

ENGAGEMENT FACTSHEET

Abercrombie & Fitch

ENGAGEMENT RATIONALE

Abercrombie & Fitch (A&F) is an American apparel retailer and operates approximately 900 stores across three brands. A&F in our view lags behind its peers when it comes to transparency related to its supply chain management policies. This potentially exposes the company to reputational risks.

BACKGROUND

We have had an active dialogue with A&F on its strategy, social policies and corporate governance since the company was added to our Global Small-Cap portfolio. In early 2018, we decided to start a formal engagement on social issues. Our analysis revealed that, since 2011, the company had not disclosed sufficient information about its approach to sustainability and supply chain management.

THEME FOR ENGAGEMENT

- x Human & labour rights and disclosure
- x More recently cotton sourcing

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ENGAGEMENT OBJECTIVES

- x For A&F to disclose information about its sustainability activities on the company website, including its ESG policies and targets, as well as performance against these targets.
- x For A&F to move from an 'embryonic approach' to a 'developing approach' when we next come to score the company using the Platform Living Wage Financials (PLWF) methodology in 2019. We asked the company to develop and publish a policy on the topic of living wage.
- x We would like to see a more comprehensive policy on cotton sourcing, for example if A&F plans to use organic cotton in the future and to what extent.

DEVELOPMENT



MILESTONE



ENGAGEMENT RESULTS

- x A&F launched a new sustainability website, and significantly increased levels of transparency and disclosure around its approach to sustainability. This is encouraging, but there remains limited information on suppliers. Additionally the data are only updated until 2015 (audit findings data). Therefore, the disclosure is not sufficient to progress to the next milestone. We have asked the company to provide additional information about its supply chain management and to add the most recent data.
- x We also require more disclosure about how many issues have been identified and remediated and the governance in place to deal with particular issues. We requested A&F to provide more transparency about what happens if there are specific cases found and how they are remediated.
- x In Q3, Kempen's analysis revealed that A&F does not have a formal living wage policy. We started a discussion on this topic.
- x We have been able to build a constructive dialogue with A&F's C-Level management. We are encouraged to see that sustainability topics are getting significant attention from A&F's top management. We are confident more results will be booked in the coming quarters.
- x In addition to sustainability issues, we would like A&F to focus more on the strength of its balance sheet and cash flows. A topic that management have been receptive to discussing further.

NEXT STEPS

- x A&F to further increase the transparency of its policies and to provide concrete evidence on how these are being implemented within its supply chain.

SDG



COMPANY

A&F is a global specialty retailer of apparel and accessories. It operates three brands: Abercrombie & Fitch, abercrombie kids and Hollister Co.

COUNTRY

USA

SECTOR

Consumer discretionary

MARKET CAP

Small cap

ISSUE

A&F's business model is not fully vertically integrated. The company does not own the factories which manufacture its designs. Production is outsourced to countries outside the US, including China, Vietnam, India and Bangladesh. The industry has faced allegations of poor working conditions.

MATERIALITY

The industry is directly involved in issues and controversies surrounding poor labour conditions through its suppliers (tier 1 and tier 2). A&F audit findings confirm some of these issues.

MSCI ESG RESEARCH

UN Global Compact: Pass
ESG Rating: CCC