with environmental attributes.](#)

## Measuring Factory Performance

We have partnered with the Sustainable Apparel Coalition since its inception. We use its Higg Index Facility Environmental Module to assess risk and opportunities in our supply chain. In 2018, we connected with over 600 factories to assess their performance. We are committed to driving further adoption of the Higg Index with a goal of 1,000 completed modules in 2019.

## Chemical Use Reduction

We launched an initiative in 2017 to monitor, reduce and ultimately eliminate hazardous chemicals in the supply chain, starting with our private label group. This program provides training for factories to identify key chemicals of concern that should be avoided, as well as testing to verify progress. In 2018, we partnered with GoBlu to achieve the same goals using a more proactive, scalable approach. This involves a re-engineered process to digitize a facility's chemical inventory, simplifying tracking and the identification of areas for improvement, enhancing transparency, and facilitating a proactive approach to chemical management. To date we have assessed a total of 20 facilities with three in China and 17 in Bangladesh, mapping their total chemical inventories and identifying priority chemicals for substitution. We intend to scale this program further in 2019 with our direct factories and partners further upstream.

## Climate Change and Energy Efficiency

Extreme weather induced by climate change has the potential to physically impact and disrupt different points in the supply chain, from the harvesting of natural materials/ inputs and the production of goods by our suppliers, to the storage and delivery of final products to our customers. Managing these risks is incorporated into our risk assessment process.

We increasingly source goods from suppliers that operate energy-efficient factories and support our suppliers' transition to become leading facilities, in terms of environmental performance and automation technology. In 2018, we piloted a "smart factories" project in several factories in China and India. The pilot has installed energy sensors to help factories reduce electricity consumption by 15% in China and 3% in India with a quick payback period of less than 12 months. We look forward to scaling this project further in 2019.

## Environmental Resilience

