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# Fashion eyes sustainability via the circular economy

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The textiles industry is one of the most pollutive in the world, emitting more CO<sub>2</sub> than aviation and shipping combined. But a leading sports firm is showing one way the sector can embrace radical change

I love shopping for clothes – I admit it. But increasingly, my shopping is tinged with guilt. I am now much more aware of the terrible environmental impact that comes with fashion, with the textiles industry one of the most pollutive in the world. Around 100 billion apparel items are sold per year, which is a circa 50% increase versus 2006.<sup>1</sup> This is in large part due to the rise of “fast fashion” – ie cheap, high-fashion items. In fact, the industry now emits more CO<sub>2</sub> than the aviation and shipping industries combined, and uses 79 billion m<sup>3</sup> of fresh water a year while causing around 20% of industrial water pollution.

But unfortunately, very little of what the industry produces is recycled and reused, with the majority of items ending up in landfill or incinerated within a year of production.<sup>2</sup> Indeed, according to the Ellen Macarthur foundation, the global fashion industry produces about 53 million tonnes of fibre a year, of which more than 70% ends up in landfills or on bonfires. Less than 1% is reused to make new clothes.<sup>3</sup>

This raised awareness has changed my consumption patterns – I now buy fewer but higher-quality items. In addition, I have changed my negative view of buying second-hand clothing and now happily scour for bargains either through online platforms or local charity shops. And it looks like I’m not alone: 70% of women either have, or are now open to, shopping second-hand up from 45% in 2016.<sup>4</sup> As a result, rental and resale fashion platforms are seeing strong growth. In the Threadneedle Global Sustainable Global Equity strategy we own one such resale platform, Mercari, which has seen accelerated growth over the past year in its two key markets of Japan and US, with both users and engagement on its platform increasing.

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<sup>1</sup> <https://www.ubs.com/global/en/investment-bank/in-focus/2021/industry-at-risk.html?caasID=CAAS-ActivityStream>

<sup>2</sup> <https://www.ubs.com/global/en/investment-bank/in-focus/2021/industry-at-risk.html?caasID=CAAS-ActivityStream>

<sup>3</sup> <https://theconversation.com/fashion-production-is-modern-slavery-5-things-you-can-do-to-help-now-115889>

<sup>4</sup> GlobalData Consumer Survey, December 2019-January 2020

In fact, consumers are increasingly prioritising sustainability, which is starting to influence the way they shop. Nearly 2.5x more consumers plan to shift their spend to sustainable brands.<sup>5</sup> At the same time, regulation around building a more circular economy is rising too, such as the EU Circular Economy Action plan which aims to shift production and consumption from the linear “Take, Make, Dispose” model to more circular use of products and materials.<sup>6</sup>

Adidas has been a core holding since the inception of the Threadneedle Global Sustainable Equity strategy. Its production and promotion of technical sports performance products contributes positively to our social theme of “Good Health and Wellbeing”.

But if we own a textile company, we also want its products to not have a detrimental impact on the environment. Fitness wear is generally worn more frequently and retained for longer than high-fashion items. In addition, Adidas is a sustainable leader in the industry. At its Capital Markets day in March, sustainability was once again front and centre of its agenda. It detailed its innovation around making its products more circular and sustainable and highlighted its target to have nine out of 10 of its articles environmentally sustainable by 2025 using a “Three-loop” strategy<sup>7</sup>:

- 1. Recycled loop** Sourcing recycled raw materials from outside of its own products, namely 100% recycled polyester or Parley ocean plastic waste (upcycled plastic waste collected on shorelines and coastal areas).
- 2. Circular loop** Producing products that can then be recycled and remade into new Adidas products – “made to be remade”. It has launched an Ultraboost trainer that can be returned, recycled and subsequently remade into a new pair, with the aim to expand this concept to more franchises and categories overtime.
- 3. Regenerative loop** Where products cannot fit into the above categories, Adidas aims to make these products from natural materials that can biodegrade.



Management has in fact set a target for 100% of its products to use only recycled polyester by 2024 aided by the introduction of its sustainable fabrics. All of which sounds positive, but we wanted to see first-hand how sustainability was embedded into the company’s marketing and products on the shop floor. So, more than a year since our last visit we revisited the Adidas flagship store on Oxford Street, London.

Adidas has improved the integration of sustainability across its product ranges. Before, “green” ranges were showcased separately and in very limited parts of the store. Today, recycled materials are evident across all their ranges throughout the store.

<sup>5</sup> <https://www.thredup.com/resale/#methodology-and-sources>

<sup>6</sup> [https://ec.europa.eu/environment/topics/circular-economy/first-circular-economy-action-plan\\_en](https://ec.europa.eu/environment/topics/circular-economy/first-circular-economy-action-plan_en)

<sup>7</sup> Unless stated elsewhere, all facts and figures regarding Adidas are from this document:

<https://news.adidas.com/running/adidas-aims-to-end-plastic-waste-with-innovation---partnerships-as-the-solutions/s/be70ac18-1fc9-45c1-9413-d8abaac2e849>

Adidas uses two sustainable materials in its ranges, which are clearly marked (via a label) on different apparel items and trainers:

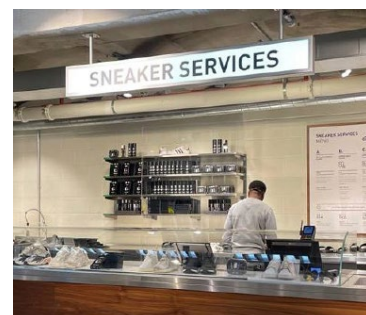
- **Primeblue** This is a high-performance yarn made with at least 50% Parley ocean plastic.
- **Primegreen** This is a series of high-performance materials that are made from recycled ingredients.



Rummaging through men's, women's and children's apparel and trainers, these products made up a substantial percentage of each range. This is a huge advance from a year ago.

Adidas also aims to implement sustainability innovation at scale to make its most popular products its most sustainable. This was on display upon entering the flagship London store where you are greeted with its new "green" Stan Smith selection, one of Adidas's most iconic trainer franchises which are now made from either Primeblue or Primegreen materials. It also showcased an industry first: a Stan Smith made using Mylo, a mushroom-based material that performs like leather but is biodegradable.

Another in-store service is the "Sneaker services" repair station. This allows customers to repair their trainers, preventing early and unnecessary disposal. Extending the life of a garment by just nine months reduces its environmental impact by an impressive 20%-30%.<sup>8</sup>



There was also evidence of progress in targeting our social outcome of "Good health and Wellbeing":

- **Expanding sizing in apparel ranges** Previously there was a separate section for plus sizes. This has now been replaced with expanded sizing integrated across all ranges as well as the use of plus-size dummies to model clothes for both women's and men's ranges. This helps promote inclusion in sport and exercise.

<sup>8</sup> [https://traid.org.uk/wp-content/uploads/2018/09/impacts\\_of\\_clothing\\_factsheet\\_23percent.pdf](https://traid.org.uk/wp-content/uploads/2018/09/impacts_of_clothing_factsheet_23percent.pdf)

- **Greater focus and dedicated innovation around women's training** Adidas has increased investment in women's training ranges. This was evident in-store from the impressive technical items in the women's Terrex outdoor range to displays of its exciting new women's Tennis range.

Digital is another key area of investment for the firm, and the integration of digital and sustainability was on display in the store. For example, there were photo booths where you can take and share your picture and environmental pledge with the online Adidas community.

Overall, we walked away confident that Adidas might achieve its corporate mission: "Through sport we have the power to change lives. By striving to expand the limits of human possibilities, to include and unite all people in sport and to create a more sustainable world".<sup>9</sup>

# Threadneedle Global Sustainable Equity Composite

## GIPS Report: Columbia Threadneedle Investments EMEA APAC

Reporting Currency: USD

### Statement of Performance Results

Calendar Year	Gross-of-fees Return (%)	Net-of-fees Return (%)	Index Return (%)	Composite 3-Yr St Dev (%)	Index 3-Yr St Dev (%)	Internal Dispersion (%)	Number of Portfolios	Total Composite Assets (mil.)	Total Firm Assets (bil.)
2020	28.12	27.30	16.82	N.A.	N.A.	N.A.	≤ 5	1.5	149.8
2019	33.17	32.32	27.30	N.A.	N.A.	N.A.	≤ 5	1.2	140.5

Inception Date: 12/31/2018

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3. A concentrated global equity strategy with a focus on high quality companies that seeks to deliver both positive sustainable outcomes, in accordance with the UN Sustainable Development Goals (SDGs), and superior financial returns. The composite was created November 30, 2018.

4. The portfolio returns used in composites are calculated using daily authorised global close valuations with cash flows at start of the day. Composite returns are calculated by using underlying portfolio beginning of period weights and monthly returns. Periodic returns are geometrically linked to produce longer period returns. Gross of fee returns are presented before management and custodian fees but after the deduction of trading expenses. Returns are gross of withholding tax. Net of fee returns are calculated by deducting the representative fee from the monthly gross return. Policies for valuing investments, calculating performance, and preparing GIPS Reports, as well as the list of composite descriptions, list of pooled fund descriptions for limited distribution pooled funds, and the list of broad distribution pooled funds are available upon request.

5. The dispersion of annual returns is measured by the equal weighted standard deviation of portfolio returns represented

within the composite for the full year. Dispersion is only shown in instances where there are six or more portfolios throughout the entire reporting period. The Standard Deviation will not be presented unless there is 36 months of monthly return data available.

6. The three year annualised ex-post standard deviation measures the variability of the gross-of-fees composite and benchmark returns over the preceding 36 month period.

7. The following fee schedule represents the current representative fee schedule for institutional clients seeking investment management services in the designated strategy: 0.65% per annum. Gross of fee performance information does not reflect the deduction of management fees. The following statement demonstrates, with a hypothetical example, the compound effect fees have on investment return: If a portfolio's annual rate of return is 10% for 5 years and the annual management fee is 65 basis points, the gross total 5-year return would be 61.1% and the 5-year return net of fees would be 55.9%.

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<sup>9</sup> <https://www.adidas.co.uk/impossibleisnothing>

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