THE WAY TO WIN

2023 PREDICTIONS REPORT

Positive Luxury

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CONTRIBUTORS

Diana Verde Nieto
Co-Founder, Positive Luxury

The Co-Founder and Co-CEO of Positive Luxury, Diana Verde Nieto is an entrepreneur, ESG pioneer and a globally recognised figure in sustainability. Diana holds a degree in Global Leadership & Public Policy from Harvard Kennedy School, and has been trained by former USA Vice President, Al Gore, at the Alliance of Climate Protection and subsequently honoured by the World Economic Forum as a Young Global Leader. Diana is based in London.

Romie Goedicke
Associate Lead Nature, Partnerships & Development at UNEP FI / Founder, the Hive

The associate lead of the UNEP FI nature team, Romie is working to develop a number of new relationships with the nature finance community and bring cross-programme efforts such as alignment on portfolio targets, and up-scaling nature-positive financial flows. She is founder of the Hive, changing the nature of finance, and worked previously in senior positions for IUCN Netherlands Committee and the GRI. Romie is based in Amsterdam.

David Koo Hjalmarsson
Founder, Tiny Associates

David Koo Hjalmarsson is CEO and founder of Tiny Associates, a brand offering a new generation of post-natural skincare products. He is also chairman of the board of Kind to Biome, the mark of quality for skin microbiome-focused cosmetics and personal care products. Before founding Tiny Associates and Kind to Biome, he worked as a management consultant in Seoul, South Korea. David is based in Stockholm.

Nick Pye
Co-Founder, Mangrove Consulting

Nick co-founded Mangrove Consulting, a global strategy and sustainability firm, in 2005. For over a decade he has led sustainability projects around the world for both some of the world's biggest and best-known businesses as well as start-ups and scale-ups. His luxury experience is diverse having worked in categories from skincare to whisky and from luxury lingerie to EVs. Nick is based in the UK.

Martin Townsend
Global Head of Sustainability & Circular Economy – BSI

In his career to date, Martin has worked as an environmental Regulator, advised Ministers, and partnered with City Mayors and businesses across the world of all sizes and sectors. Martin joined BSI as Global Head for Sustainability and Circular Economy in November 2019 and also sits on several advisory boards for public and private sector organisations to support them in their success. Martin is based in the UK.

Wonsik Jeong
Investment Manager, D3 Jubilee Partners

An investment manager at D3 Jubilee Partners, a global impact venture capital firm base in Seoul and San Francisco, Wonsik's main interest areas are mitigation and adaptation solutions for climate. A KAIST physics graduate with a master's in Entrepreneurship and Business Technology Management, he also serves as a Curator at the Global Shapers Community Seoul Hub, a 2030 social impact leadership initiative of World Economic Forum.

Amy Nelson-Bennett
Co-CEO, Positive Luxury

Positive Luxury Co-CEO Amy Nelson-Bennett is a passionate advocate for sustainability and social issues. She joined the Positive Luxury team after leadership roles at Clive Christian and Molton Brown and since then has been focused on growing the number of luxury brands, retailers and suppliers joining the Positive Luxury community – supporting them to accelerate their sustainability efforts and improve the industry's ESG+ impact. Amy is based in London.

INTRODUCTION:
A CHALLENGING ENVIRONMENT

Diana Verde Nieto

The coming year is the most important yet in the fight against climate change. I am sure this is not the first time you have read those words from a sustainability expert, but the challenges that we are facing are more immediate now than they have ever been. 2023 will bring with it the intertwined disruptions of recession and climate instability, with supply chain issues, climbing energy prices, marketplace volatility, political polarisation, climate refugees and a water crisis all combining to take our planet (and, of course, our economies) into uncharted territory. And we believe it is in your hands – the hands of business leaders and sustainability professionals – to pull us back from the brink and build a better future for us all. The challenge we are faced with is that unless there is genuine, transformative collective action in the next five to eight years, we will push our planet past the point of no return. Radical, scalable and transformative innovation is required – a significant opportunity given innovation is something at which our industry excels. As they say, challenge and opportunity are two sides of the same coin.

Luxury businesses need to take their expertise at innovating and use it to create products, services and experiences that do not rely on our dwindling natural resources. An example of this from the last year that fills me with hope is the collaboration between Butterfly Mark certified brand Stephen Webster and Skydiamonds, a company that turns atmospheric carbon into diamonds, putting cleaner air back into the atmosphere than it takes out. We need projects like this to be produced on a global scale, in every luxury industry, across every market. Luxury brands today are reliant on natural resources that will simply not be available in the future in the same quantities or quality required to fulfil growing demand. That is why in the past year we have seen LVMH investing in Italian leather specialists, bringing their supply chain closer to home and getting more control and visibility over scope 3. Those luxury brands that are unable to take such direct control over their supply chain will have to find alternatives, they will have to adapt and innovate, in order to survive and flourish in the future.

Alongside innovation, we believe a transformational mindset should be central to luxury organisations looking at the coming year and beyond. Having a transformational culture and mindset and embedding transformational disciplines into business-as-usual structures, processes and systems will give companies the best chance to keep their competitive advantage. One such example of this is the emerging Supplier Relationship Manager role that provides inputs and recommendations on product costs, market pricing trends, competitive pricing, market forecasts and developing links with suppliers. Roles like this truly embed a sustainable mindset within a business and can reshape an organisation from the inside out.

"Innovation on the scale and at the speed that we need requires collaboration... central to the structure of this year's report"

Diana Verde Nieto

Co-Founder, Positive Luxury

Finally, we believe that collaboration is essential. This year's report is called 'The Way to Win' and the way we win is together. Innovation on the scale and at the speed that we need requires collaboration and working as a community. That is why we have chosen to make collaboration central to the structure of this year's report by bringing together five of the most exciting thinkers currently working in sustainability to show how practical Environmental, Social, and Governance practises can help organisations achieve sustainable economic growth. Their thinking will impact your approach to 2023 and inspire you to create winning strategies that will place your business at the cutting edge of luxury sustainability.

I: Environment

CONNECTING ECONOMY & ECOLOGY

Romie Goedicke

CLOSE YOUR EYES. IMAGINE YOU ARE IN A FOREST; YOU CAN HEAR THE BIRDS UP IN THE SKIES, THE WIND IS RUSTLING THE TREES, YOU SMELL THE MOIST OF LEAVES DECOMPOSING, YOU ARE NATURE. NOW OPEN YOUR EYES, WHAT DO YOU FEEL?

Being in nature reminds us of the ancient bonds we have with our natural world. Yet when we speak about nature in a professional context it is often driven by numbers. 'Half of world's GDP moderately or highly dependent on nature' [1] is probably the most often quoted number. But what does this mean? We can only start to heal our relationship with nature if we start to change the way we speak and think about nature. We need to connect logos (rational philosophy) with mythos (the stories of gods, goddesses, and heroes), and speak both about numbers and feelings.

ALPHABET SOUP

In the past few years an alphabet soup of initiatives to measure, manage and improve nature has developed: TNFD, PBAF, ENCORE, ALIGN, EFRD, IFRS, to name a few. Luxury brands are often active supporters of this work. But all initiatives will fall short if they are not part of a coherent narrative. In the past 25 years the sustainability landscape has been laser focused on transparency, but recent research of more than 7,000 companies shows that ESG ratings do not correlate with sustainability impact. [2] More transparency is not a silver bullet, only a tool to get more insights in real world impact.

EMBRACE DIVERSITY

It all starts with purpose. It is not about what your shareholders want, but how your organisation will impact the world three generations from now. The IPBES Values Assessment showed that decision-making processes that support representation and consideration of diverse values and integrate indigenous and local knowledge with scientific knowledge have more just and sustainable social and ecological outcomes. [3]

NORTH STAR

According to industry experts, biodiversity is the fastest evolving ESG theme in global capital markets. [4] The Kunming-Montreal Global Biodiversity Framework adopted by 196 countries in 2022 calls for a "peace pact with nature" in the words of UN Secretary-General António Guterres. As with the Paris Climate Agreement, the framework calls on private sector actors to play a pivotal part in delivering its apex goal – to halt and reverse nature loss by 2030. Goal D calls to progressively close the US$700 billion per year finance gap for biodiversity. This could be interpreted as the Paris 2.1C equivalent, calling for all public and private financial institutions to align their portfolios urgently to help deliver this agreement. It is promising to see that ahead of the final agreement over 150 financial institutions, managing more than US$24 trillion, called on world leaders to adopt an ambitious framework and committed to working within their own organisations to support the effective alignment of the proposed vision from the Convention on Biological Diversity of "Living in Harmony with Nature by 2050".

FROM CSG TO ESG

Until now the E in ESG has been synonymous for the C in climate. But it is mathematically impossible to reach net-zero without nature-positive, as the climate crisis cannot be stopped without addressing the degradation and loss of nature and biodiversity. Between now and 2030, nature-based solutions could contribute over one-third of the cost-effective cuts in greenhouse gas emissions.

NATURE-POSITIVE

How can we build a nature-positive future? UNEP's the State of Finance for Nature report shows that if the world is to meet the climate change, biodiversity, and land degradation targets, it needs to close a US$4.1 trillion financing gap in nature by 2050. [6] The current investments in Nature-based solutions amount to US$ 133 billion – most of which comes from public sources.

WHAT NEEDS TO HAPPEN?

1 We need to reduce harmful economic activities. For example nearly US$542 billion is spent each year on agricultural, fisheries, and forestry subsidies that are harmful to nature. Redirecting those payments, especially those considered most harmful to biodiversity, to incentivise more sustainable practices would benefit nature while also mitigating climate change and improving food security.

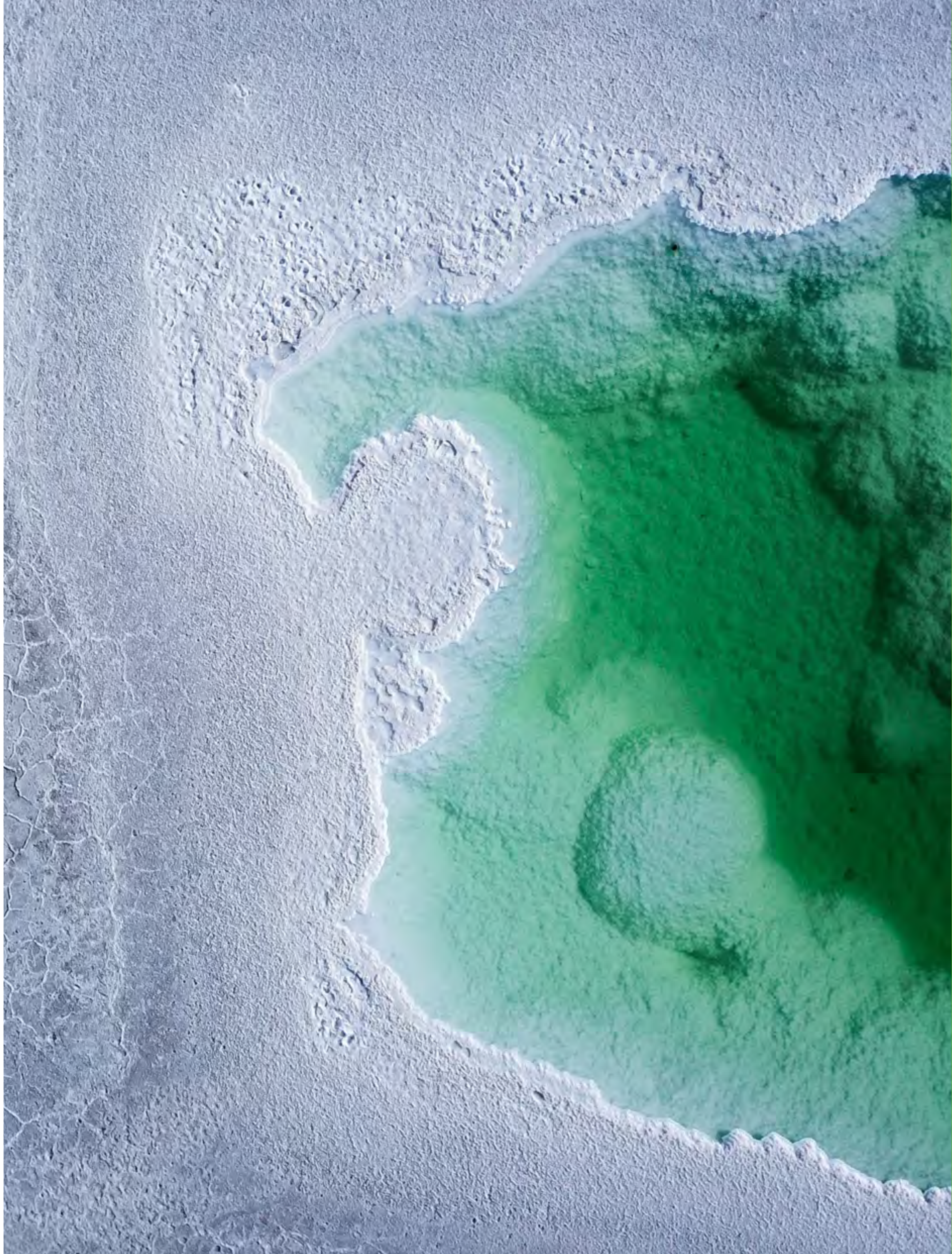
2 We need to generate new income. Financial institutions can help by expanding investment opportunities in green bonds, low-interest green loans, environmental impact bonds, and other green financial products. Governments can assist by creating incentives, clear guidance, and standards for these investments.

"The climate crisis cannot be stopped without addressing the degradation and loss of nature and biodiversity

3 And lastly, invest smarter. Reefs, forests, wetlands, and other natural systems provide habitats for wildlife while delivering important ecosystem services such as watershed and coastal protection. In some cases, natural infrastructure is more cost-effective than engineered solutions.

OIKOS

Economy and ecology both stem from the Greek word Oikos, which means "our house". As Greta Thunberg has said "our house in on fire". [7] Our house is on fire because economy and ecology have become disconnected. 2023 will be a pivotal year to re-establish our relationship with nature, and build together towards a nature-positive future for all. Luxury brands should play a leading role in this transition.



ENVIRONMENT: NEED TO KNOW

56%

Rise of financial institutions committing to Climate and Nature related targets reflecting their countries' NDCs (Nationally Determined Contributions) for reducing national emissions, forest management, water scarcity and adapting to climate change related impacts.

GLOBAL BIODIVERSITY FRAMEWORK

Introduced at COP15, this is setting the targets that determine what the public and private sector must act on in the next decade to reverse biodiversity loss.

TRADITIONAL ECOLOGICAL KNOWLEDGE

According to Siham Drissi, Biodiversity and Land Management Programme Officer with the United Nations Environment Programme we "need to protect, preserve and promote the traditional knowledge, customary sustainable use and expertise of indigenous communities if we want to halt the damage we're doing – and ultimately save ourselves".

TAKEAWAYS FOR LUXURY BRANDS

1 Think Nature Positive

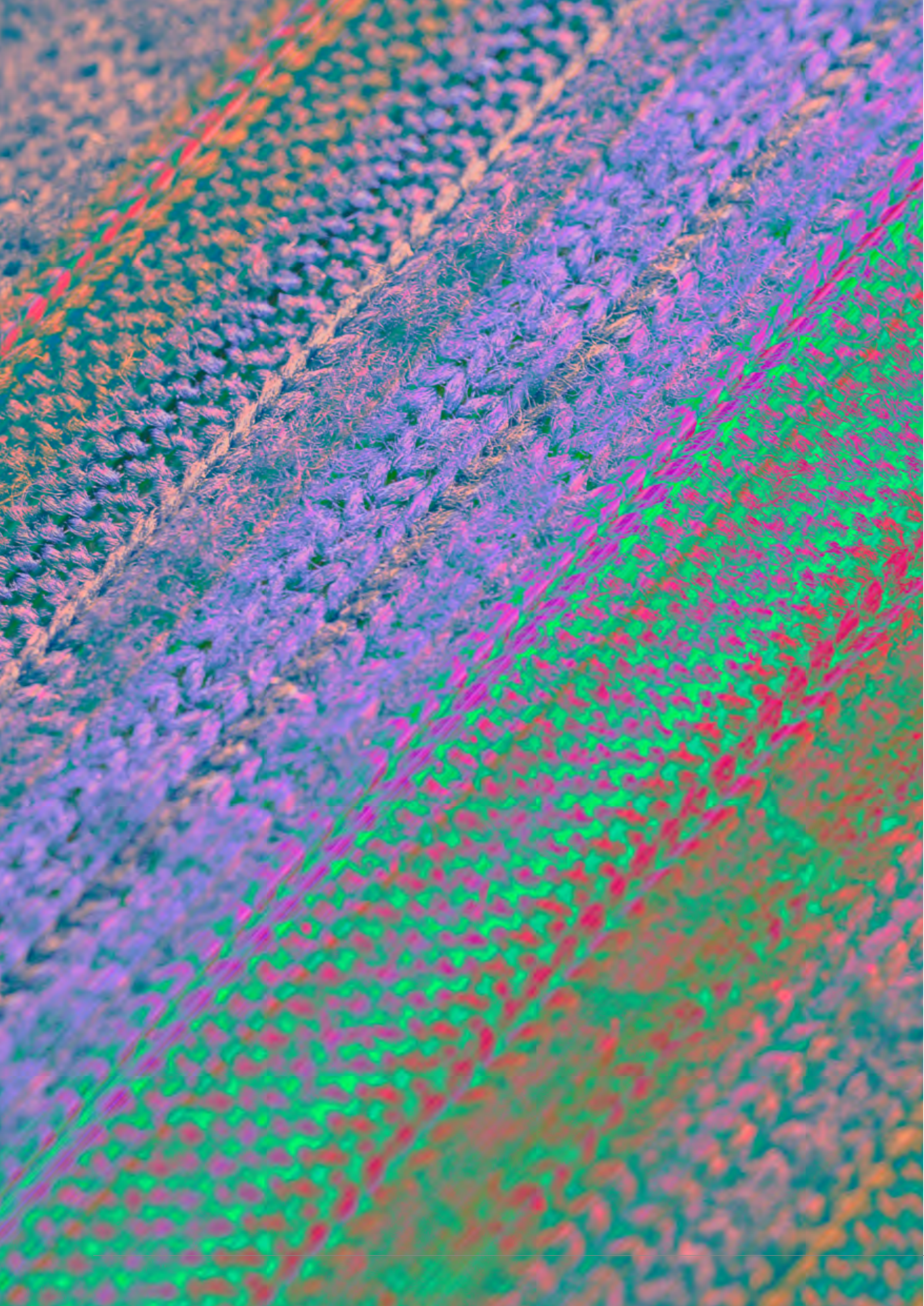
The winners in 2023 and beyond will have multiple initiatives in place that enhance ecosystems. Kering is leading the way in this regard and aim by 2025 to have regenerated one million hectares of farms and rangelands in the supply chain, with the priority on providing biodiversity and carbon sequestration. This is running concurrently with its plans to protect one million hectares of critical 'irreplaceable' habitat outside of its supply chain, its commitment to the Fashion Pact, restoring habitats where mining and other extraction activities have occurred, as well as participating in the creation of the Global Biodiversity Framework.

2 Resource Efficiency

This will be key as natural resources dwindle. Pressure from legislators and consumers will force luxury organisations to create more economic output from fewer resources. Not only to reduce pressures and impacts on biodiversity but to avoid future financial risks due to natural resource scarcity.

3 Invest in Nature

An investment in nature is an investment in your business – especially where your value chain is placed. Butterfly Mark certified brand The Macallan is a leading example of this – the water used for their whisky is sourced from natural spring water boreholes on the banks of the Spey. The brand conserves water through efficient abstraction, and cooling water comes directly from the river and is returned in full, allowing them to maintain the quality of their product, boost their sustainability credentials, and maintain a lasting positive relationship with the natural world they rely on.



II: Social

THE SOCIAL IMPORTANCE OF SUPPLIER RELATIONSHIPS FOR DISRUPTIVE SUSTAINABILITY-DRIVEN INNOVATION

David Koo Hjalmarsson

IMAGINE YOU CAN DESIGN A FUTURE IN WHICH THE NEXT GENERATION KNOWS HOW TO BUILD BUSINESSES AND PRODUCTS THAT REGENERATE OUR PLANET INSTEAD OF TAKING FROM IT, WITH THE KNOWLEDGE AND COLLABORATIVE SKILLS TO ENSURE WE LIVE IN AN EQUITABLE, HEALTHY WAY. SUPPLIER RELATIONSHIPS ARE KEY.

Putting supplier relationships at the centre of your business is essential for luxury businesses looking to build a competitive advantage in the sustainability economy. These closer relationships help organisations achieve speed, scale and cost – but also build trust with consumer and reduce environmental impact. The shift towards sustainable solutions is becoming a driving force in consumer goods industries. Staying ahead of disruptive technologies and on top of new market trends is vital for brands. But how can brands work together with suppliers to build a relationship that is good for people and planet and accelerate the roll out of emerging sustainability-driven innovation?

The roll out of disruptive sustainability-driven technologies can be achieved faster and with less risk by having strong relationships with suppliers. This has driven the noticeable uptake of procurement teams and supply chain management chiefs and their positive effect on a company's value.

The beauty industry is a leading example of this, where it is becoming increasingly evident that biotechnology will play a major role in how ingredients are made more sustainable. It is necessary to reach a large enough critical mass of adopters prior to widescale industrial adoption and that process could be accelerated by forging strong supplier relationships through storytelling.

"Ideally, what we want to do, in terms of supplier-collaboration, is to work closely on articulating and aligning stories that engage, excite, and educate people about biotechnology, which makes it meaningful to them."

Recent research has made it clear that adoption is driven not only by what consumers think of innovations but also by how they feel about them. Emotions are therefore an inherent part of the success, or failure, of sustainability transitions.

As the significance and scope of sustainability increases, suppliers will continue to move closer to the end consumer. Supply chain and procurement decisions greatly influence the sustainability of products that make it to market, and consumers want increased access to the supply chain. Supply chain transparency and traceability will become ever more important. These dynamics also lay the ground for increased collaboration.

"Suppliers are increasingly making it into brands´ communication and marketing. Consumers want to know who the suppliers are and approve of them. This requires brands and suppliers to be in greater sync brand- and storytelling-wise."

Brands and suppliers' joint efforts to articulate stories to consumers will pave the way for successful sustainability-driven innovations. Our brand Tiny Associates is part of a new generation of luxury and sustainable skincare brands based on biotech and is working intimately with innovative ingredient manufacturers when developing new products. In particular, the brand and its suppliers are working on aligning their stories. In their joint storytelling efforts, Tiny Associates and its suppliers are working on demystifying biotechnology, which includes basic aspects such as discussing what it should be called, why the technology is relevant, and what the potential objections for use are. Whilst our brand and suppliers each have their own unique story to tell, the core narrative has been aligned on, making complex ideas easier for us to market.

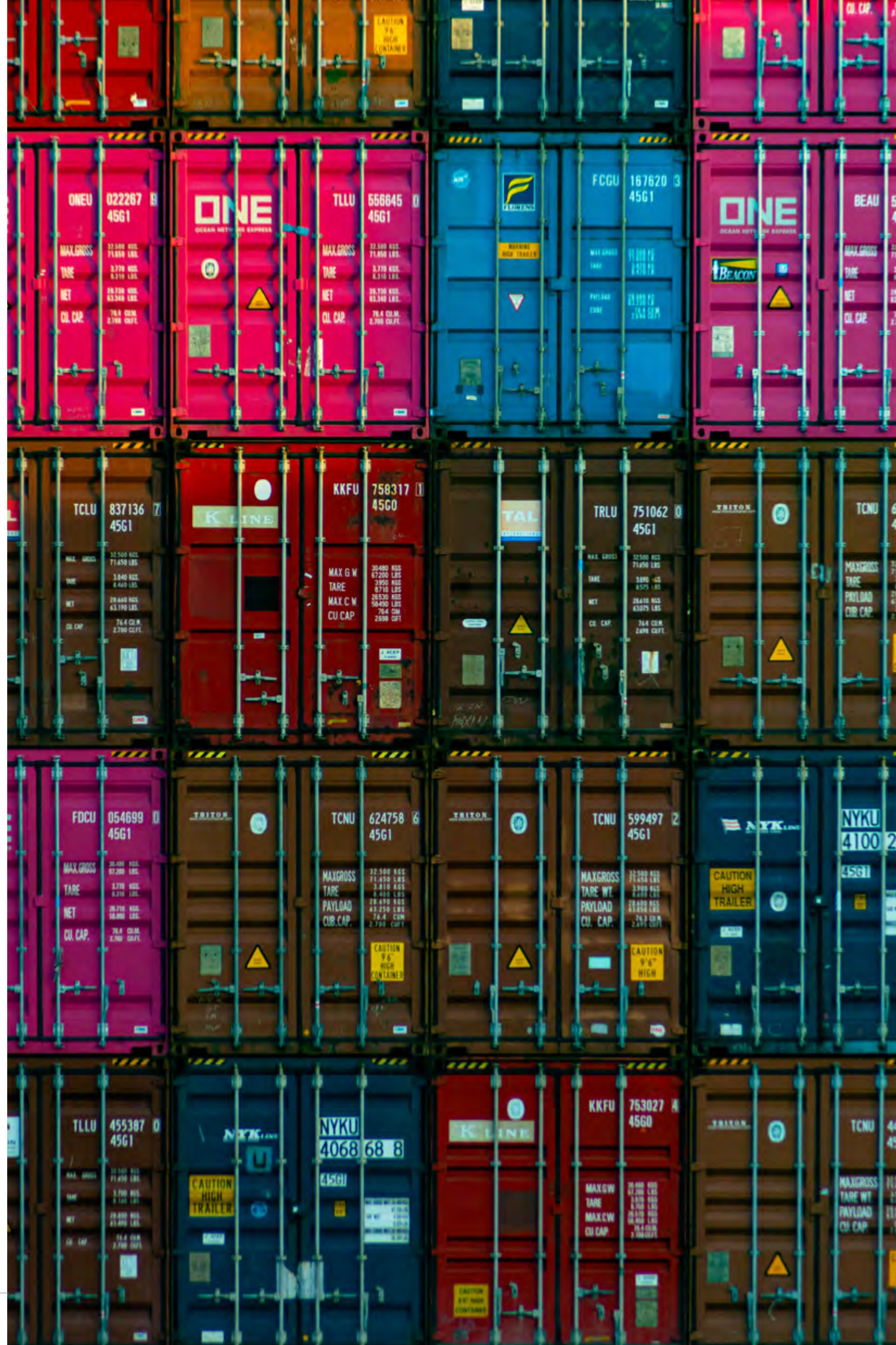
“We want to eliminate the first mover disadvantage by articulating joint stories that also moves other brands. In an industry with countless substitutes, we need more brands to adopt the same technology in order to achieve the necessary critical mass of adopters for it to take off and scale. On our road to sustainability, we are not competitors.”

Relationships with suppliers show how procurement can generate value beyond just cost-cutting. It should not be purely transactional, but strategic. It is about which suppliers businesses want to work with to drive innovation and sustainability and, ultimately, make products easier to sell. This type of relationship also creates a vested interest for businesses and suppliers to help each other meet ESG standards.

“As laying the ground for joint storytelling, ESG parameters are naturally discussed as traceability and transparency into a supplier’s activity are brought to light. These insights also give us confidence regarding the social conduct, health and resilience of the supplier.”

The roll out of disruptive sustainability-driven technologies can be achieved faster and with less risk by having strong relationships with suppliers

Such close and amical relationships with suppliers enable a “look behind the scenes” and thus an opportunity to observe suppliers’ ESG-related activities rst-hand. These direct observations provide brands with knowledge about suppliers’ attitudes and sense of responsibility regarding ESG parameters, but also around general business practices which together can suggest the health and resilience of suppliers in turbulent times.



SOCIAL:
NEED TO KNOW

ONLY 1%

The amount of time CEOs spend with their suppliers. Daniel Weise, author of Profit from the Source recommends that businesses "become truly sustainable by allying with your suppliers to meet environmental, social, and governance standards".

ONLY 42%

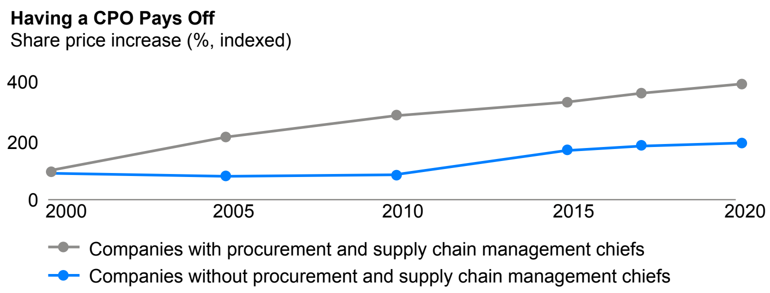
Of suppliers said their customer asked for their suggestions for product and process innovation according to a survey by Dr. Marsha Dickinson. Brands and retailers are missing opportunities to improve their businesses and are incurring unnecessary costs by not seeking out their suppliers' ideas and insights on product and process innovation.

IT PAYS

The level of cost savings experienced by companies who regularly collaborate with suppliers is 5-10%. This McKinsey study of 100 large organisations in multiple sectors demonstrated that the close collaborators outperform their peers with revenue gains of 7-10%, lower operating costs and greater profitability.

CPOs TO THE RESCUE

BCG's analysis shows that companies' share price outperformed the market by more than 130% when procurement executives were on the leadership team as strategic decision makers, rather than instruction takers. Having a Chief Procurement Officer and truly knowing your suppliers reflects on company profits.



TAKEAWAYS FOR LUXURY BRANDS

1 Take Suppliers On The Journey

It is essential that businesses take suppliers on their sustainability journey with them, working together to help accelerate the implementation of science-based targets. A current leader in this space is Ahold Delhaize, whose climate targets are in line with the UN's goal of keeping global warming below 1.5°C and are achieving this by committing to a CO_2 emissions reduction target for its entire value chain (scope 3) of at least 37% by 2030. This is the first step on their journey to becoming net-zero across their entire value chain by 2050.

2 CEO Supplier Relationships

The relationship between suppliers and the CEO needs to change. BCG recommends that CEOs spend 25% of their time on supplier and procurement issues and build relationships with the leaders of their top suppliers. It also recommends that they give the CPO a new mandate that focuses on profitable growth rather than just cost reduction.

3 Building Supplier-centric Business

Businesses need to rethink their relationship with suppliers. This starts with programmes that train their work force to collaborate with suppliers and extends to enabling the procurement team to play a central role in the product life cycle, allowing them to influence all aspects of a product. An innovative solution that we recommend exploring is artificial intelligence technology such as Coupa that will allow teams to improve their decision making when working with suppliers.

4 Tell Collaborative Stories

Working closely with your suppliers will present opportunities for both organisations to work together on building a narrative around your shared sustainability story. Involving suppliers in building narratives for your consumers will enable you to engage and educate your consumers, taking them on the journey a product has gone on from its conception.

III: Governance

IN CONVERSATION: RADICAL TRANSPARENCY

Nick Pye & Martin Townsend

THE CALL FOR TRANSPARENCY IS COMING FROM ALL ANGLES. CONSUMERS ARE EXPECTING IT, EMPLOYEES NEED IT, INVESTORS AND LENDORS WANT IT, AND REGULATORS ARE STARTING TO DEMAND IT.

Nick: Transparency, whether it is radical or not, is increasingly important in society. Being open and honest is more important than ever as an inherent lack of trust grows for both public and private institutions arising from countless public scandals and a pattern of integrity-testing behaviour. For businesses, the call for transparency is coming from all angles. Consumers are expecting it, employees need it, investors and lenders want it, and regulators are starting to demand it. And for brands it's a key consideration in all decisions. The luxury industry finds itself front and centre. Unfortunate realities such as stock burning, exposed factory/labour conditions and greenwashing have increased the pressure on luxury brands to do more, to be more. Where luxury brands were once associated with codes of status and power, Millennials and Gen Z are now reshaping those codes to focus on a socio-cultural status that benefits wider society and the environment. Purpose-led, and what we refer to as 'born-good' brands such a S'ABLE Labs are already responding to that shift in luxury. We see these brands exploring what is possible in transparency and pathing the way for the larger luxury brands. Transparency starts at a basic level of understanding your brand, what it is and how it works, and manifests in how you use that understanding to make decisions and meet consumers demands.

Martin: When you look at the conversations Nick has raised as individual issues or discussions, they are interesting, but when you take them together, they become fascinating. When seen alongside innovation and changing social needs and actions, this combination will see the luxury industry change dramatically in the short to medium term. To understand the scope of the opportunity or change ahead, it would be best to ask yourself questions that may already be in your mind as individual elements but join them together, such as: "What happens when the sharing or circular economy meets the internet of things?". These shouldn't be seen as challenges alone but as excellent opportunities for the industry to change to reduce its impact and create new business models. Seen in this way as an ecosystem will bring about the transition to a sustainable future. Opportunities are opening for organisations within the luxury industry to provide the means to move beyond incremental impact and reforming the fundamentals of the economy to shape for them and their customers something radically different, not based on invisible externalities but on far-sighted values and more purpose-driven. As we look ahead, the key trends which will shape organisations working in this space will be centred on a series of critical groupings:

Risk management
– To ensure that organisations have the necessary plans to manage environmental and climate risks, including accounting and financial reporting. This extends into corporate liabilities and the likelihood of social and environmental impact from operations, including supply

chains, on issues such as modern-day slavery. But it doesn't stop there, as stakeholders and investors shape the agenda for organisations. This will also include looking at the issue of resource scarcity and their environmental capital, and their ability to operate now and in the future.

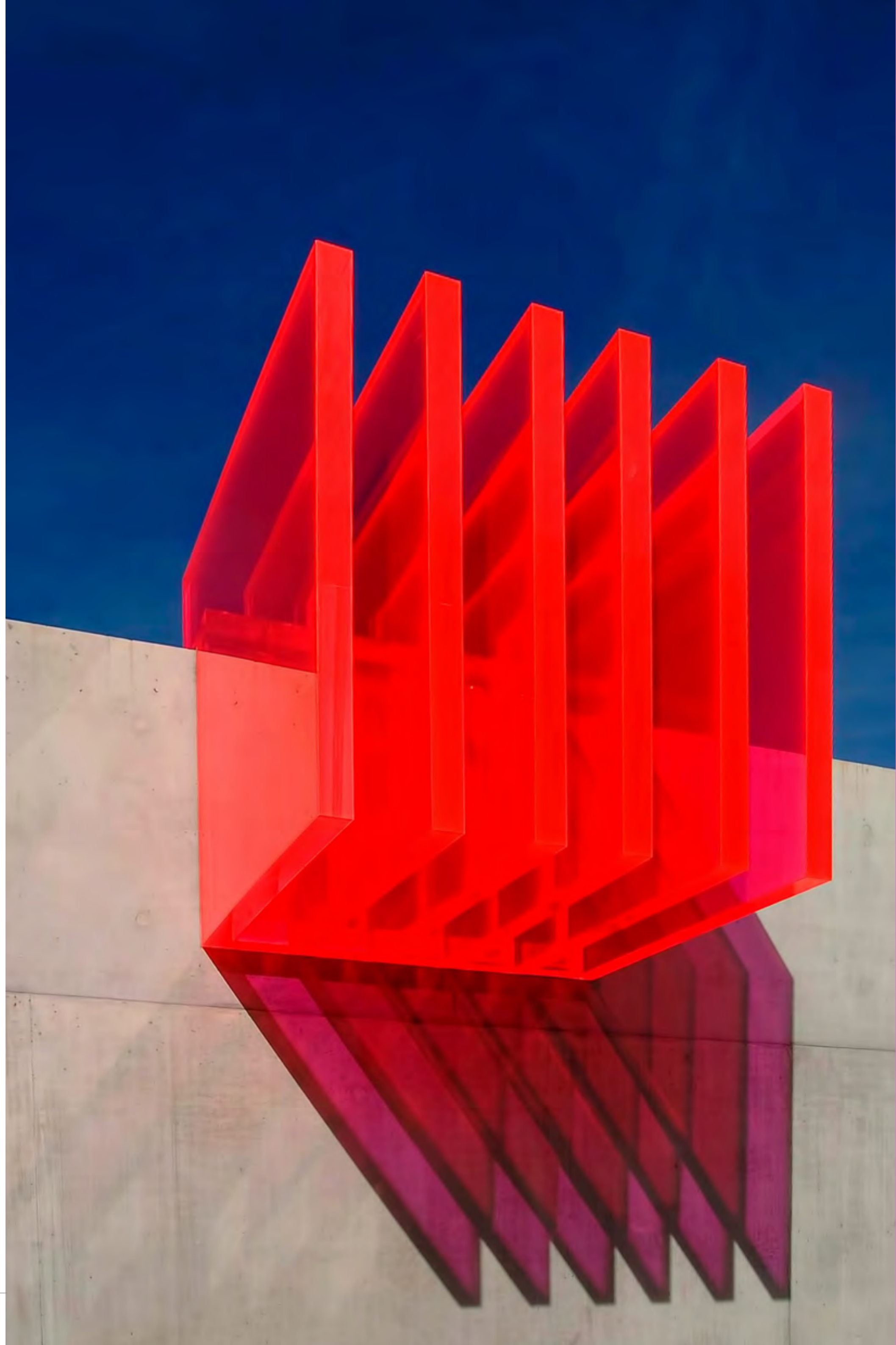
Governance and transparency – In a changing market with higher levels of transparency and accountability, it is essential to continue to shift to new forms of governance models. This becomes important as we see new technology, such as machine learning and AI, become more prevalent so that we have suitable checks and balances. As well as ensure that organisations take greater account of their social capital in decision-making and that this is an inclusive process.

Nick: Of course, we must consider that it isn't as easy as turning on a transparency switch. For many brands the idea of radical transparency is scary – it is complex, costly, and risky. Questions on how to do it, where to do it, and how much information is too much, often stifle progress. Often, we just don't know what the impact of being transparent, internally and externally, may be.

For many brands the idea of radical transparency is scary – it is complex, costly and risky

Many brands are taking a product-led approach to transparency, sharing extensive information on the supply chain on a product-by-product basis. Others are taking a more organisational-led approach and adopting practices such as ESG reporting. Some are leaning on brand heritage and craft as a way in. Whichever channel, one thing to be cognisant of is the overproduction of information and data which can overwhelm or become inconsumable for customers and wider stakeholders.

Martin: Because of this same overwhelming amount of data, an unprecedented amount of information is now available to the public, from commercial activities to monitoring the impact that some companies have on the environment, which includes the use of satellite information to look at such issues as pollution and the loss of rainforests. These sorts of initiatives give society the information to hold

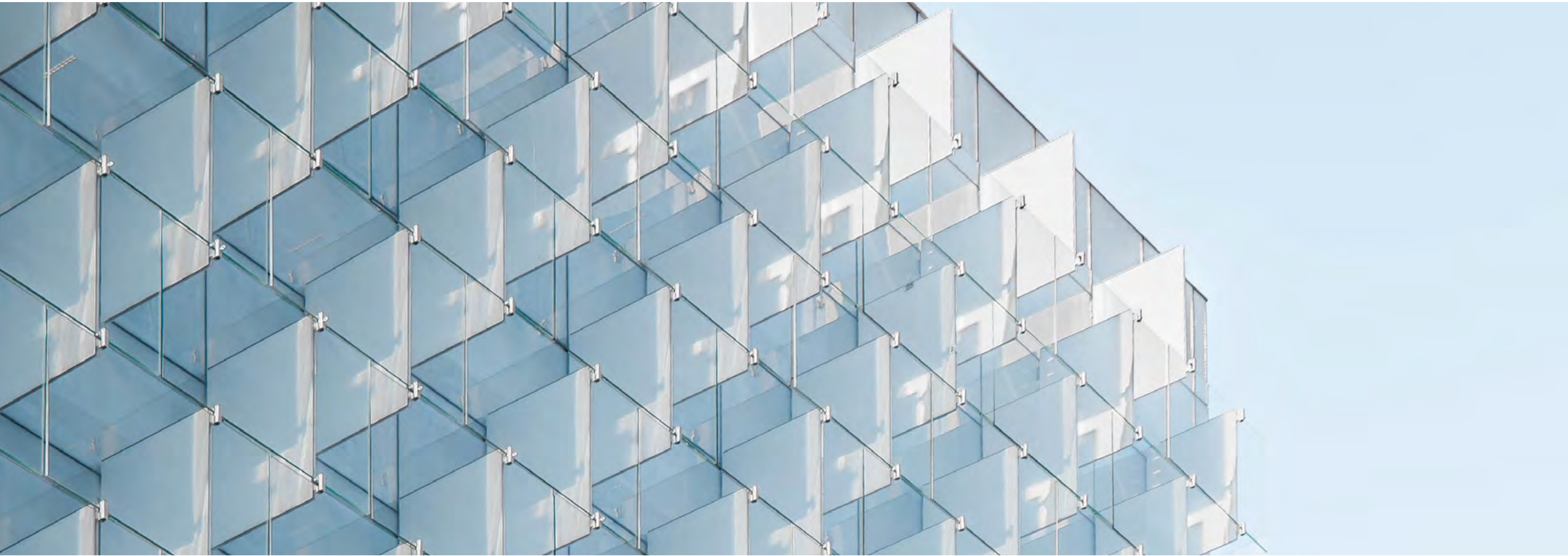


organisations to account. Just as some organisations are caught out by such transparency, others will use it to their competitive advantage. The rise of transparency shouldn't be negative if we look at the new approaches that this has triggered by some businesses.

We are also seeing some organisations going beyond simple shareholder value; in this, we are seeing a growth in impact investing, co-operatives, and social enterprises that sidestep the requirement to maximise shareholder value. With such a purpose in mind, it was good to see this year a group of organisations get together to write PAS 808, which shows a change in consciousness and reassess how – and in essence, why – they do business. And also, to factor in the increasingly urgent needs of people and the planet, these are at the heart of strategy and operations and become the true measure of success.

This is particularly important as we live through a period of economic uncertainty, if not a recession in certain parts of the world. It is also important that we continue to understand that sustainability and efficiency are linked. So it's very much a time for sustainability and transparency to drive corporate change. But I hear you ask, "So why now?" To answer this question, I want to take us back to 2017. The one thing that COVID has taught me is that we don't listen to facts as a society. In 2017, the UK government completed its five-yearly assessments of the macro risks of the UK. The most significant risk by a million miles, both in terms of impact and likelihood, was a pandemic. And yet we are all bemused and shocked at what has happened, despite having it written down. It is the same with sustainability and the climate crisis. We write it down; the science is compelling, yet we sometimes need to act. Every corporate plan puts a silo on the environment and society. Environment plans are often ambitious, for example net zero, and 100% circular. But social plans rarely talk to citizens about the reality of life, jobs, and growth benefits. So when we talk about a sustainable future, we need to ensure we have ambition on both sides and one that is transparent.

"Brands need to lean into the idea of the whole value chain and realign demand and supply priorities to a common purpose: improving transparency



Transparency can be embraced and leveraged through leadership. Being honest, owning up to mistakes, sharing limitations…

Nick: Both the challenge and the opportunity also reside at the top. Transparency can be embraced and leveraged through leadership. Being honest, owning up to mistakes, sharing limitations, and being ready to react with speed to external events are all elements of modern leadership driving transparency. As Ganni co-founder Nicolaj Reffstrup suggests, it's about being "honest, not perfect".

Martin: It doesn't matter where you are on this journey, but what is essential is to understand that business is adapting to the way sustainability is evolving. It's not only now about protecting reputation, complying with legislation or achieving economic growth. It is about capitalising on new opportunities and increasing long-term resilience and success in a much more transparent way. Investing in developing long-term solutions is on the rise, from alternative ingredients and greener designs to cleaner technologies and new business models.

Nick: Radical transparency can be seen as a competitive advantage, a threat, or simply a license to operate. How a business or brand chooses to react, in terms of timing and intensity, is up to them, but transparency is here to stay and a reaction is required. There is a window of opportunity right now, but seizing that opportunity requires both bravery and honesty.

NEW GOLD STANDARD

for ESG reporting comes from The European Financial Reporting Advisory Group (EFRAG). This framework has the most wide-ranging and ambitious agenda, and, while applicable only to large and listed companies, SMEs should prepare as directly impacted companies look across their value chain for data to inform their disclosures.

US SEC

(Securities and Exchange Commission) is coming up with a disclosure that considers some key frameworks as the Climate Disclosures Standards Boards (CDSB), the Sustainability Account Standards Board (SASB) and the Task Force on Climate-Related Disclosures (TFCD) to introduce consistency across many different frameworks. A phasing-in period for impacted public companies is being recommended spanning three financial years starting in 2023.

MANDATORY DISCLOSURE

2023

EU Corporate Sustainability Reporting Directive (CSRD) requirements to be published, and the first group of public companies disclose FY2023 for filing in 2024 against the US Securities and Exchange Commission (SEC) Corporate Climate Disclosures if it doesn't face legal challenges in the US Congress.

2024

EU CSRD for all listed companies with over 500 employees and TCFD SWITZERLAND for all large companies. Impacted companies will have to disclose in 2024 sustainability reports published in 2025.

2025

US SEC-SRCs (Smaller Reporting Companies) legislation expected to come into place from 2025 and EU CSRD for large non-listed companies.

2026

EU CSRD to include listed SMEs through simplified reporting standard (reports published in 2027).

THREE KEY GOVERNANCE TAKEAWAYS

1

Get Ahead

Mandatory disclosure is here to stay. With sweeping changes coming to sustainability reporting and legislation across all major markets, now is the time for luxury businesses to get comfortable with radical transparency. Starting next year, an organisational approach to transparency and adopting ESG reporting will be a licence to operate.

2

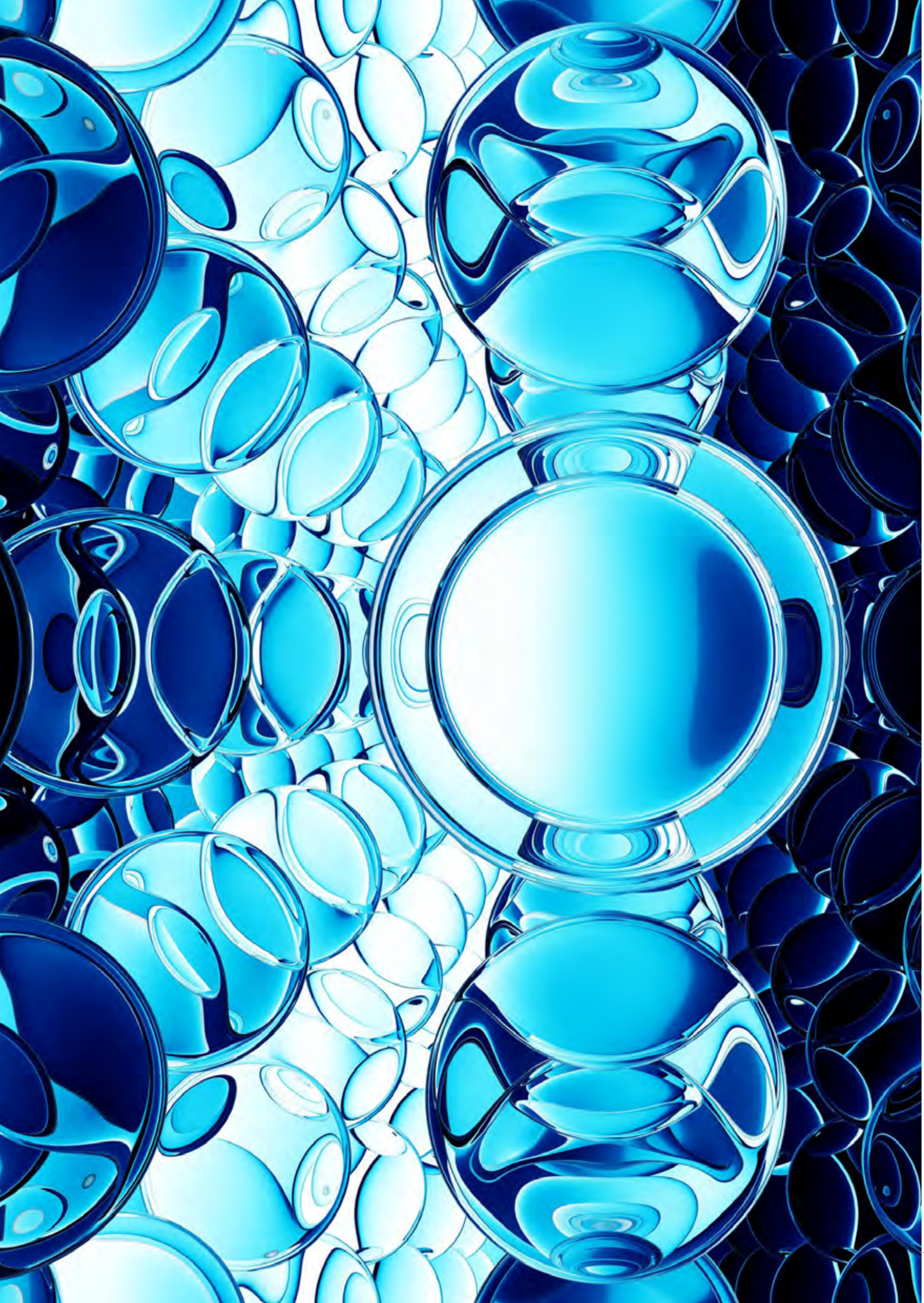
Top Down Transparency

Transparency needs to come from the top – it starts as a culture at the highest level of a business and works its way down. As corporate governance is a system of rules, practices and processes by which a firm is directed and controlled in the interests of all stakeholders, it is impossible to work transparency into more than selective areas of your business unless you are truly committed to becoming radically transparent. For instance, Estée Lauder's robust social impact and sustainability strategy is overseen by its Nominating & ESG Committee of Board of Directors and its ESG Management Committee focuses on internal oversight of social impact and sustainability initiatives. And for IWC, transparency is a guiding principle, their 'Engineering Beyond Perception' transparency principle ensuring open and honest dialogue with all stakeholders through annual reporting, credible accountability partnerships and traceable sourcing.

3

Think Global

Asia, Europe, and North America have different priorities when it comes to ESG and this is reflected in the differences between their reporting frameworks. International luxury businesses will have to manage these varied expectations when preparing their reporting.



IV: Innovation

UNLOCKING CLIMATE CHANGE ADAPTATION THROUGH INNOVATION

Wonsik Jeong

> CLIMATE RISK IS NOT JUST FOR FUTURE GENERATIONS, AND FOR COMMITMENTS. THE LUXURY INDUSTRY IS AT RISK NOW, AND MUST ACT. IT'S TIME FOR LUXURY BRANDS TO SHOW LEADERSHIP

According to the Global Carbon Budget 2022, global fossil CO_2 emissions in 2022 are estimated to have risen above the pre-pandemic record. If the current rate of greenhouse gas emissions continues, there's a 50% chance the world will breach the 1.5C warming threshold in just nine years, which was our 90-year target.

Our climate is at risk, but luxury brands can play a key role in mitigating imminent climate change. The fashion industry is known as the third largest polluting industry after food and construction, emitting 10% of global greenhouse gas.

Whilst the majority of fashion's biggest companies have committed to a net zero goal, this has been overshadowed by most brands failing to deliver on their promises. Many brands showed greenhouse gas emissions rising in 2021, some of them even surpassing the amounts of emissions in 2019 before the pandemic.

Climate risk is not just for future generations and for commitments. The luxury industry is at risk now, and must act.

1. SUPPLY CHAIN RISK

Luxury is a resource-intensive industry and the resource is closely linked to climate change related risk. The sources of all key raw materials like cotton, silk, cashmere and leather are becoming more vulnerable. Taking cotton as an example, Pakistan, the world's sixth-largest cotton producer, lost 40% of its crops due to the deadly flooding this year whilst India, the world's largest cotton producer, has turned to imports due to rainfalls and pests, and the US and Brazil – the world's third and fourth largest cotton producers – also suffered severe drought. As a result, cotton prices reached an 11-year high in 2022 year other raw materials were also exposed to the risk of price fluctuation.

2. FINANCIAL RISK

Greenhouse gas emissions for the entire value chain are becoming more transparent, and the punishment for emissions are becoming more severe. The ISSB (International Sustainability Standard Board) confirmed scope 3 emissions will be included in IFRS' climate disclosure standard in October and the EU recently agreed on the broad outlines of its Carbon Border Adjustment Mechanism (CBAM). Regulations on greenhouse gas emissions will be further strengthened, and if companies do not adapt to climate change burdensome costs will be incurred.

3. BRAND RISK

Millennials and Gen Z are expected to make up 50% of the total luxury market by 2025 and many surveys show that they care far more than previous generations about luxury brands' sustainability practices when they make purchase decisions. But it's not only about Millennials and Gen Z – when climate change worsens, unsustainable brands will simply be turned away by all consumers. And regulations on the transparency of products and companies as well as the prevention of greenwashing are being strengthened. To mitigate the risks to their brand, all brands operating in the luxury industry must adopt climate change adaptation.

4. TECHNOLOGY ADOPTION

In response to supply chain risks, the luxury industry needs to pay attention to technologies like next-gen materials and regenerative agriculture.

The amount invested in next-gen materials in 2021 more than doubled compared to 2020, reaching nearly $1 billion. Various technologies to enable plant-derived materials, microbe-derived materials, mycelium, recycled materials, and cultivated animal cells have been developed and many next-gen materials are now ready to come out of the lab and go into supply chains, after years of investment, research and testing.

Unicorn start-ups like Spiber (next-gen silk via precision fermentation) and Bolt Threads (next-gen leather via mycelium) are emerging in this field and collaboration, investment, and acquisition activities between start-ups and luxury brands are on the rise.

Of course, not all raw materials can be replaced with new ones – it is also necessary to change existing farming methods to more sustainable ones. Regenerative agriculture is a sustainable agriculture system that supports biodiversity, enriches

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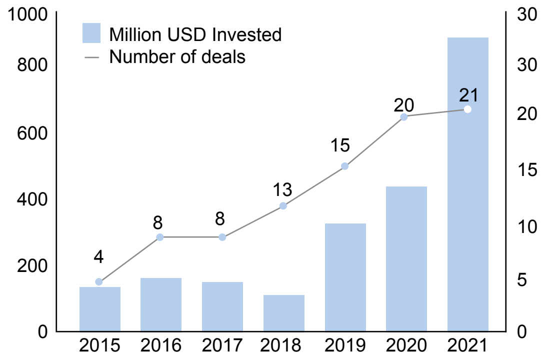
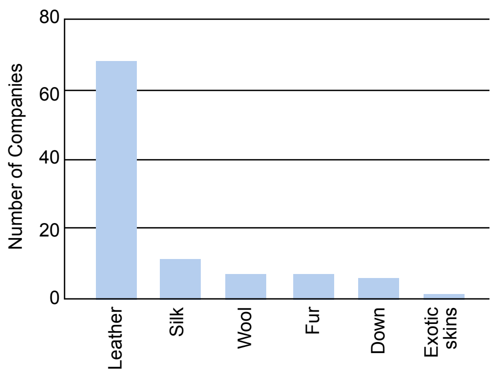
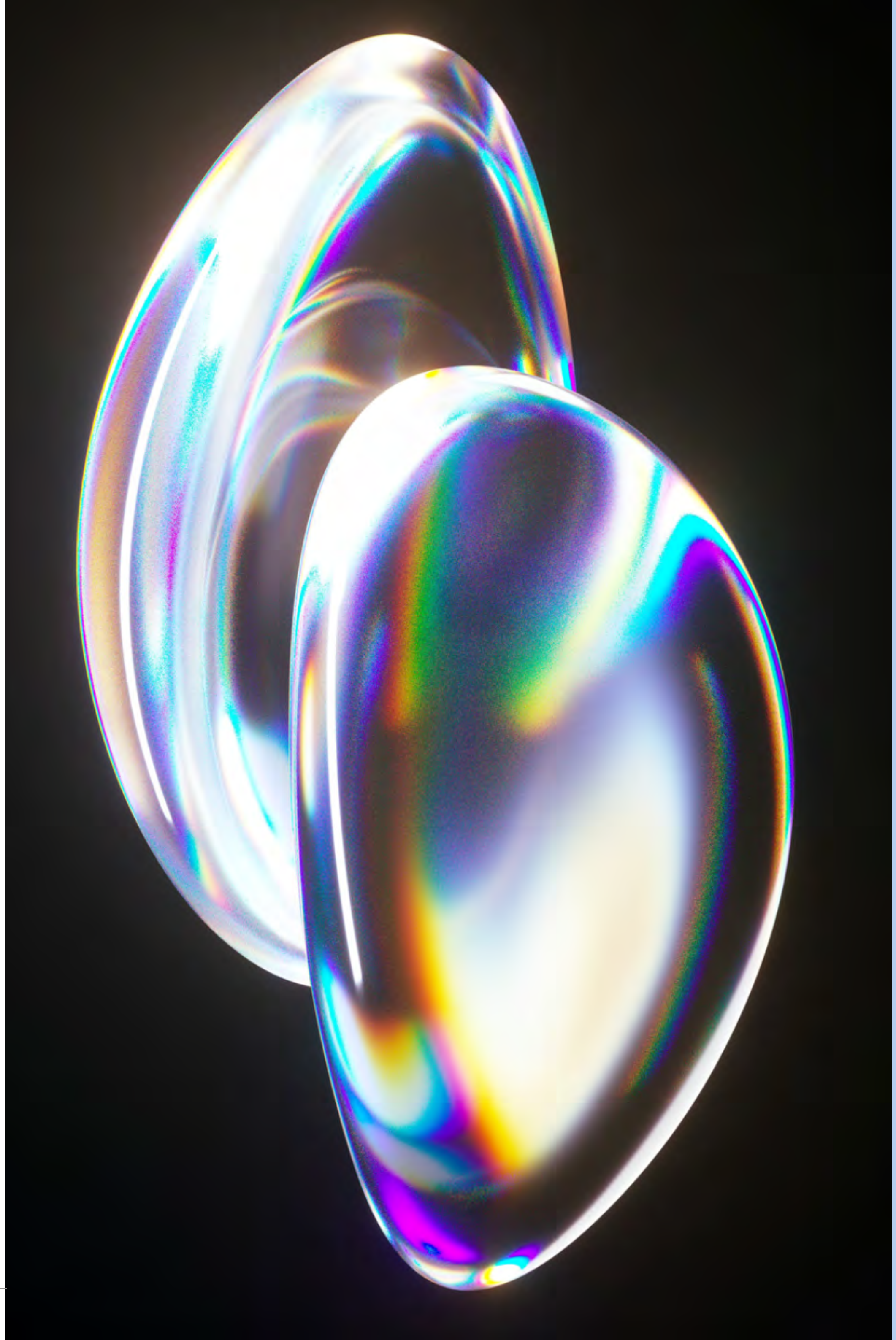
Annual investment in next-gen material companies (2015-21)



Companies working on different next-gen materials





soils, improves watersheds, and increases the capacity of the soil to capture carbon ensuring a climate-resilient and food-secure future.

Some brands have started to integrate regenerative agriculture into their supply chains. Allbirds has said it will source 100% of its wool from regenerative Merino wool farms by 2025 by incentivising and investing in farmers to make the switch. Start-ups are also emerging that are spurring the transition to regenerative agriculture. Regrow, a digital platform start-up providing technologies to enable regenerative agriculture practices, raised US$38 million in their Series B funding in May 2022 and CIBO Technologies, a start-up allowing agrifood companies to monitor their carbon management-related activities and incentivise farmers in their value chains to take up regenerative agriculture, raised US$30 million in their Series C funding in October 2021.

5. INVESTMENT

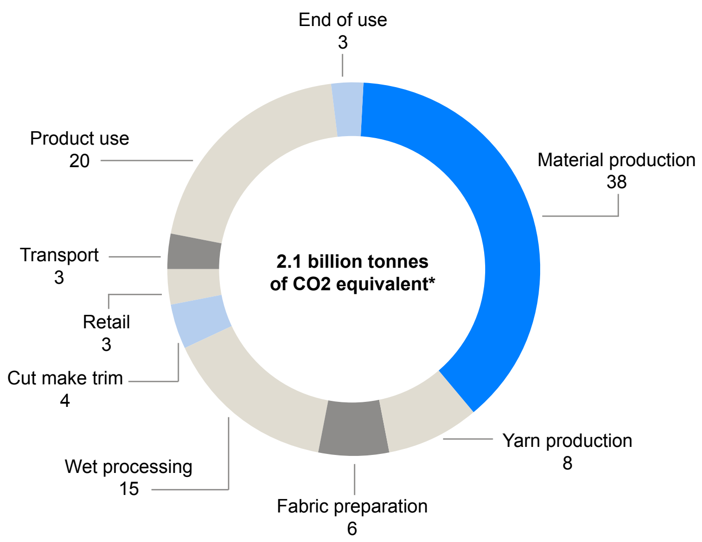
Transforming the entire supply chain from material production to end of use requires serious investment. Many luxury brands are investing their money to aid this transformation but the amount of money varies from a few million dollars to a few hundred million dollars and many companies don't provide details about their spending on sustainability. Substantially more money is needed across a range of solutions for the industry to scale and meet the demand. According to Apparel Impact Institute and Fashion for Good, a trillion dollars of investment is needed to achieve net-zero emissions by 2050. In order to accelerate technology adoption and mitigate financial risks, greater long-term and strategic investments will need to be made.

Although luxury brands' own investments are important, of course, there are other ways to raise the capital to make the transformation. Sustainability-linked loans (SLLs), launched in 2017, and sustainability-linked bonds (SLBs), launched in 2020, can be useful financing tools for luxury brands. Prada S.P.A took out a 500 million euro loan, the first SLL in the luxury industry in November 2019 and Chanel took out a 600 million Euros bond, the first SLB in the luxury industry in September 2020. SLBs and SLLs are tied to certain sustainability related KPIs but can be used in a general corporate setting such as daily operations unlike green bonds which must be applied to green projects.

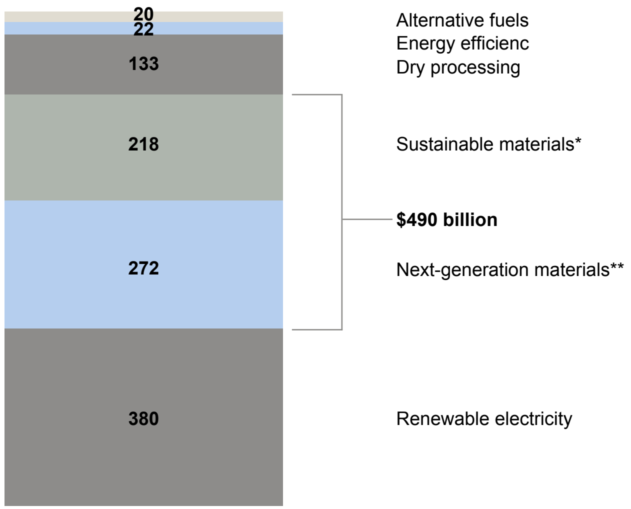
6. AN ENDURING BRAND

As an example of responding to brand risk, one interesting case is Levi's buyback and resell programme launched 2 years ago. This environment-friendly programme enables Levi's to build stronger relationships with customers by sharing the heritage of Levi's.

Greenhouse gas emmissions from apparel and footwear by lifecycle stage (2018)



Capital required to fund solutions to achieve net-zero emissions by 2050
USD (billions)



Luxury brands have built up a legacy over a long period of time, and it needs to be preserved, even in the face of climate change. If luxury brands adapt well to climate change and build relationships with customers through this, they can become enduring brands.

Overcoming the climate crisis depends on global leadership. We already have enough technology and money for it. It's not that we need more technology and money, it's more about global leadership.

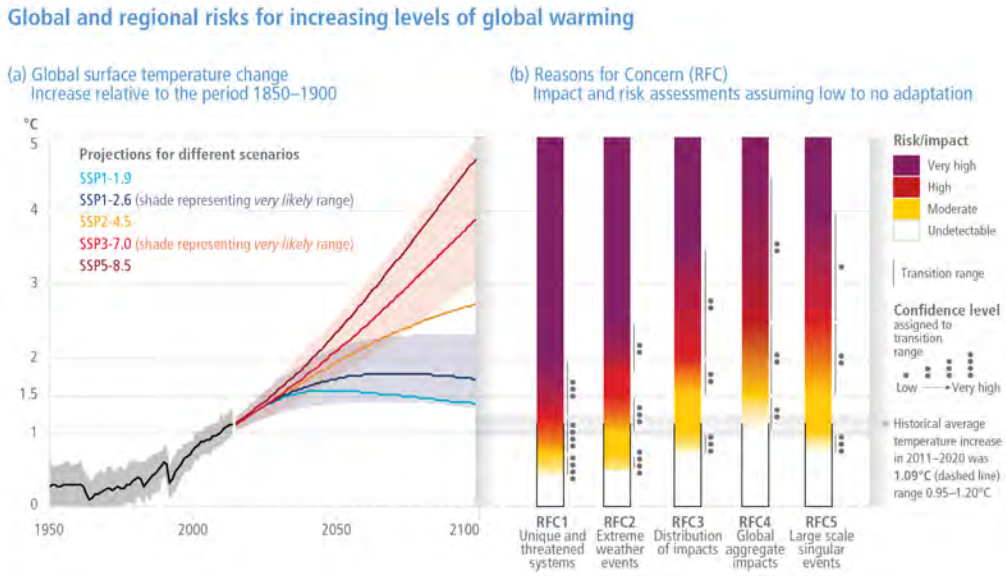
Luxury brands have long-standing legacies which have a huge influence on customers, and customers who are willing to pay more for the good. It's time for luxury brands to show leadership.

INNOVATION: NEED TO KNOW

TIME TO ADAPT

According to the recent Intergovernmental Panel on Climate Change (IPCC) Working Group II Sixth Assessment Report, the world will face severe climate risks before the end of this century, even under low-emission scenarios. Strong mitigation efforts are therefore paramount. But even more important for luxury organisations is investing in innovation that will allow them to adapt to incoming climate change.

Reasons for Concern as assessed in IPCC WGII AR6



SUPPLY CHAIN RISKS

Greater frequency and severity of climate hazards will create more disruptions in global supply chains – interrupting production, raising costs and prices, and hurting corporate revenues. Interruptions will become more frequent for companies that source parts and products from around the world as extreme weather events continue to disrupt the global delivery system for goods in highly unpredictable ways.

FIT FOR PURPOSE

How is your company adapting its internal processes, ways of working and organisation design to help it adapt? If you're doing things in the same way you did a few years ago, it's likely you're missing opportunities to strengthen and future-proof your business. Make continuous improvement the cornerstone of your company culture and your business strategy.

THREE KEY INNOVATION TAKEAWAYS

1 Manage Your Risk

The most efficient use of an innovation budget is in targeted risk management. We recommend that businesses analyse their supply chain to understand where they are vulnerable to climate change related risks and potential impacts, not only on the organisation but to the environmental and social sphere. Once an organisation has identified potential risks and impacts such as potential supply chain disruption or dwindling resources, they should start investing in innovation to avoid or mitigate potential risks.

2 Biotechnology

Most commonly seen in the beauty industry but applicable to other industries, biotech allows us to replicate nature in a laboratory. For example Amyris, the parent company of Biossance, have created a shelf-stable alternative to squalene, the naturally-occurring super-hydrator that is unethically and unsustainably sourced from shark's livers. Innovative synthetic alternatives to natural ingredients like this are more sustainable and protect organisations from climate related supply chain disruption.

3 Invest In Innovation

A prime example of investing in innovation to meet your sustainability goals comes from IWC who identified their water use a a sustainability risk. As a result, they now measure every litre they use and release an equal quantity back into the groundwater or local rivers. Chemical wastewater and scrap metals are collected, safely stored and disposed of regularly by a specialised company. Achieving exceptional water efficiency management by having a closed loop with this natural resource, IWC has set the standard for other businesses to aspire to. Initiatives like this also present an opportunity for heritage brands to take their consumers on the journey with them, keeping their brand relevant and building a lasting relationship.

CONCLUSION: FIVE THOUGHTS FOR 2023

Amy Nelson-Bennett

SAFETY IN NUMBERS

In this report you've heard from a broad spectrum of global leaders – entrepreneurs, activists, consultants, scientists, financiers – each of whom has dedicated their career to the cause that is sustainability. Each has unique expertise and passions, but in combination exemplify the growing ecosystem of professionals working at the intersection of economy and ecology to spur businesses to act now. Their contributions are a rallying cry for every luxury business to better understand its intricate web of relationships with nature and society, to collaborate for positive impact, to communicate with honesty and courage, and to seize opportunity from adversity.

CONNECTING THE DOTS

Biodiversity is rapidly becoming the hottest topic in sustainability as the myriad impacts of degradation and loss of nature become impossible to ignore. A complex theme not yet well enough understood by the luxury industry, it must be placed at the heart of every organisation's sustainability purpose and environmental management system. In addition, segments of the luxury industry must stop misleading themselves and their stakeholders by confusing natural with nature-positive. Only by first understanding the true and full extent of your upstream and downstream impacts will you be able to find nature-based solutions that support protection and restoration while providing value to your company and your consumers.

OUT OF OFFICE

It feels like we're living through a time of unprecedented global disruption for business leaders: pandemic, war, inflation and more. But in fact, much of the writing was on the wall. We need to stop getting caught out and stay prepared because climate change alone means disruption is here to stay. CEOs need to promote their Procurement and Sourcing teams from back-office to front-and-centre and spend far more time out in their companies' supply chains building mutually beneficial, long-term relationships that focus on mitigation and adaptation, that leverage scientific and technological advancements, that respect shareholders, workers and the communities in which their value chains operate. Those companies that take a proactive approach to risk management will survive, those that embrace with gusto this unique opportunity for collaboration and innovation will thrive. Why would you choose to stare down the barrel of your own extinction?

> Every luxury business must better understand its intricate web of relationships with nature and society, collaborate for positive impact, communicate with honesty and courage
>
> **Amy Nelson-Bennett**
> *Co-CEO, Positive Luxury*

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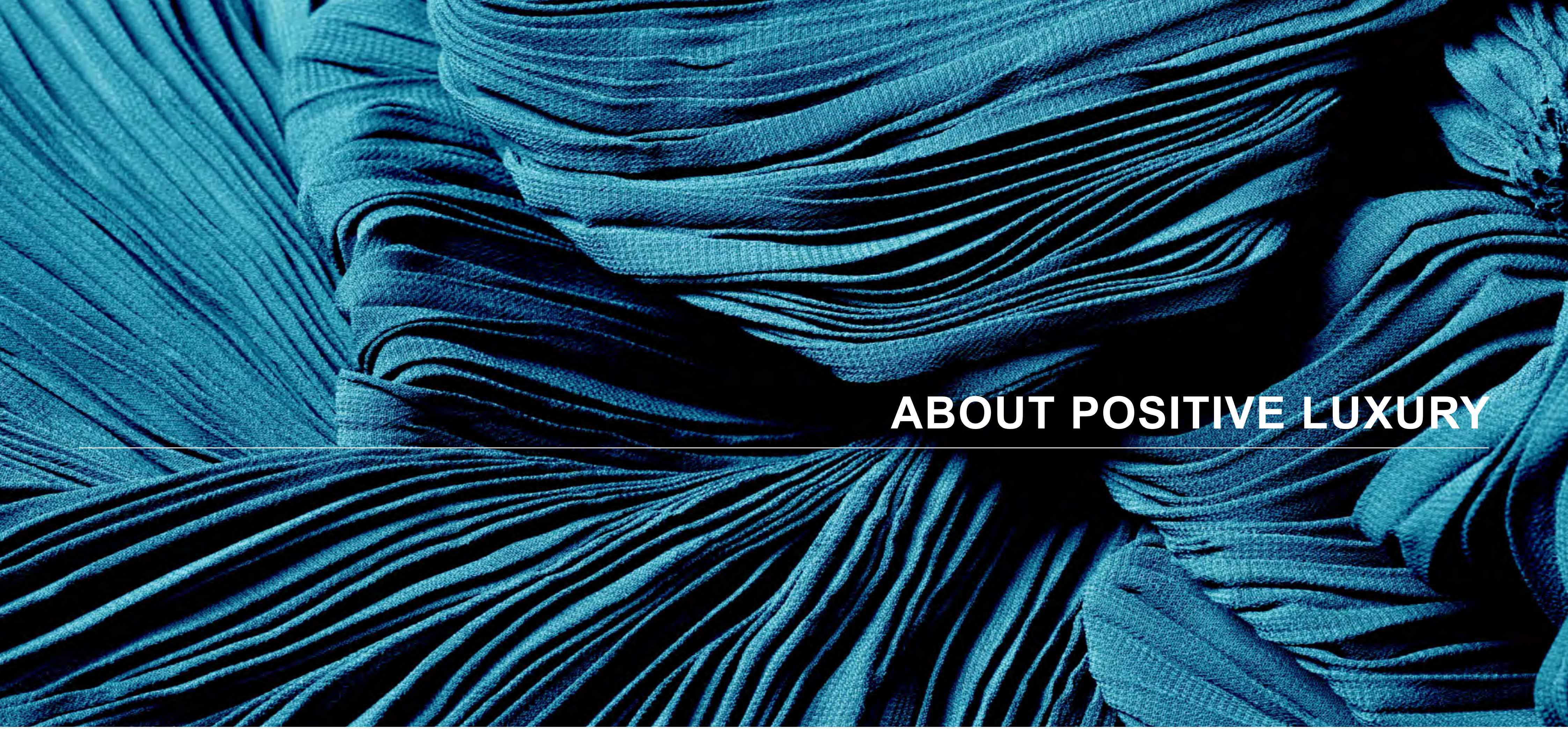
YOUR TRUE COLOURS

Trust is arguably the modern world's most coveted but elusive treasure. Misinformation flourishes, and corporations are being exposed for unethical conduct and greenwashing. Mistrust is why luxury's fast-growing base of Gen Z and Millennial consumers (projected to account respectively for 30% and 50% of luxury purchases by the end of this decade) are making values-based decisions about the companies they will buy from and work for. The truth can often be an uncomfortable story to tell. But companies who are courageous enough to show their true colours will be listened to, respected and trusted.

CARPE DIEM

It's not just global temperatures that are climbing. Pressure on businesses to address climate change and societal wrongs is coming from all directions and rising exponentially. The need for collaboration, adaptation, and innovation to address these shared challenges is clear. The luxury industry, while impacted by unfavourable macroeconomic factors, is still projected to grow by 2-8% in the coming year. This provides an opportunity for the luxury industry in 2023 that other sectors may struggle to grasp. We can unite and set the example for a new and better approach to luxury, leverage our star appeal and act as a North Star for others to follow when market conditions improve. Obfuscate and, in the blink of any eye, 2023 will have passed and your company will have missed the opportunity to lead the charge. It will be 2024, the year when legislation gets very real, when evidence of ESG performance becomes a mandatory license to operate, when playing catch-up will drain a company of its limited human and financial resources. Our advice is to act now. You have to be in it to win it.



ABOUT POSITIVE LUXURY

Powering the only sustainability programme designed for the specific dynamics of the luxury industry, Positive Luxury enables companies to manage their sustainability risk and opportunities, accelerate efforts to improve ESG performance and leverage sustainability as a driver of positive impact and corporate value. Rejecting the traditional certification model rating past performance, Positive Luxury's programme drives business transformation and continuous improvement. This unique approach helps companies adapt to the fast-emerging climate economy and ensures they are future-proofed against societal and legislative shifts. Positive Luxury provides extensive tools to in-assessment and certified companies, including our new trust-building digital tool the Connected Butterfly Mark, to help future-proof our community members and ensure they can communicate to stakeholders – consumers, employees and investors – with confidence and credibility.

To learn more about Positive Luxury and how we help luxury brands, retailers and suppliers unlock sustainability as a driver of value please visit **www.positiveluxury.com**, where you can also demo our ESG+ assessment and directly book an appointment with a member of our Development Team.

Hamish Scott, Development Director **hamish.scott@positiveluxury.com** **+44 (0)7377 098645**
Virginie Corbasson, Business Development Manager, Europe **virginie.corbasson@positiveluxury.com**

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Elke Schrader,
Sustainability Lead, Positive Luxury
Originally from Peru, Elke has over a decade of sustainability experience, including working on the UN’s Sustainable forest management and carbon credits programme in Madre de Dios in the Amazon, and ESG compliance and development for local communities in the mining sector. She has an MA in Development studies from the IDS University of Sussex and has been helping Positive Luxury companies improve their ESG performance for the past year.

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