

Living Wage in the Garment Sector: Results of the 2019 Reviews

by ASN Bank



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1. Introduction

What a year!

A lot has happened since last year's introduction of a new methodology to review investee companies on living wage and the successful launch of our Platform Living Wage Financials (PLWF)¹. We are eager to share with you, our colleagues, stakeholders and clients, an update on recent developments. Mostly, however, we are proud to publish the results of the 2019 reviews.

New methodology

In our 2018 report we published the new methodology we use to assess investee companies on living wage. We explained the alignment of this new methodology with the United Nations Guiding Principles on Business and Human Rights (UNGPs), as well as our new and fruitful collaboration with international audit, tax and consulting firm Mazars. Their experts co-created the new methodology and set up the process governance and assurance trajectory, making sure our work was correctly done and externally validated. All this was explained in detail in chapter 3 and appendix A of the 2018 report².

We will keep the report a bit more condensed this year, in the sense that we will not repeat the stories leading up to or reasons behind this project. For background information you may refer to the websites of both ASN Bank (www.asnbank.nl) and the PLWF (www.livingwage.nl). In this year's report, we first consider developments in the sphere of business and human rights, such as the Dutch government's efforts to stimulate sustainable finance. We also describe our view of recent developments in the garment sector and our experience during our engagement with the 14 investee companies in 2018. We then dive directly into an analysis of living wage in the garment sector, based on the 2019 results of reviewing

13 investee companies eligible for the ASN Investment Funds. We continue with a deeper look into results per question and what we can derive from that. Finally, we will share how we continue to engage with the garment sector to encourage enabling a living wage for workers in its supply chains. And we give the highlights of the first full year of the Platform Living Wage Financials (PLWF), including winning the prestigious UN PRI award for best Active Ownership initiative³.

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Living wage?

In many of the countries where our garments are made and our foods are grown, wages are too low to live on. In most cases, ensuring a decent living standard for workers requires a doubling or tripling of their current salary or income. Living wage benchmarks help to assess the wage gap to be bridged. These can be found on-line via the Global Living Wage Coalition, the Asian Floor Wage or Wage Indicator Foundation. Meanwhile, collective bargaining efforts should be strengthened so that local trade unions and labour representatives are engaged in wage setting.

We ask investee companies to do their part in respecting this key human right. This means conducting due diligence, setting a policy and definition, assessing impact, mitigating risks and integrating findings. We ask them to do this in close collaboration with stakeholders such as trade unions and industry peers. Working together as a company in initiatives such as the Fair Labor Association (FLA), The Fair Wear Foundation (FWF) and ACT (Action Collaboration Transformation) helps to build expertise and to increase leverage vis-à-vis manufacturers and farmers.

¹ See www.livingwage.nl

² For the 2018 living wage report see: <https://www.asnbank.nl/over-asn-bank/duurzaamheid/mensenrechten/asn-bank-working-towards-a-living-wage-in-the-garment-industry.html>

³ In September 2019 we received on behalf of the PLWF the UN PRI Active Ownership Award <https://www.unpri.org/signatories/winners-announced/4810.article>

2. Context

What's new? Human rights report

For an ethical bank, paying close attention to sustainability and human rights is nothing new. And indeed, it is business as usual for us. ASN Bank was founded in 1960 by trade unions that were looking for high returns on societal issues as well as financial gains, avoiding any high-risk sectors and countries. Over the years we have morphed into a modern bank that is well anchored in the Dutch financial landscape, while upholding our core values.

Now, as part of the larger family of De Volksbank (www.devолksbank.nl), our sustainability focus reaches even further as this fourth-largest bank for private/retail clients in the Netherlands has incorporated our far-reaching sustainability policies into their mainstream business. This means, for instance, that both De Volksbank and ASN Bank exclude high-risk sectors such as oil, gas, mining, tobacco and weapons.

Over the past years, we took part in the Dutch Banking Agreement (DBA) on behalf of De Volksbank. This multi-stakeholder DBA aims at addressing human rights risks in financial lending and project finance. It is supported by the Dutch government as a soft law instrument to encourage human rights due diligence, including mitigation and remedy, within the financial sector. The DBA will end in 2019 but efforts will continue in a different setting, coordinated from the banks' side by the Dutch Banking Association (NVB).

In this context, we helped De Volksbank publish its first stand-alone human rights report in 2019⁴. The main conclusion was that the most salient human rights risks are found in the ASN Investment Funds and constitute wages in the garment and agri-food sector, ethics in the pharmaceutical sector and health and safety in the consumer goods sector. Our living wage project fits into an appropriate mitigation scheme for the garment sector.

We welcome the intentions of the Dutch government to monitor due diligence when it comes to human rights risks in the banking activities of both De Volksbank and ASN Bank. Furthermore, we look forward to contributing to the discussions within the European Commission on creating a level playing field by introducing HRDD (human rights due diligence) legislation.

In our opinion, a smart mix of soft and hard law policies is needed to scale up the activities of the financial sector and its investee companies for a more sustainable and just world.

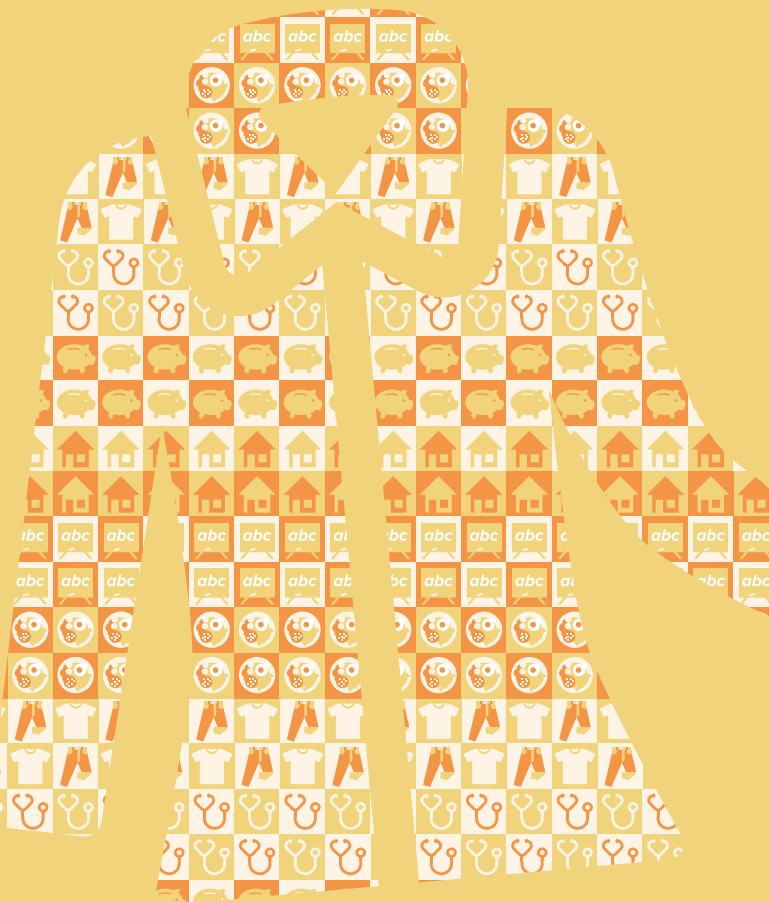
What's new in the garment sector?

As our focus lies in reviewing living wage in the garment sector, we want to briefly look at the main developments there. The sector remains highly competitive, with complex supply chains whereby only a few investee companies own manufacturing facilities, and most depend on production in factories that are not their own, in countries such as Bangladesh, Cambodia and Myanmar where (inter)national stakeholders aim at strengthening wage setting mechanisms and social dialogue.

One of the reasons for working on improving wage setting and social dialogue is because, on average, the legal minimum wages or prevailing wages are far below living wage estimates. This means that families cannot escape poverty. Organisations such as the Fair Labor Association (FLA) – featured in the middle of this report – collect wage data for member companies to compile a wage dashboard. Others, such as the Fair Wear Foundation (FWF), support their members by calculating labour costs per minute to estimate a just pricing system.

Investee companies also participate in ACT (Action, Collaboration, Transformation) to broker sector-wide collective bargaining in main production areas. This is

⁴ For the 2019 human rights report, please see <https://www.devолksbank.nl/verantwoord-ondernemen/duurzaam-wonen/eerste-mensenrechtenverslag-van-de-volksbank>



needed not only to level the playing field within the sector but also to scale up individual companies' efforts to ensure living wages are met nationwide. ACT in particular is an initiative that has faced difficulties in the past few months trying to get all these stakeholders to reach a joint agreement.

Such difficulties partly stem from macro-economic developments such as the possible withdrawal of trade preferences from the European Union (Everything but Arms) that have put a halt to negotiations in Cambodia. In addition, Brexit is making markets nervous as it will probably have effect on trade tariffs for brands that are based in the United Kingdom. Lastly, the lurking US-China trade war may jeopardise business as usual.

The garment sector is also confronting criticism for not doing enough to secure better wages in new sourcing regions such as Ethiopia, where wages are lower than in Asian markets. And we saw fresh challenges arise in nearby Turkey where Syrian refugees were put to work in the garment production sector. Reports emerged of child labour, retention of passports and violation of basic labour rights.

The luxury fashion brands (note: this is not part of our review group of investee companies) are dealing with a new reality that qualified craftspeople are becoming a rarity in Italy so they, too, are now moving into Eastern Europe and Northern Africa. Some of these companies, such as Burberry, pledged to stop using animal products for its designs, which is a welcome step in making the luxury brands more sustainable.

3. Engagement 2018

Open dialogue with companies

Over the course of the last two to three months of 2018 we engaged with 13 of the 14 investee companies we reviewed last year on their approach to the living wage. Only Inditex did not feel comfortable talking to a collective of investors, which goes against company policy. We will continue asking them to participate in our collective engagement talks but in the meantime, PLWF members Triodos IM and Robeco will connect with them separately and inform the entire PLWF accordingly.

What struck us during our long conversations, which usually lasted up to or over an hour with each brand, was the openness of the dialogue. Companies are willing to share what they are doing to enable living wages and they are also transparent about what they cannot do. The company representatives we talked to are experts in the area of sustainability. We often had a selection of people on a call, ranging from heads of sustainability and labour experts to employees in sourcing and production.

This made the discussions rich and highly informative on best practices. At the same time, most companies acknowledged that more needs to be done to have an impact on the ground. Some companies are urging governments to do more: both governments of production countries and sourcing countries. These companies feel they have reached their limit as to what they can do. Others point to the need for more wage data and living wage estimates to calculate the gap. Some will admit it is hard, if not impossible, to actually know what labour costs are paid in supply chains and then ringfence them in price setting.

In the next chapter, when we discuss the 2019 results, we will go deeper into the obstacles to a living wage and the follow-up steps needed to have more impact on the ground. Here we want to highlight the willingness of the vast majority of garment companies to talk to us openly and

with expertise about the thorny issue of wages, costs and pricing. This is particularly striking because some of the companies find themselves in commercially challenging times in light of the growing competition from e-commerce. It is therefore particularly commendable that such an effort is being made to continue activities around living wages.

In preparing our engagement talks with a variety of companies in different phases of addressing the living wage issue, we adapted our engagement strategy accordingly. The questions we raised were connected to the main gaps in the reviews and overall scoring. Companies that scored up to 10 points were categorised as 'embryonic', between 10-20 points as 'developing', between 20-30 points as 'maturing' and from 30-40 points as 'leading'. Last year no company scored in the last category. The vast majority was either 'developing' or 'maturing'.

The main issues that came to the surface during our 2018 engagement were: 1) the need to correctly define living wage according to international frameworks, 2) the need to conduct a risk analysis by publishing the existence (or

“Wages in our industry is a cross-sectoral responsibility that concerns all. While each sector has a specific relationship to wage mechanisms and setting, we can help each other across sectors to share best practices and lessons learned. ASN collective investors' approach keeps the business sector accountable and raises awareness about how we can work to improve our positive impact on wage levels throughout the whole industry. We have highly appreciated the discussions and input received from The Platform Living Wage Financials.”

Luisa Book, Engagement Lead Fair Jobs, H&M

non-existence) of a wage gap between legal or prevailing wages and living wage benchmarks, 3) the need to own the living wage strategy and not 'outsource' it to suppliers and/or external experts or stakeholder initiatives and 4) the overall need to increase transparency surrounding wage data & cost/pricing models that enable living wages to be paid.

There is no one-size-fits-all when it comes to addressing living wage. Some companies that own manufacturing sites will have an easier time as they have more control over pay checks. But most will have to sensitise suppliers in far-away production locations. For this to succeed, there must first be an alignment between the buying and sustainability departments. This must result in responsible purchasing practices that enable payment of a living wage. There appears to be room for improvement in agreeing to a set of responsible purchasing practices, both within companies and collective efforts (multi-stakeholder initiatives (MSIs) or government-backed soft law agreements). Lastly, we detected different routes to approaching

living wage. On the one hand, there are most of the US-based companies that build capacity in factories to increase productivity and efficiency. And on the other, there are most of the EU-based companies that recognise living wage as a human right to be addressed via capacity building around social dialogue and freedom of association.

As an investor, we want to make it clear that we do not determine the wage level, how it is set or the 'best route' to achieve living wages. We are interested in learning how an individual company puts its living wage policy into practice and how it monitors progress and assesses the results or lack of meaningful results. We were therefore eager to start the 2019 review process to once again 'take the temperature' and see what, if anything, changed compared to 2018.

“Living Wages have been a subject of much debate and work over the last few years and ASN Bank spurred collective investors' approach is a vital part to make the further progress needed. Brands and Retailers can help their direct suppliers and factories make change at a micro level but to make the required fundamental industry change, the investor community can have a great impact particularly at a Governmental level. The scale of Investors financial influence can help create an environment for supply chains to implement living wages through engagement with its investees as well as the wider living wage community and industry-wide legislative policy makers. Collaboration with all stakeholders can lead to a level playing field by the promotion of living wages becoming legal industry wages.”

Fiona Sadler, Head of Responsible Sourcing, Marks and Spencer

4. Sector overview 2019



5 In reviewing companies we make use of annual report and contact with companies through email and phone. Please refer to appendix 1 for all the Sources and Contacts we used.

6 Please refer to chapter 3 of the 2018 report for more details on governance : <https://www.asnbank.nl/over-asn-bank/duurzaamheid/mensenrechten/asn-bank-working-towards-a-living-wage-in-the-garment-industry.html>

Why these 13 companies?

Before looking into the overall sector results, we would like to explain the slight change in the names and number of companies in this year's review. Last year we conducted 14 reviews, this year 13. The company Amer Sports was taken over by Anta Sports; the engagement is now with another PLWF member. Gap and Nike are no longer part of our sustainable investment funds. They remain in the engagement of our PLWF colleagues.

The reviews of all the companies listed below went through a thorough assurance trajectory. We at ASN Bank assessed the bulk of the companies (see appendix 1)⁵. Our PLWF colleague Kristina Stonjeková (MN) reviewed two companies and colleagues Roeland Tso (Triodos IM) and Laura Bosch Ferreté (Robeco) conducted one review. All assessments were second-read by different colleagues and Mazars then checked our evidence and scoring. During a long day at Mazars' London office we discussed some of the questions raised. The companies had a chance to respond to additional questions before the final rating⁶.

Companies under review by ASN Bank 2019

Adidas
Asics
ASOS
Esprit
Gildan
H&M
Hanesbrands
Inditex
KappAhl
Lojas Renner
Marks & Spencer
Puma
VF Corp

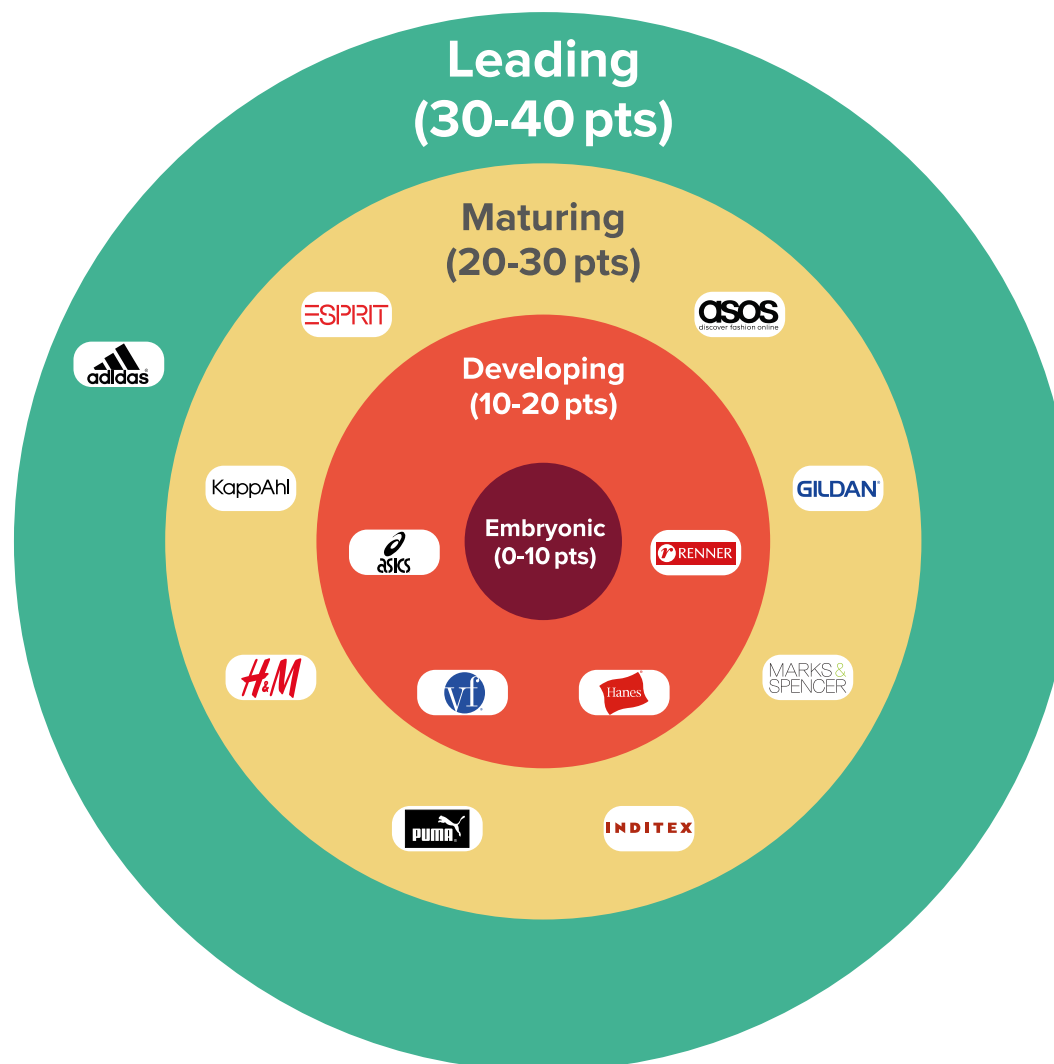
Measurement has its downside

We fully realise that measuring companies every year on the topic of the living wage will not result in huge shifts. This is simply because there is no quick fix and no one-size-fits-all. As stated above, garment companies do not pay workers directly and they therefore have to use their leverage to sensitise suppliers. More importantly, they need to have internal debates on upholding universal human rights on the one hand, and commercial interests on the other. In short, they must seek to align buying practices with human rights commitments.

The grey area that governments have left companies to address, the gap between universal soft law and the reality on the ground, cannot be filled immediately. A cynic would say companies only pay lip service to human rights obligations under OECD and UN frameworks while profiting from low wages. However, we see companies making progress on living wage individually, while also collaborating more intensely with relevant stakeholders to move forward. We as ASN bank are in this for the long haul and engagement is the best tool, aided by the reviews.

We do not consider these annual assessments as set in stone; that would be a mechanical approach to very politically sensitive and commercially thorny issues. So although we are aware of the downside of measuring progress annually, we do think it helps our conversations with investee companies. And it is clear to them that we take this topic seriously enough to investigate it so thoroughly.

Overall sector results 2019



Overall progress made

We were pleased to find that most of the companies reviewed made progress. Some maintained last year's score and no company fell below its 2018 score. Adidas has moved to the leading phase because it scored even better on transparency than last year. This company provides wage data and compares it to living wage estimates, provides information on collective bargaining in supply chains and has the most extensive information on the functioning of its grievance mechanism and remediation of cases. More specifically, Adidas developed a standard minute costing system with its supplier. This system creates further transparency in the company's product cost for materials, labour and overhead. Adidas also developed a pilot project in which it organised an employee credit cooperative that allowed factory workers to earn extra income through dividends and profit sharing.

Although Adidas deserves high praise, note that the scoring gap between Adidas and the companies in the maturing phase is not very big. Indeed, it is only a few points. Even in the leading phase there is no guarantee that living wages are paid on the ground. For that, we need more impact-based reporting, which we will cover below. Another positive development is that there are no longer any companies in the first 'embryonic stage'. Asics moved to the next 'developing stage' and for the first time defined what it means by a living wage. Its definition now includes basic needs and discretionary income. A sound definition is the foundation of any efforts to enable better wages in supply chains, as this clarifies the gap to be bridged.

Still needed: More transparency and ownership

In most company reports this year we found more information on the topic of living wage, its definition and activities to mitigate and remedy this risk. We realise that we are

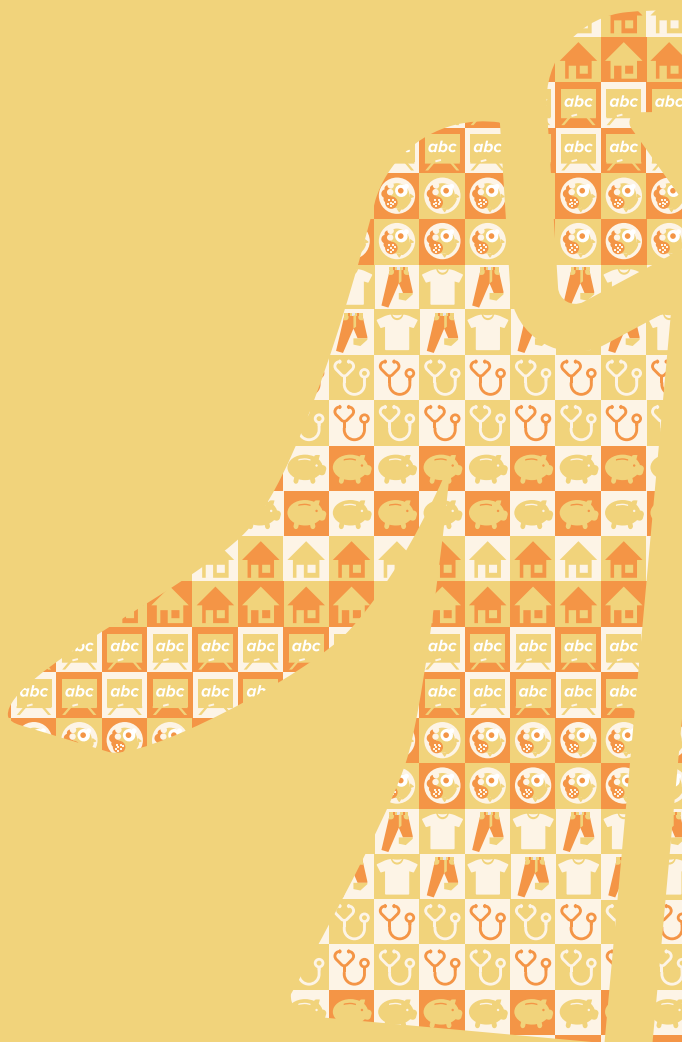
asking very detailed information on one specific human right. We were therefore quite pleased that most companies provided extra information swiftly via email or by phone. As long as we could deliver proof of this information to our assurer Mazars, it could be included as evidence in the reviews.

In the coming years, however, we trust that this more detailed information will be shared publicly, either on corporate websites or in annual reports. This would ideally include information that stems from activities within MSIs to improve wages. Currently, this information is mostly shared by the MSIs in aggregate form, so we cannot link it to individual companies. In our view, ownership of a living wage remains with companies. Therefore we urge them to share information from MSI-related projects in annual reports or on websites.

Still needed: Progress on purchasing practices

Many companies say they are working within MSIs towards responsible purchasing practices. This is a positive development as suppliers need buyers to be predictable, providing enough lead time and material to finish the orders in a sustainable way while honouring labour rights that are often included in Codes of Conduct (CoCs). The question is whether companies are doing enough to support suppliers and comply with the demands in the CoCs.

We like to see companies sharing more information on how these activities in MSIs or individual activities around purchasing practices are having a positive impact. Teaming up with an organisation like Better Buying or ACT could help them understand suppliers' needs.



Still needed: Ringfencing real costs

Linked to responsible purchasing practices is the need to negotiate costs and set price levels that ringfence all the labour costs. In order for that to happen, companies seem to need more data on both the actual labour costs paid in the supply chain and living wage estimates in supplying regions. It is important here is that companies make a longer-term commitment to continue sourcing from that region/supplier. This is because manufacturers are afraid to price themselves out of the market.

Still needed: A move towards impact-based reporting

Another conclusion we drew from this year's assessments is the need to go from effort-based reporting to impact-based reporting. Indeed, we now see many companies reporting about the corporate processes they put in place to mitigate human rights, but few indicate whether or not these actions are having the desired effect. Making an impact requires a more analytical approach, whereby progress is monitored and actions adjusted where needed. Drafting a Theory of Change (ToC) can help in drawing up a road map to a living wage.

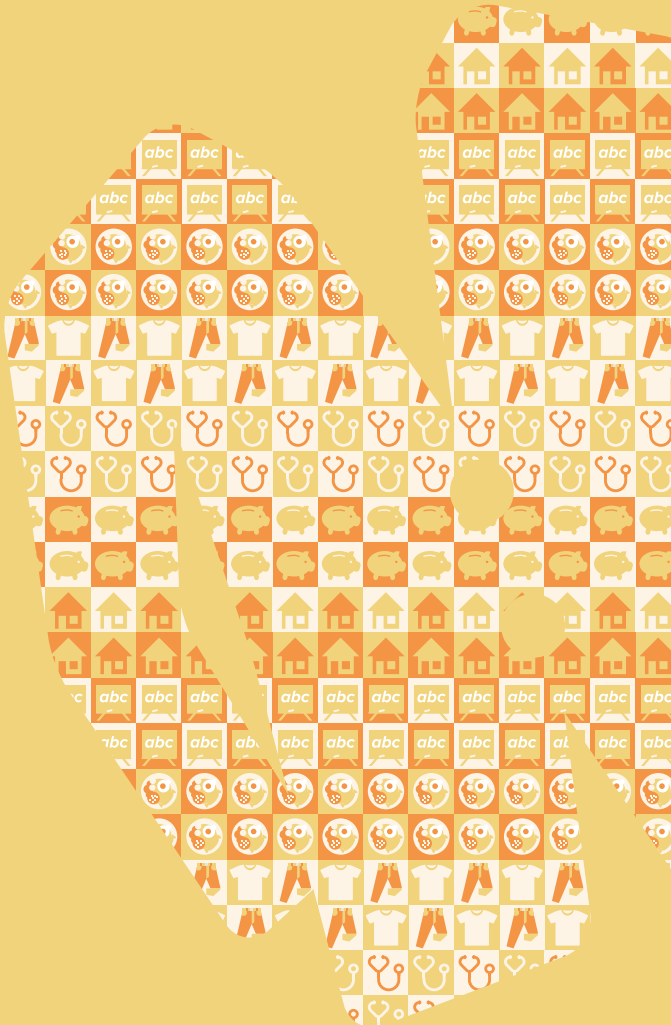
Still needed: A shift from pilots to mainstream

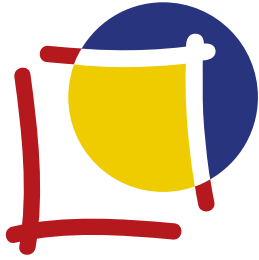
Last but not least, although we welcome the inspiring pilot projects that most companies set up around living wages, we need to see more mainstream activity. In our view, this means that companies see honouring living wages in supply chains as business as usual, making no exceptions in their production process. Perhaps figuring out a business case can help in this respect. This could include making clear that a living wage pays for itself by

creating reliable relationships with suppliers and fostering a happy & healthy workforce that is proud to work indirectly for a foreign brand.

The business case

Clothing is a basic need shared by people all over the world. Some have more money to pay for fashionable items with which they can express who they are and who they want to be. But whether one has only ten items to wear or dozens of outfits in the closet, we are all basically the same and we all need clothes just as we need food and shelter. The narrow business case is obvious as people need clothes. And as consumer awareness for fair fashion is growing and pressures from stakeholders are deepening, the broader business case for a living wage is also becoming evident.





FAIR LABOR ASSOCIATION

At ASN Bank, we do not only want to assess and encourage companies to improve on living wage. We also want to help companies in their journey towards higher wages. One way in which we do this is by supporting organisations that work on practical solutions that drive change on the ground. In 2019, we contributed to the development of the living wage dashboard of the Fair Labor Association (FLA). The FLA works with companies around the world on improving labour practices in supply chains and the living wage dashboard is a good example of such a solution. We spoke with Renee Bowers (Director of Social Compliance) and Tiffany Rogers (Manager Responsible Sourcing and Production) on their experience with living wage in the garment sector and the role of transparency around purchasing practices.

⁷ An overview of the FLA's fair compensation program: https://www.fairlabor.org/sites/default/files/fla_fair_comp_faq_v1_05.2019.pdf

⁸ http://www.fairlabor.org/sites/default/files/documents/reports/patagonia_re-accreditation_assessment_october_2017_0.pdf

One of the most difficult challenges to worker rights in the apparel and footwear industry is the systemic perpetuation of low wages and excessive overtime. What is a core first step to improving this situation for workers?

To make progress in improving worker wages, it is essential that companies commit to the idea that fair compensation is a workers' right. For example, each **Fair Labor Association (FLA)** ⁷ member has a code of conduct that acknowledges a worker's right to compensation that meets the basic needs of themselves and their families, while also providing some discretionary

income. Thinking of fair compensation as a right can be challenging for some companies, but we have found that companies who commit to this idea are better able to act.

But commitment is not enough – what comes next? How can companies start making real progress?

There are no easy answers. However, we've found that one essential component to raising wages is for companies to increase the transparency in their business relationships and improve their own purchasing and production practices. Companies must recognize that public attention to the quality of life of workers is increasing; more consumers and investors are looking for companies that produce responsibly, improve conditions for workers, and pay workers a living wage.

Companies must evaluate their internal systems, including forecasting, costing, lead times, and other core functions, in order to prevent inadequate wages and excessive overtime for workers. For this to work, there must be strong collaboration between various departments within a company. People who work on designing, forecasting, costing, sourcing, and production must work together on social compliance issues. The costing department, for example, must consider wages when setting prices, and therefore engage in less harsh negotiating tactics. Similarly, the planning department must take into consideration the factory's production schedule and capacities to avoid unintentionally overloading the factory and forcing excessive overtime on workers. For many companies, transparency and accountability is a huge cultural shift and can require great effort; however, we've seen these changes can truly improve workers' lives.

Interesting. How have you seen this type of transparency in action?

Sure. One example of interdepartmental transparency is Patagonia, which created a Living Wage Task Force made up of the company's Chief Operations Officer, Senior Director of Sourcing, Senior Director of Quality, Vice President of Social and Environmental Responsibility, and other department staff⁸. This Task Force is notable because it includes senior staff from a range of departments. We have seen that this encourages all staff to incorporate responsible practices into their everyday activities and approach suppliers together to discuss how to increase wages. So far Patagonia's Fair Trade program and future Fair Wage pilots are tangible

results of their internal alignment. Also, FLA companies voluntarily undergo the FLA accreditation process, in which we evaluate their purchasing and production practices and report on them publicly, including recommendations for improvement.

You've talked about transparency within a company, but where to suppliers fit in? Do buyers need to change the way they interact with their suppliers as well as with each other?

Absolutely. First, buyers must recognize the types of day-to-day practices that can inhibit a supplier from disclosing problems. Buyers must actively seek feedback and gather data to understand how their practices impact their suppliers in a way that doesn't threaten the business relationship. They also have to be willing to take that feedback and use it, often by rethinking the ways they purchase and design products, manage relationships, and communicate about their practices. Again, this is often a huge cultural shift for companies – but it is essential to making progress on wages.

What kind of data and feedback are you talking about?

Good question! With the support of ASN Bank, the FLA has developed a Wage Data Collection tool. All FLA companies are required to use this tool to understand what workers are earning and how this compares to a living wage. However, this is not just data for data's sake! Rather, the data collection process is a critical jumping off point for increasing buyer-supplier transparency. The data collection process requires conversation between factories and brands, so that they all develop a shared commitment and can work collaboratively on increasing worker wages. Buyers must lead the conversation to let suppliers know that improving wages is a joint effort.

But does data collection really work to improve transparency, or is it just another paper exercise?

Data collection cannot be the only way to improve wages and conditions for workers; however, we've seen data collection play a huge role in buyer and supplier transparency. To give just one example, Vetta Brands shared wage data as part of its FLA accreditation process, and used that data to engage in deep conversation with suppliers about their fair compensation commitments.⁹ Also, we see companies, like New Balance, that have been

using wage data to inform their efforts to set goals and identify priority locations where they should devote resources on living wage. Collecting and analyzing data is an important step in helping companies make decisions on where to get started on tackling living wages.

This all sounds great, but how do you know that transparency really improves worker wages?

Often, what gets measured gets done. That said, the answer is not as simple as just increasing product costs to accommodate for higher wages. We have seen companies start to tackle excessive overtime and inadequate wages as connected problems. Mainland Headwear, an FLA Participating Supplier, continues to reduce excessive overtime by working with its buyers at the planning stage; these efforts, combined with an industrial engineering strategy that aims to increase output while decreasing hours, is helping improve worker pay while still controlling overtime¹⁰. This type of improvement requires the involvement of buyers and suppliers and is critical to providing fair compensation for workers.

What is next for this industry on living wages and responsible purchasing and production practices?

Stakeholders within a supply chain must recognize transparency is crucial. Also, consumers, investment groups, civil society organizations, unions, universities, and multi-stakeholder organizations must understand the complexities of business operations in order to recognize companies that are truly committed to responsible purchasing and providing living wages.

The FLA's accreditation process evaluates the internal systems and processes of companies – including purchasing and production – to ensure that they uphold workers' rights. The Platform Living Wage Financials assessment process also requires significant transparency both within and between businesses and with the public. While there is still progress to be made in providing fair compensation for workers, we are grateful for the leadership of Platform Living Wage Financials and hope others will join us on this journey.

⁹http://www.fairlabor.org/sites/default/files/documents/reports/vetta_accreditation_report_final_public_0.pdf

¹⁰http://www.fairlabor.org/sites/default/files/documents/reports/mainland_headwear_accreditation_report_public_final.pdf

5. Results of the 2019 Reviews

In this chapter, we deep dive into the 2019 results per question.

Question 1 Policy



In 2018, the majority of the companies assessed had already reached the leading phase in terms of their living wage policy. We observed that companies with advanced living wage policies also tended to score higher on the subsequent questions of our methodology, indicating that a well-developed first step in the due diligence process leads to increased efforts on the other elements of the UNGP Reporting Framework. Another finding from last year's assessment was that the companies that recognised the salience of living wages could also provide evidence of a board level commitment to implementing the policy as well as evidence that those responsible for implementing the policy had a sufficient understanding of the topic.

2019 developments: overall improvement, most companies lead

Companies' scores in this year's assessment improved slightly overall. All companies assessed are at least in the developing phase, meaning that all have a formal living wage policy in place that extends to the supply chain (if applicable). Asics was the only embryonic company in 2018, but it improved significantly over the course of the

year. Another company that improved in this year's assessment is Kappahl, which recognised a living wage as one of its most important sustainability issues.

The results indicate that improvements in a company's policy and internal governance is a step-by-step process. Higher wages (in the supply chain) directly impact the cost structure of companies and they must find ways to absorb higher costs. In other words, wages are at the core of garment companies' business models. While we fully recognise the sensitivity of living wages due to their impact on cost structures, we emphasise the importance of international human rights frameworks for multinational enterprises operating in jurisdictions with sometimes weak regulatory regimes and/or enforcement with regard to basic labour rights. As explained in the UNGPs, it is a company's responsibility to respect human rights (in the supply chain) and it is no longer acceptable for companies to exploit weaknesses in a country's labour regimes in order to benefit their own commercial interests. We are therefore pleased that, despite the relatively short period of one year, the companies assessed show moderate progress in developing living wage policies.

We also call upon the leading companies not to sit back and relax when it comes to this question. Living wages for factory workers are and remain a thorny issue that is far from resolved. Wages in many of the main garment-producing countries are well below living wage estimates and, as we will discuss later this chapter, there is still a lot of room for improvement in buyer-supplier relationships. This includes the education of sourcing officers on the basic elements of a living wage as well as on the dynamics influencing the wage level, which we have covered in this question.

Question 2 Living wage definition



Last year, all companies except one were either in the developing or in the maturing phase on Question 2. The exception was Asics, that had not yet defined its understanding of a living wage. The importance of correctly defining a living wage cannot be emphasised enough, because an incorrect definition may well be one of the major reasons that wages are too low to live on. The definition of a living wage that we use in our methodology is that used by the Dutch Social Economic Council (SER)¹¹, which is based on important international labour standards and human rights frameworks.

A shortcoming we frequently observed last year was that companies define a living wage only for a worker and not for that worker's family. In many of the key garment producing countries in the world, female workers often have multiple dependents. Their wages should therefore also cover the needs of these dependents, which include children and elderly and may include other people unable to provide an income for themselves. Another shortcoming was that most companies assessed did not define the basic elements (i.e. basic needs) of a living wage. While some may argue that such basic needs are self-evident, listing these needs in living wage policies is important to ensure that they are included in the calculation of wage levels.

2019 developments: progress with few & overall more ownership needed

In this year's assessment, there is one company that stands out: ASOS. ASOS is the only company in our batch that has defined a living wage in line with commonly accepted definitions. It has explained its understanding of basic needs and has included the family component that is missing in many definitions we encounter. A correct and complete definition of a living wage is a necessary ingredient in living wage policies and it provides clear guidelines for what workers should be able to cover with their wage. Another company that improved this year is Asics. For the first time, Asics defined how it defines paying a living wage and again, this is an important step at the beginning of the due diligence process.

Some companies refer to the definitions of external organisations, such as the Fair Labor Association. Although we consider it positive that companies commit to these definitions, we feel it is important that companies adopt these definitions in their own documents. The reason for this is that we want the companies to signal ownership of their policies and efforts to mitigate negative impacts. It is about their own supply chain, not about the supply chain of an external organisation. We have addressed this issue in our engagement conversations with the companies assessed in Q3 and Q4 of 2018, but so far it has not led to significant improvements for most of the companies under review.

¹¹ We have explained the concept of a living wage in our Living Wage Manual (2017). For the Living Wage Manual, please see under Documents: 'Garment companies and living wage: a practical implementation tool for companies', 2017 at <https://www.asnbank.nl/over-asn-bank/duurzaamheid/mensenrechten/asn-bank-working-towards-a-living-wage-in-the-garment-industry.html>

Question 3 Engagement



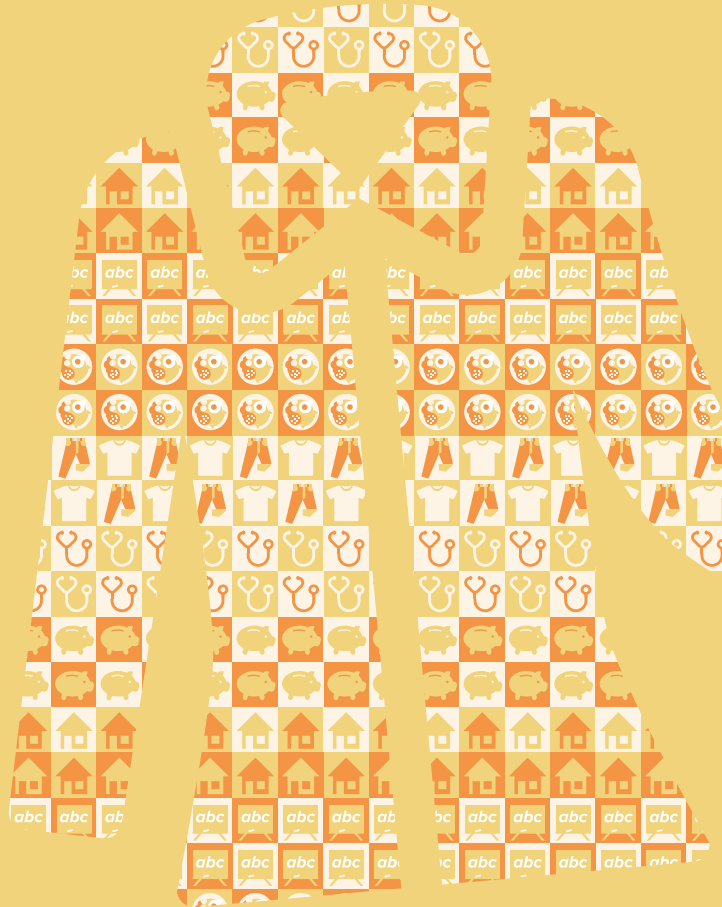
Last year, the companies under assessment scored relatively well on Question 3, with the majority in the maturing phase. In the maturing phase, companies have identified important stakeholders, have joined an MSI and have articulated how they are advancing the payment of a living wage through their collaboration with the MSI. MSIs that we deem highly relevant on the topic of living wages are, for example, FLA, ACT, ETI, FWF, ILO Better Work, IndustriALL and Amfori/BSCI.

Many companies in the garment industry rightfully point to the complexity of a living wage in the garment industry. Examples of challenges that garment companies encounter are: how does a living wage in the garment industry relate to wages in other sectors of the producing country's economy? Is there support from a host country's government to raise minimum wage levels? How does a buyer know that a higher buying price ends up in workers' pockets? These are challenges to which there is seldom a straightforward solution and making progress towards higher wages therefore requires support from many different actors. Engagement and cooperation with the different actors that have a stake in this topic are therefore important elements in the due diligence process.

2019 developments: know & show the real impact

This year's results for Question 3 strongly resemble those of 2018. With the exception of slight improvements here and there, we could not find evidence that the companies under review made progress on their engagement with stakeholders. Most companies are in the maturing phase and an important reason for not progressing into the leading phase could well be that our methodology requires that companies explain the positive effect of their cooperation with MSIs or other stakeholders on mitigating negative impacts. We frequently see that companies identify important stakeholders and sometimes also (briefly) explain the nature of their cooperation with these stakeholders. What we did not see in almost all the assessments was a concrete explanation of how cooperating with a certain stakeholder contributes to actually decreasing a negative impact on living wages. This is an example of a frequently observed difference in reporting on social impact: the difference between reporting on efforts and reporting on impact.

Although we acknowledge the difficulty of formulating the added value of a cooperation in mitigating negative impacts on workers' wages, we do believe it can be done. The types of evidence we would like to see include, for example, how cooperation with a stakeholder or MSI contributes to a company's learning curve or how it has informed the internal decision-making process, how positive results of pilot projects with stakeholders or MSIs have been upscaled or how MSI tools have enhanced buying processes or data collection efforts. We therefore encourage the companies under review to move from effort-based reporting to impact-based reporting, not only with regard to their cooperation with stakeholders but regarding all steps in the due diligence process. As an investor, we welcome efforts to mitigate adverse impacts



on human rights, but we want to be able to assess the effectiveness of these efforts. Our ability to do this very much depends on a company's transparency, in particular regarding its impact on workers on the ground.

Question 4 Assessing Impacts

Leading	
Maturing	H&M, adidas, PUMA, MARKS & SPENCER, ESPRIT, ASOS, GILDAN
Developing	Kappa, KAPPA, V&V, HUGO BOSS
Embryonic	ALDO, INDITEX

Element C3 of the UNGP Reporting Framework is about 'assessing impact' and the question in our methodology related to this element addresses a company's efforts to identify the nature of its involvement in paying wages below a living wage. Depending on whether a company has outsourced production, this could either be within a company's own operations or in its supply chain. In Question 4 we mainly look at the processes companies have in place to identify their involvement in paying wages below living wage estimates. Last year's results showed that there were, as yet, no best practices in place at the companies under review. Many companies were only able to provide limited evidence for the processes they have in place to collect wage data and identify wage gaps. These typically included social compliance audits. Generally, these social compliance audits focus on compliance with regulatory minimum wage levels and do not provide any information on wage gaps. The more advanced companies in last year's study provided evidence for using wage data collection tools of MSIs that go beyond mere compliance with local law and inform the company about existing wage gaps.

2019 developments: moving in the right direction

The most significant improvements in this year's assessment results were observed in Question 4. Seven of the eleven brands that we assessed last year showed an increase in their score and four companies moved beyond the embryonic phase. Two companies worth highlighting for their processes to identify their involvement in paying wages lower than living wage estimates are Esprit and Marks & Spencer.













Esprit was able to provide evidence for good practices concerning its processes to identify its involvement in paying such lower wages. The evidence included an explanation of how the company works with an external stakeholder, how this third-party information helped the company assess the impact and how it also helps suppliers. In addition to coalition building, knowledge sharing is another important aspect of engaging with stakeholders and we are pleased to see that more and more companies work with MSIs like ACT and the FLA to gain more insight into their involvement in paying wages below living wage estimates.

Marks & Spencer takes a slightly different approach than Esprit. Every year, Marks & Spencer commissions ethical trade consultancy Impactt to draw up wage analysis reports for its key sourcing countries. These reports are based on desk or field research and contain detailed information on how wage levels at supplier factories relate to minimum wages, industry average wages, and living wage estimates. They provide the company with detailed information about its involvement in paying wages below a living wage level and are a solid basis for developing and implementing effective mitigation efforts.

Despite the improvements we see on this question, most companies under review still have a long way to go in their

processes to identify wage levels and wage gaps in their supply chain. Collaborating with external stakeholders in working with tools for wage data collection is an important next step, as is collaborating with local civil society organisations. Low wages are not just a component in price calculations; they affect the lives of real people. Connecting to local civil society may add to a company's understanding of the problem and feeling of urgency to do something about wages in the supply chain that are too low to live on.

Question 5 Integrating findings

Leading						
Maturing						
Developing						
Embryonic						

This question in our living wage methodology assesses companies' efforts to mitigate adverse impacts on workers' wages resulting from their own operations and/or buying practices. Theoretically, Question 5 builds on the findings identified in Question 4 concerning involvement in the payment of wages below living wage estimates. In practice, however, we often see that companies make various efforts that are well-intended but sometimes only loosely connected to a thorough wage data analysis. These efforts range from various responsible purchasing practices (e.g. improved forecasting or limiting changes to orders) and seeking feedback from suppliers on buying practices to pilot projects at supplier facilities, capacity building on social dialogue and ensuring that labour costs are fixed and non-negotiable in price negotiations with suppliers. Last year's results indicated that some of the companies

assessed have developed leading practices to mitigate adverse impacts on workers' wages. And nearly all companies had at least developed supply chain standards on wages and could provide evidence for some forms of responsible purchasing practices or capacity building at supplier factories.

2019 developments: status quo

The 2019 results are similar to those of last year. Three companies have developed leading practices to mitigate adverse impacts on factory workers' wages. And all three could provide comprehensive evidence for the ways in which they try to mitigate negative impacts from their buying processes on factory workers' wages. For example, Adidas developed a standard minute costing system with its supplier. This system creates further transparency in the cost of materials, labour and overhead for the company's products. Adidas also developed a pilot project in which it organised an employee credit cooperative allowing workers to earn extra income through dividends and profit sharing.

This year's newcomers in our batch of companies, Hanesbrands and VF Corp, are a little different from typical garment companies in terms of their operations in that they produce a (large) part of their production volume themselves. Purchasing practices and pricing negotiations are therefore completely internalised for the part of the production volume that is produced in their own factories. These companies have greater control over their own factories compared to supplier factories and we have observed that maintaining control over working conditions is sometimes explicitly mentioned as a reason for retaining internal manufacturing operations. These companies have greater leverage when it comes to the working conditions of their own employees. Given this leverage, it is reasonable to have higher expectations of these companies' mitigating efforts to address wage gaps. In our assessments this year we














addressed both a company's purchasing practices as well as its own operations, if applicable. And in our engagement with these companies we will express our higher expectations of the company's mitigating efforts in its own operations.

Generally speaking, however, we found that transparency on purchasing practices is rather limited. Such transparency is not only important for us as an investor, but it can also help the companies themselves in progressing towards the payment of higher wages. One organisation that has done important work in this field in recent years is ACT. ACT has developed a Purchasing Practices Self-Assessment (PPSA) tool that covers 16 areas that ACT members can use to find out how employees from different departments assess the company's purchasing practices¹². Another organisation that has developed important tools for increasing wage transparency is the Fair Labor Association¹³. In an interview conducted for this report (see Appendix 1), Renee Bowers and Tiffany Rogers of the FLA explain why transparency on purchasing practices is so important.

wages, the next step in the due diligence process is to track the performance of such mitigating actions. As was the case with the evidence we found in Question 4, the theoretically assumed link between implemented actions and data collection processes or performance measures is less well-established in practice. Most companies that collect wage data do so in a more general way, rather than collecting data on the performance of specific measures. To score companies on performance tracking we looked at the indicators companies use in their data collection processes in addition to the processes they have in place, which were assessed under Question 4.

Last year's results showed that we were unable to identify leading practices among the companies assessed. The maturing companies were able to provide evidence of the use of indicators to collect data on wages and other relevant criteria. These indicators were either provided by an MSI and/or by the company itself. We could not find any evidence of a company that engaged with external stakeholders to assess the effectiveness of its efforts to mitigate the adverse impacts on factory workers' wages.

Question 6 Tracking Performance

Leading						
Maturing						
Developing						
Embryonic						

Once a company has identified its involvement in paying wages lower than a living wage and it has implemented measures to mitigate the adverse impact it has on workers'

2019 developments: some best practice, overall improvements are needed

As stated earlier, in comparison to last year, two companies have progressed into the leading phase. Marks & Spencer, serving as a best practice on this question, created a Human Rights Stakeholder Advisory Group. This group is tasked with critically reflecting on the effectiveness and impact of Marks & Spencer's human rights strategy and advising the company on next steps to increase effectiveness and decrease adverse impacts. Marks & Spencer's human rights strategy includes several pilot projects, such as the Model Factory Programme and the Benefits for Business and Workers Programme.

¹² The results of the latest self-assessments of ACT members have recently been published in an anonymised way: https://actonlivingwages.com/wp-content/uploads/2019/07/20190724_ACT-PPSA_GEN_FINAL.pdf

¹³ Because we not only want to assess and comment on company performance but also aim to stimulate improvement, we have contributed financially to the development of the FLA's Fair Compensation Toolkit.

Having sound data collection processes and formal councils or advisory groups in place to reflect on the effectiveness of the implemented measures provides a good feedback loop to a company. It reveals which actions are effective and should be continued or even expanded and it also reveals what does not work and should be discontinued. It provides a solid basis to go through the due diligence process on a continuous basis and to progressively mitigate negative impacts on workers' wages. Marks & Spencer was the only company that has 'institutionalised' this feedback process, a practice we feel should serve as an example to other companies.

Most of the companies under review have yet to move from social compliance audits to more meaningful data collection processes connected to the measures & actions intended to mitigate the negative impact on workers' wages. We see some good practices emerging and we encourage the rest of the market to catch up with leading practices such as those developed by Marks & Spencer.

Question 7 Remedy



Remedy is a crucial element of the UNGP framework and is particularly important for those whose rights have been violated by business enterprises or to which business enterprises have contributed. A grievance mechanism is a tool companies can use to identify adverse impacts on

human rights as well as a process to provide remediations to the victims. As the OHCHR states: "Where a business enterprise identifies such a situation, whether through its human rights due diligence process or other means, its responsibility to respect human rights requires active engagement in remediation, by itself or in cooperation with other actors."¹⁴

Last year's results indicated that a significant number of companies had relatively under-developed grievance mechanisms in place and/or provide little transparency on the use of these mechanisms. An important obstacle for these lower scoring companies in submitting complaints was that grievance procedures were only open to internal stakeholders. Given that production is usually outsourced, grievance mechanisms are inaccessible to factory workers. And it is these workers who are often at the highest risk of experiencing working conditions that fall short of what has been outlined as basic minimum conditions by the different international labour standards and human rights frameworks.

2019 developments: mixed messages

The results on Question 7 of our methodology reveal an interesting pattern. Some of the companies that have high overall scores have relatively low scores on this question and some of the companies that have lower overall scores (i.e. they are in the developing phase) tend to score higher on this question. The evidence provided by the higher-scoring companies on this question reflect greater transparency in terms of monitoring grievance mechanisms as well as the actual use of grievance mechanisms for human rights complaints (i.e. the number of human rights complaints received). Best practices include providing adequate remediation to people whose rights have been violated.

One company worth mentioning here is Adidas, which discloses an annual overview of all human rights-related

¹⁴ https://www.ohchr.org/Documents/Publications/Guiding-PrinciplesBusinessHR_EN.pdf (Guiding Principle 22)

complaints it received, its assessment of the complaints and, where appropriate, the remediation it provided. This is an example of reporting on grievances that is far ahead of the rest of the industry and should serve as an example to others.

It is difficult to answer the question of why some of the companies with high overall scores have less developed grievance mechanisms or are less transparent on the use of these mechanisms. Given that grievance mechanisms and remediation are such key elements in the UNGPs and human rights due diligence, we would have expected that companies with extensive policies and processes would have included robust grievance mechanisms in their efforts. Although we have asked for an explanation, we have not received a conclusive answer as to why grievance mechanisms cannot be accessed by external stakeholders. H&M said workers can submit grievances through the National Monitoring Committees it has set up with labour unions in five production countries. The involvement of labour unions in assessing complaints and providing remedy is valuable, but given that H&M's supply chain covers many more countries, this means that a lot of workers are still unable to submit complaints about their working conditions directly to H&M.

Transparency, or rather a lack thereof, is arguably the biggest challenge we have encountered in our research. We recognise that we zoom in on one specific topic and that the type of information we request can be very detailed. However, we currently consider the lack of transparency as the single biggest challenge for investors in making a balanced assessment of garment companies' social performance. Many companies have become more transparent in recent years, for example by publicly disclosing their supplier list, but a lot of information is still missing in public reporting and could not be provided upon request. Missing data includes data on wage levels in the supply chain, wage gap analyses, information about the length and nature of cooperation with (key) suppliers, information on purchasing practices, etc.

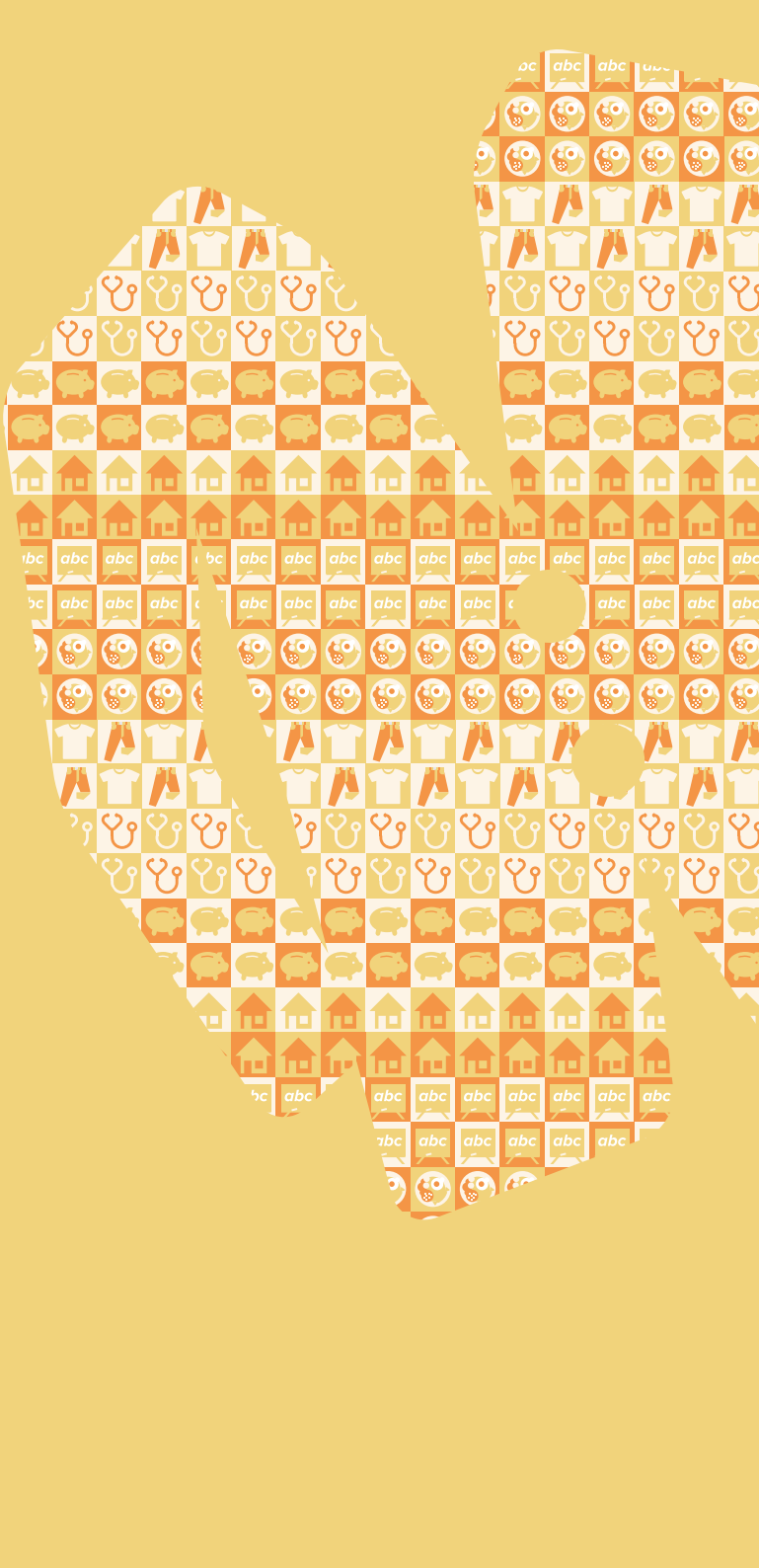
While we noted a general lack of transparency during our research, we also saw that more and more companies in the garment industry are working on initiatives to create a more harmonised approach to human rights reporting. Examples include the Social Labour and Convergence Project (SLCP). In addition, cooperating with, for example, the FLA or ACT harmonises companies' efforts and creates opportunities for harmonising reporting on social indicators. We encourage companies to get involved in these initiatives. At the same time, we would appreciate transparency around the reasoning behind joining a particular initiative and how it fits in the overall strategy and taking ownership of their progress on wages.

2019 developments: best practices but overall improvements are needed

Compared to 2018, most of the companies under review were able to provide us with more information on the elements we score in our methodology. We were even positively surprised by some examples of transparency in this year's research. Two companies, Marks & Spencer and

Question 8 Transparency

Leading	H&M	adidas		
Maturing	ESPRIT	PUMA	MARKS & SPENCER	
Developing	ASOS	2nd step	INDITEX	VF
Embryonic	GILDAN	KappaAhl	RENNER	YOUNG



Adidas, were able to produce a detailed analysis of how the wages in the supplying factories relate to minimum wage levels, industry averages and living wage estimates. This was new information and we consider it a major step forward in transparency. Ideally, this is the kind of information that all companies would report as part of their impact assessment.

The lack of transparency on human rights indicators that we generally observe in the garment sector is also reflected in the scores on Question 8. Five of the thirteen companies are in the embryonic phase, indicating inadequate living wage disclosures. The elements we used in Question 8 contain both 'harder to achieve' elements as well as those that are relatively easy to achieve. For example, information on the nature and length of relationships, the name of the board member responsible for sustainability or human rights (we did not specifically focus on the living wage) or information on collective bargaining agreements at suppliers' facilities should not be considered either sensitive or difficult to report. Nevertheless, only a small majority of the companies assessed reported such information. We therefore urgently call on the brands to make the effort to report this rather basic information on the human rights due diligence process.

We would also like to make a note here with regard to the companies producing (a large) part of their production volume themselves. Wage data and other data on working conditions in factories is information that companies have available internally. Taking that into account, transparency and reporting on social indicators is significantly lagging behind and we want to reemphasise the importance of becoming more open to external stakeholders.

6. Partnerships and PLWF

Partnerships

ASN Bank supports wage initiatives within key organisations such as the Fair Labor Association, Fair Wear Foundation, Amnesty International and Solidaridad. Last year we invited our partner organisation FWF to comment on our report and share best practices. This year we have the honour of adding a valuable contribution from the FLA on developments around its wage dashboard (see the middle part of this report). These collaborations are crucial for us, as they provide expertise and inspiration on how to move forward in our engagement with investee companies.

Let us be clear that we do not have a preference for one initiative over another. We believe that all collaborations support progress in the field of wage settlement mechanisms and/or wage levels. Action is needed at both the factory/audit level as well as the sectoral/national level. We highly encourage companies to analyse their particular needs when it comes to working with expert organisations and stakeholders and how they see these initiatives making an impact.

PLWF members

a.s.r. asset management, ABN AMRO, Achmea Investment Management, Amundi, ASN Bank, ING, Kempen, MN, NN Investment Partners, PGGM, Robeco, Triodos Investment Management

MSIs and other organisations help fill the governance gap that is still wide open. This is a gap between the universal normative frameworks of the UN and OECD, and the situation on the ground in producing countries where weaker governmental systems prevail. Although we think these MSIs often face a Herculean task when dealing with this wide gap, we also feel they need to start sharing more on the positive impact and progress on the ground. In fact,

we would like to see investee companies improve their communications about what they share within MSIs and how that has an impact on the ground.

Key data PLWF 2019

- 12 members (financial institutions)
- 2.5 trillion EUR assets under management
- 32 garment companies under engagement
- 9 food producing companies under engagement
- 7 in-person meetings a year
- 5 retail companies under engagement
- 1 good practice guidance
- 1 leaflet for asset managers

For a list of all the names of the companies under engagement, see www.livingwage.nl

PLWF

Financial institutions also need to cooperate in sharing best practices and creating leverage within engagement streams. Together with Mn and Triodos IM, we are the proud initiator and proud chair of the Platform Living Wage Financials (PLWF) that was launched last year (www.livingwage.nl). Over the past 12 months we have grown into a full-fledged platform organisation that now comprises 12 members, ranging from banks and pension funds to asset managers and insurers.

There is ample information about our activities on our website www.livingwage.nl. However, we would like to highlight some new developments from the past year. Aside from welcoming new members that grew our overall Assets under Management to 2.5 trillion EUR, we set up a governance structure with several working groups that focus on topics and themes (see appendix 2). We have now expanded into assessment of and engagement with the food production and retail sector.

We also have PLWF colleagues working on broadening the living wage engagement during Annual General Meetings (AGMs) as a way to escalate, if needed. We continue to collaborate on the garment sector, assessing more companies and aligning our efforts. In addition, our colleagues developed an assessment methodology for the food and retail sector based on the original methodology tailored to the garment sector.

PLWF is the proud 2019 winner of the United Nations Principles for Responsible Investment (UN PRI) Award for best Active Ownership Initiative!

Kristina Stonjeková (MN) took the initiative to compose a Good Practice Guidance to share with companies under review¹⁵. This will help guide them to improve their scores and further progress as we show and share best practices. Last but not least we initiated the 'Friends of the Platform', consisting of many experts on wages, agri-food and garments that we involved in our work over the last year. On 9 October 2019 PLWF partner Robeco will host our annual event. We look forward to continuing discussions with companies, colleagues and experts.

¹⁵ See www.livingwage.nl for the Good Practice Guidance

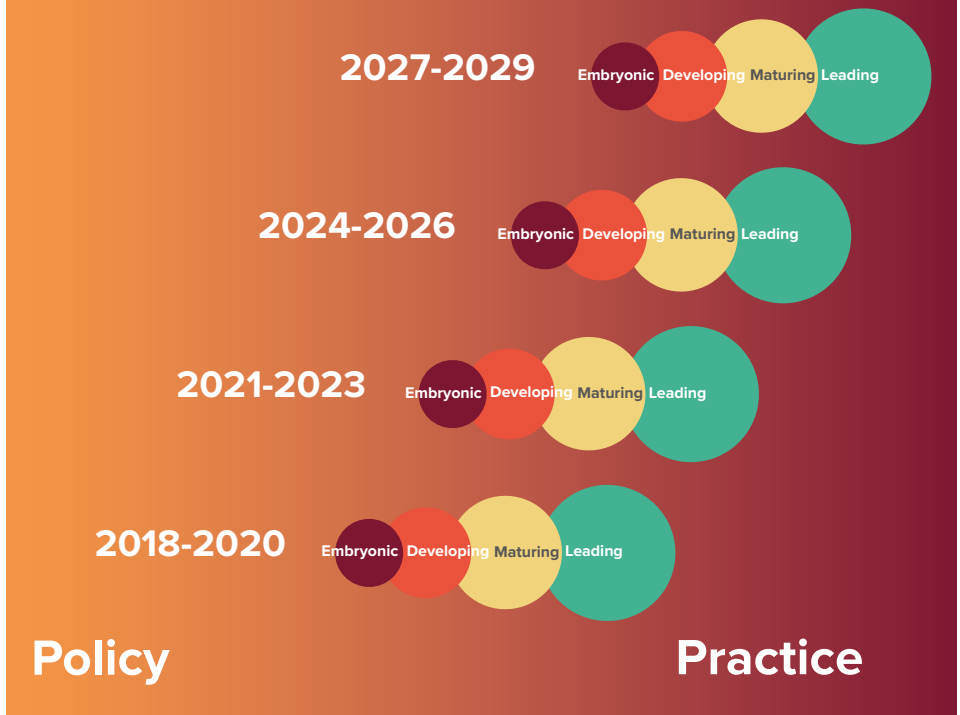
7. Looking Forward

Engagement that works

As we hope to make clear by publishing these annual updates: our engagement process is serious business. As an ethical bank we do not hesitate to exclude sectors or companies for poor human rights performance. We owe this to ourselves, our clients and other stakeholders. We do, however, acknowledge that the world is not black and white. For us, the living wage is the grey area in which we like to play our role as influencer.

In our view, engagement should be based on externally validated research, clear processes and transparency. We are grateful to the investee companies that are willing to talk to us to help improve wages for workers. We offer encouragement and support where we can. But we also aim to continue pointing out where improvements can be made. Hence, the process-based approach, stimulating companies to move up in these four categories to 2030.

Towards living wages in practice



Companies that fail to improve within a certain timeframe cannot remain in ASN Investment Funds. Having a set time period for performance checks is the only way to meaningfully engage as investors. Therefore, next year we will publish milestones by which we expect investee companies to have reached a certain level of progress. Generally speaking, as an ethical bank we do not hesitate to divest from companies that fall short of the progress we seek.

Lobbying & advocacy

Together with our financial partners in PLWF and stakeholders in Friends of the PLWF we will continue to publicly speak on the need for living wages in international supply chains. Our message aligns us with a growing portion of society that advocates for 'conscious capitalism' and 'a stakeholder model not a shareholder model'. We realise that we are shareholders and that we need to step up and find a balance internally between financial and societal returns. At the same time, we will continue to ask governments to step up as legislators to protect universal human rights within all of the supply chains catering for our basic needs: food and clothing. This is long overdue as the rights of business have been justly granted in our age of globalisation but need to be balanced with a necessary duty of care for the common good.

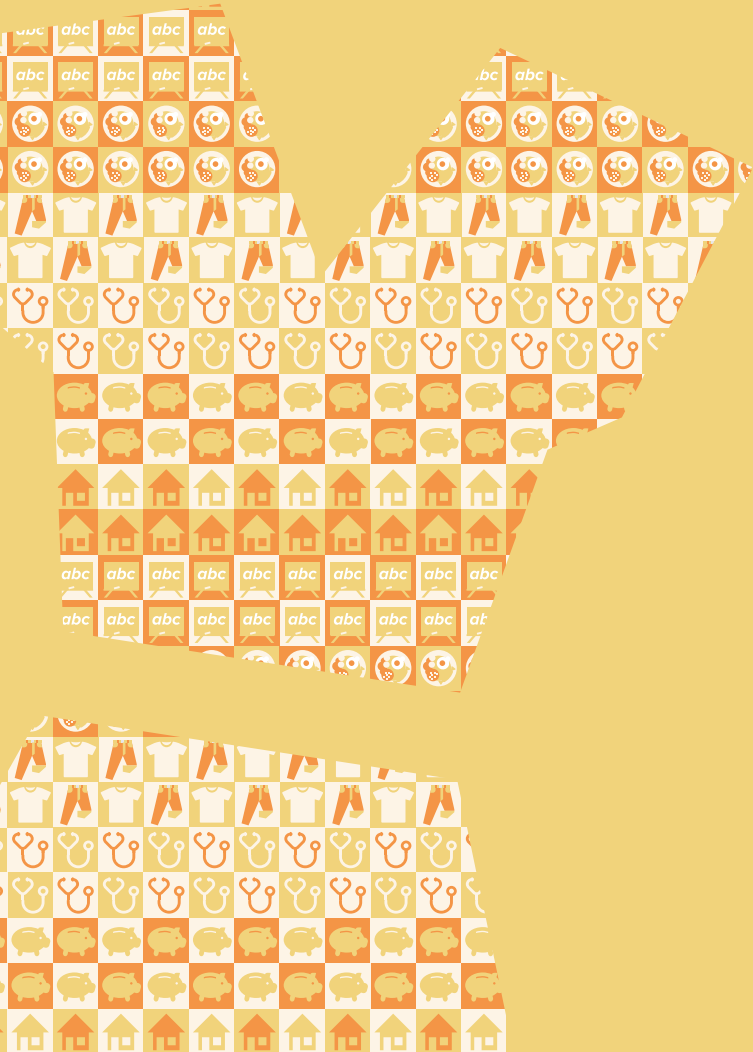
Having an impact?

As investors it is not necessarily clear whether we can attribute our engagement efforts to positive outcomes. In order to gain more insight into the possible impact of our engagement, we envisage commissioning a consultant in 2020 to conduct a study. This study may help us to determine whether or not engagement is a tool that can be successful in supporting a living wage for workers in garment supply chains. It can also help indicate where we can improve as an investor when it comes to engagement strategies for the medium to longer term.

Teamwork

Finally we like to thank all our colleagues at ASN Bank, Mazars and PLWF who helped make these 2019 reviews happen for their insights and support. The issue of living wage can only be addressed in a collaborative way with all stakeholders involved, in buying and producing regions. We very much look forward to continuing our work and help grow awareness for human rights in business.

Appendix 1: Sources and contacts



Adidas

- Adidas corporate website:
 - <https://www.adidas-group.com/en/sustainability/compliance/sustainability-team/>
 - <https://www.adidas-group.com/en/sustainability/people/factory-workers/>
 - <https://www.adidas-group.com/en/sustainability/people/factory-workers/#/unser-an-satz-zur-zahlung-angemessener-lohne/>
 - <https://www.adidas-group.com/en/sustainability/managing-sustainability/partnership-approach/#/2001/2006/richtlinien-zum-umgang-mit-stakeholdern/>
 - <https://www.adidas-group.com/en/sustainability/compliance/supply-chain-approach/#/monitoring-supplier-performance-audits/>
 - <https://www.adidas-group.com/en/sustainability/people/factory-workers/#/zeitleiste-untersuchungen-zu-angemessenen-lohnen/>
 - <https://www.adidas-group.com/en/sustainability/compliance/supply-chain-approach/#/training-and-empowering-suppliers/>
 - <https://www.adidas-group.com/en/sustainability/compliance/supply-chain-approach/>
 - <https://www.adidas-group.com/en/sustainability/compliance/supply-chain-approach/#/risk-mapping/>
 - <https://www.adidas-group.com/en/sustainability/compliance/supply-chain-structure/>
- Adidas Responsible Sourcing and Purchasing Policy: https://www.adidas-group.com/media/filer_public/ca/ba/caba936a-7da7-4710-9d88-d437bac87923/adidas_responsible_sourcing___purchasing_policy_en.pdf
- Feedback Adidas on 2018 engagement sheet
- Adidas Annual Report 2018
- E-mail exchange with Adidas (23-04-2018 +18-07-2019)
- Engagement call with Adidas (13-11-2018)
- FLA Reaccreditation report Adidas: http://www.fairlabor.org/sites/default/files/documents/reports/adidas_reac-

creditation_assessment_october_2017.pdf

- Adidas Workplace Standards: https://www.adidas-group.com/media/filer_public/23/b4/23b41dce-85ba-45a7-b399-28f5835d326f/adidas_workplace_standards_2017_en.pdf
- Adidas Summary of Human Rights Complaints handled: https://www.adidas-group.com/media/filer_public/65/ad/65adad7e-63b8-4400-afaf-e099b8ae6cf7/summary_of_human_rights_complaints_handled_by_adidas_in_2018_web_en.pdf
- Adidas Summary of Third Party Complaint Process: https://www.adidas-group.com/media/filer_public/3a/a8/3aa87bcf-9af9-477b-a2a5-100530e46b19/adidas_group_complaint_process_october_2014.pdf

Asics

- Corporation Primary Supplier List 2018: https://assets.asics.com/page_types/3838/files/ASICS%20Corporation%20Primary%20Supplier%20List%202018_originalv2_original.pdf?1545697151&ga=2.38901348.615799936.1559630485-1276362874.1523976497
- Global Policy on Protected Disclosure (whistleblowing): <https://corp.asics.com/en/p/global-policy-on-protected-disclosure-whistleblowing>
- Policy of Engagement: <https://corp.asics.com/en/p/asics-policy-of-engagement>
- Supply Chain Transparency: https://corp.asics.com/en/csr/partnering_with_our_supply_chain/transparency
- Sustainability report 2018 (p 7, 8, 10, 11, 35, 36, 38-40): https://assets.asics.com/page_types/4003/files/asics_sustainability_report_2018_online_original.pdf?1557727142&ga=2.246033412.1283787009.1559042074-1276362874.1523976497
- Email exchange withn Asics (4-06-2019, 5-06-2019, 14-08-2019)
- Call with Asics (21-08-2019)



Asos

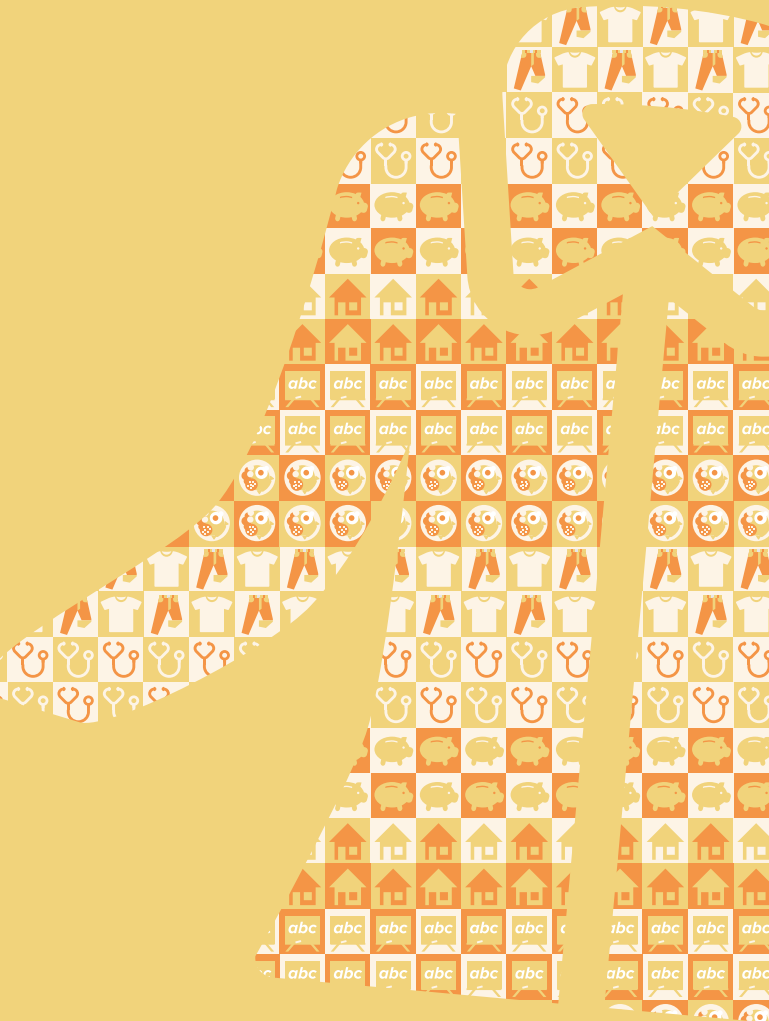
- Corporate Responsibility Report: <https://www.asosplc.com/~media/Files/A/Asos-V2/documents/cr-2017-02112017.pdf>
- Ethical Trade Partnerships: <https://www.asosplc.com/corporate-responsibility/our-products/ethical-trade-partnerships>
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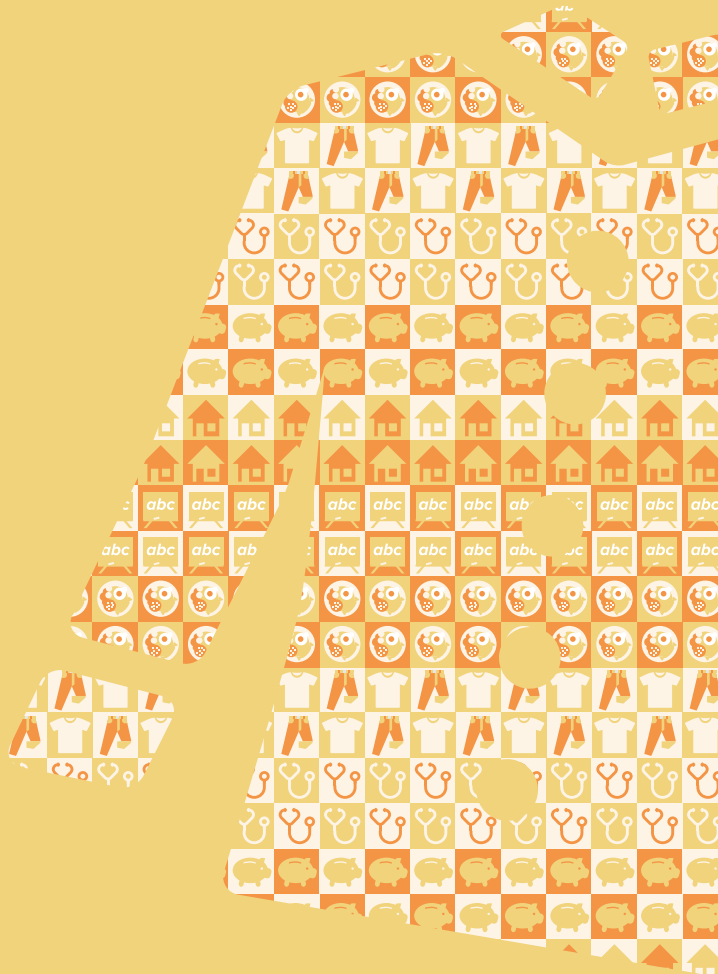
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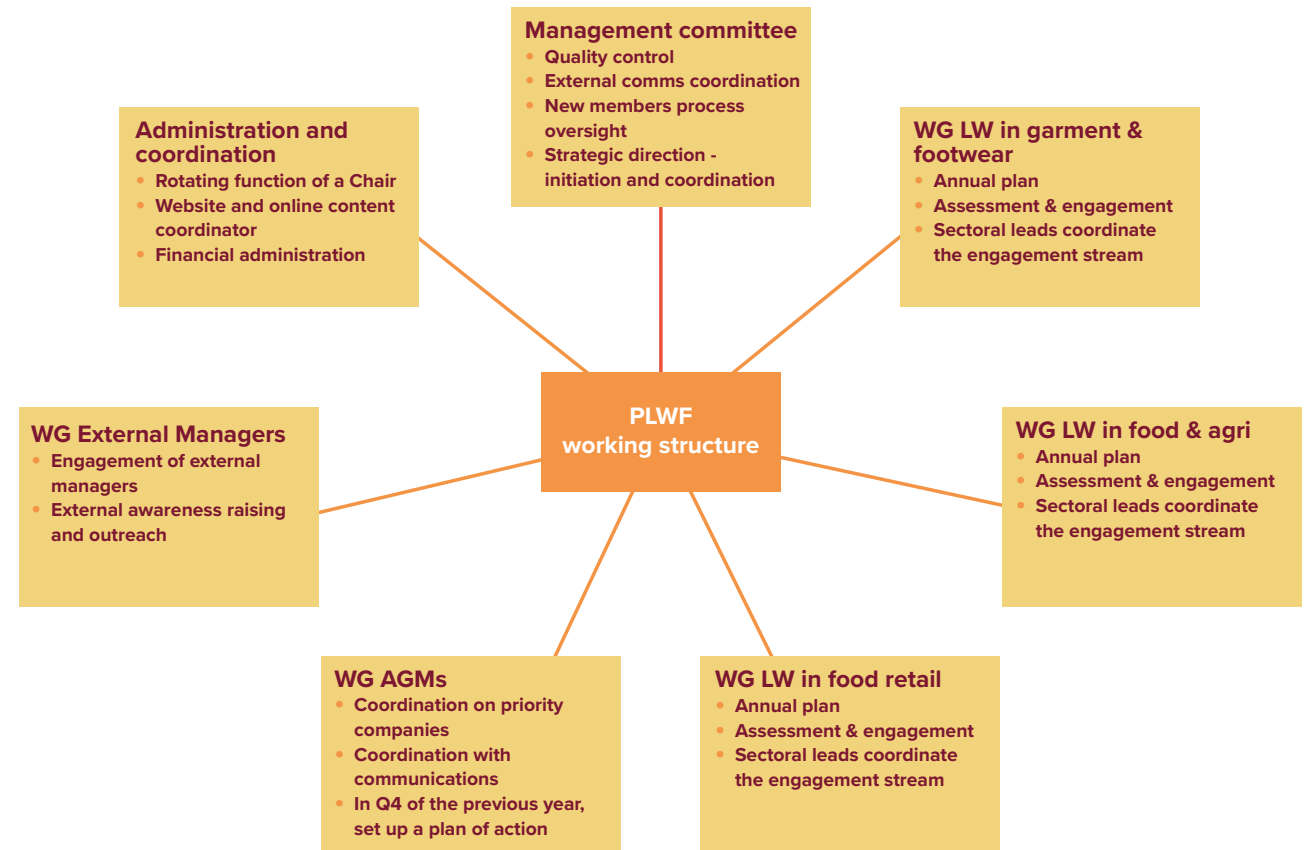
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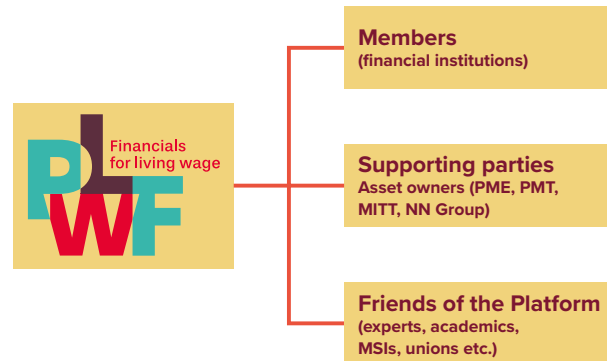
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Appendix 2: Working structure PLWF

The working structure of PLWF as of 2019:





PLWF overarching structure

	Type of eligible organisations	Role	Formal decision-making powers
Members	Banks, insurers, pension fund asset managers, asset managers	Active participation (engagement & assessment), coordination, strategy setting etc.	Yes, subject to ToR
Supporting parties	Asset owners affiliated with PLWF members	No formal role, but they may be involved informally. They may also be involved in the coordination of external communication.	None
Friends of the Platform	Experts; any organisations (with the exception of institutions that can become members or supporting parties of the Platform) or individuals involved with and/or having an expertise in the topic of living wage/income	Inspire, challenge, inform, and provide feedback to the Platform.	None

Independent Reasonable Assurance Report to the Directors of de Volksbank N.V. and its trading entity ASN Bank in respect of the process of assessment of Living Wage ratings

Assurance opinion

We have undertaken a reasonable assurance review over the process performed by de Volksbank N.V. and its trading entity ASN Bank (together “the Bank”) in its assessment of the performance of identified companies in influencing payment of a Living Wage through their relationships with garment manufacturers.

In our opinion:

- the governance over the ratings process applied by the Bank is in line with the process as stated on page 7 of the report entitled ‘Living Wage in the garment sector results of the 2019 reviews’; and
- the overall ratings determined by the Bank were reasonably stated for each company reviewed as set out on page 8 of the report entitled ‘Living Wage in the garment sector results of the 2019 reviews’ based on the information provided to us by the Bank.

Basis for assurance opinion

In accordance with the engagement terms dated 5 June 2019 we were engaged by the Bank which has devised the methodology applied to assess the payment of a Living Wage in 13 identified investee companies in the garment sector.

The methodology consists of eight questions with rating scales ranging from 0 to 5 that reflect the investee companies’ progress at influencing the payment of living wages where garments are manufactured either in their own organisation or in their supply chain. A weighting has been assigned to each question.

The Bank determined an overall rating for each investee company based on publicly available information at the time of the Bank’s review and responses to direct communication with the investee companies. Based on their overall ratings, the investee companies were assigned one of four categories: embryonic, developing, maturing and leading.

The Bank asserts that they have put steps in place to demonstrate the robustness and objectivity of their approach to this assessment.

We have performed an independent reasonable assurance review to assess whether the ratings process was in line with Bank’s assertion and that the overall ratings applied by the Bank were reasonably stated for each identified company. The scope of our work was limited to our review of the Bank’s assessment using the information provided by the Bank as set out in Appendix 1 to the report entitled ‘Living Wage in the garment sector results of the 2019 reviews.’

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Registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

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Our approach

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised): “Assurance Engagements other than Audits or Reviews of Historical Financial Information”, issued by the International Auditing and Assurance Standards Board (IAASB). We conducted the engagement in accordance with the IAASB’s International Framework for Assurance Engagements.

The objective of a reasonable assurance engagement is to perform such procedures as to obtain information and explanations which we consider necessary in order to provide us with sufficient appropriate evidence on which to base our assessment on whether the overall ratings applied are reasonably stated based on the methodology.

Our procedures included, but were not limited to:

- Review of the evidence to support the findings of the Bank;
- Review of sources of information that were used as evidence to confirm that all relevant information has been applied;
- Meeting with representatives of ASN Bank to confirm their understanding of the report entitled ‘Living Wage in the garment sector results of the 2019 reviews;’ and
- Review of the overall presentation of the report entitled ‘Living Wage in the garment sector results of the 2019 reviews.’

The governance over the ratings process was tested on a sample basis and included, but were not limited to, the following procedures:

- Enquiry of appropriate Bank personnel to confirm the work they performed in the ratings process; and
- Review of the documented controls in respect of the rating process.

Responsibilities of the Bank

The directors of the Bank are responsible for the preparation and presentation of the report entitled ‘Living Wage in the garment sector results of the 2019 reviews’ and for being satisfied that it gives reasonably stated ratings for each garment company, and for such internal controls as they determine necessary to enable the preparation of the report entitled ‘Living Wage in the garment sector results of the 2019 reviews.’

Responsibilities of Mazars

It is our responsibility to perform a reasonable assurance review to assess whether the ratings process is in line with the methodology and that the ratings applied by the Bank are reasonably stated for each identified company based on our work performed and the evidence obtained. We have performed no procedures to validate the accuracy or the completeness of the information used by the Bank in their assessment of the ratings

We have complied with the ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA-Code).

We remained independent of the Bank in accordance with the ethical requirements that are relevant to our review of the report entitled 'Living Wage in the garment sector results of the 2019 reviews' and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Limitations

Our objectives are to obtain reasonable assurance about whether the ratings process applied by the Bank is in line with the Bank's assertion and that the overall ratings were reasonably stated for each identified company. The internal controls and processes followed in determining the ratings included in the report entitled 'Living Wage in the garment sector results of the 2019 reviews' are subject to inherent limitations such as fraud and error that may occur and not be detected. Reasonable assurance is a high level of assurance, but is not a guarantee that procedures will detect misstatements that can arise from fraud or error.

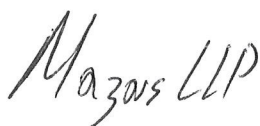
Further limitations on our work include, but are not limited to, the following:

- The information used as evidence by the Bank that provided the basis for our work, may have been superseded by other information published by the investee company subsequent to the review by the Bank. Accordingly, the overall ratings may be out of date by the time that this Report is issued; and
- The investee companies may be aware of other information that could have been used as evidence that may have altered a rating for a specific question. Either this information wasn't published at the time of the Bank's review or the investee company didn't communicate such evidence to the Bank when requested to do so. Accordingly, the assigned rating may have been different if such other evidence had come to light.

Use of assurance report

This assurance report ("Report") is prepared solely for the use of the Bank. This Report is released to the Bank on the basis that it shall not be copied, referred to or disclosed, in whole or in part to any other party (save as otherwise permitted by agreed written terms), without our prior written consent.

This Report was prepared by Mazars LLP at the request of the Bank and terms for the preparation and scope of the Report have been agreed with them. The Report was prepared solely for the benefit of the Bank and no responsibility or liability is accepted towards any other person in respect of the use of the Report or for any reliance on information contained in the Report by any other person or entity.



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