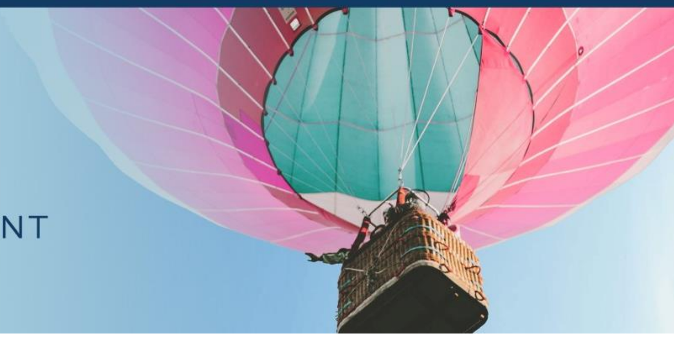


ESG and Sustainability

WITH ALPHINITY INVESTMENT MANAGEMENT

August 2026

Thematic	ESG topics	Sector
Sustainability	Circular economy, human rights, access & affordability	Consumer Discretionary

Does it fit? A tailored approach to sustainable investing in the apparel industry

The apparel industry sits at an uncomfortable intersection of social necessity and environmental harm. Clothing is a basic human right, explicitly recognised in Article 25 of the UN's Universal Declaration of Human Rights. Yet, the way the global fashion industry produces and sells clothing makes it one of the most resource-intensive sectors on earth, and one where human rights risks, from poor minimum wages to forced labour, remain persistent and material. This is not a simple story of good or bad actors: the industry spans everything from essential, affordable clothing to luxury and fast fashion, and real progress on sustainability sits alongside unresolved challenges, often within the same company. We believe it is important to recognise and reward the business models, companies and their products that are genuinely meeting consumer needs while contributing to a more sustainable industry — just as it is important to hold to account those that are not. It is this complexity that makes apparel a sector worth examining closely and carefully.

Context

Our sustainable funds, the Alphinity Sustainable Share Fund and the Global Sustainable Equity Fund - Active ETF, aim to invest in companies that we believe have a net positive alignment with the United Nations Sustainable Development Goals (SDGs), exceed our minimum ESG criteria, and are also identified as undervalued and within an earnings upgrade cycle. The SDGs aim to tackle disadvantage and the most pressing environmental and social challenges, and we believe companies can play a role to innovate and deliver solutions against them. However, this requires nuance. Broad, sector-level assumptions alone are not enough, and every company is judged on a case-by-case basis. And for more challenging sectors, a purpose-built framework is a valuable way to apply that judgement with rigour and consistency. Over the past few months, we have been researching and testing the sustainability of the apparel industry, to sharpen how we apply this approach in practice.

The sector's challenges are structural. Apparel remains one of the most environmentally and socially costly categories to produce and consume at scale, shaped by limited regulation, opaque supply chains and business models built around volume and speed rather than longevity. These pressures are compounded by thin margins, which leave many companies vulnerable to shifts in policy, input costs and consumer spending.

8–10%
of global greenhouse gas emissions come from the fashion industry[i]

41%
of discarded clothing is suitable for reuse[ii]

<2%
of global garment factory workers earn a living wage[iii]

But there are also genuine, if uneven, pockets of opportunity. A values-driven consumer segment is real, growing regulatory attention is starting to reward credible circularity, and industry is willing to invest where the right frameworks and incentives exist.

58%	Highest priority	3x
of consumers surveyed globally actively prioritise sustainability and/or chemical safety when purchasing[iv]	Sustainability ranks among the highest purchasing priorities in China and India[v]	Every $1 of public funding for circular clothing pilots in Australia has mobilised over $3 in private industry co-investment[vi]

For investors seeking to invest in sustainable companies, this creates a genuine dilemma. A blanket exclusion across the entire sector ignores the material difference between a discount retailer providing affordable school uniforms to lower-income families and a fast-fashion group releasing new collections twice a week. Equally, accepting any apparel company at face value risks blindly investing in a sector with well-documented social and environmental costs.

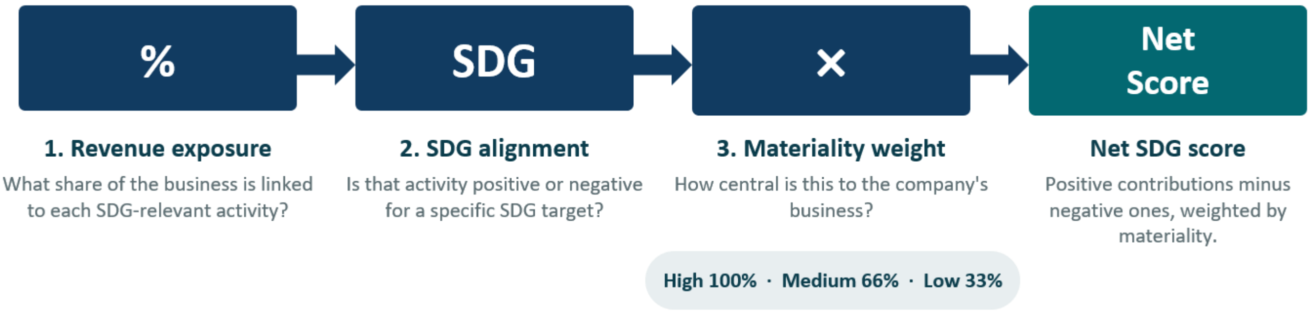
Our approach is to do neither. Instead, we apply a bespoke evidence-based framework, using the SDGs, to determine whether a company's business activities and associated revenues have a net positive contribution to sustainable development.

How our SDG Alignment Framework works

Our SDG Alignment Framework assesses both the positive and negative SDG alignment of a company's products and services, using company revenues as a measure, across the 169 targets that underpin the 17 goals. A materiality factor — low (33%), medium (66%) or high (100%) — is applied to each revenue segment to reflect how direct and evidenced the alignment is. The net score must be positive for a company to be approved for inclusion in our sustainable strategies.

How we calculate an SDG alignment score

Three inputs combine to produce a single, comparable score for every company we assess. We may assess multiple revenue types per company



Source: Alphinity Investment Management. How we calculate an SDG alignment score: revenue exposure × SDG alignment × materiality weight = net SDG score.

Minimum ESG criteria

In addition to achieving a net positive SDG alignment, each company must also meet Alphinity's minimum ESG criteria before it can be approved for inclusion in our sustainable strategies. This assessment is separate from the SDG revenue analysis and is undertaken using our in-house ESG methodology, consistent with our broader ESG Framework and Policy, under which every company is assigned an ESG risk level from 1 (low) to 4 (avoid).

For apparel companies, supply chain human rights is a particularly important consideration given the sector's exposure to modern slavery, forced labour, worker safety and remediation risks. Where these risks are identified, they directly inform our stewardship priorities: consistent with our approach to ESG integration, engagement is often the first step in managing a material ESG risk, and the outcomes of that engagement — including the transparency a company provides and the credibility of its remediation processes — can support a revision to its assessed risk level over time. See our case study on Fast Retailing case study later in this note, that illustrates how engagement informs our assessment in practice. Where risks are assessed as material and insufficiently managed, a company may fail to meet our minimum ESG criteria and therefore would not be eligible for approval, regardless of the strength of any positive SDG alignment from circularity, affordability or other sustainability drivers.

The worked examples set out in *Applying the framework: Worked examples* section below further illustrate how this ESG integration operates alongside our SDG scoring in practice.

See our Sustainable Investing Fact Sheet for more information on our methodology, as well as our ESG policy for further information on our approach to integrating ESG risks and opportunities as part of our investment processes.

Engaging industry and sustainability experts to assess apparel companies

Across the roughly 500 companies we have assessed under our SDG Alignment Framework to date, one clear finding is that broad sector-level assumptions are not enough, and that consistent, rigorous decision-making requires drawing on both industry and external sustainability expertise. In apparel, the relevant sustainability benefit, the SDG indicator used to capture it, and the strength of alignment can differ materially depending on a company's business model, price point, product mix and the credibility of its sustainability commitments. Apparel is therefore a clear illustration of why a more granular, evidence-based approach is needed to assess companies in the sector with rigour and consistency.

As part of this process, we also sought an independent industry perspective. We met with Ainsley Simpson, CEO of Seamless, to sense-check the analytical framework being developed for our sector review of off-price and discount retail. Seamless is Australia's product stewardship scheme for textiles and apparel, launched in July 2024, under which producers contribute a levy for every product placed on the Australian market. The scheme has also introduced eco-modulation, under which brands meeting specific product criteria which demonstrate continuous improvement, are rewarded with a reduced levy rate.

The conversation was a useful reality check on several of the assumptions embedded in our framework:

- **A hierarchy-of-use model is the right lens.** Seamless's own approach prioritises keeping clothing in use for the longest possible time before recycling or disposal — consistent with how our framework rewards genuine circularity and slower fashion cycles over recycling claims alone.
- **Reusable clothing is being discarded at scale.** Approximately 51% of post-consumer disposed clothing is estimated to still be in reusable condition and could be recirculated rather than landfilled — reinforcing that a company's genuine circularity credentials depend on what happens to product at end of life, not just at point of sale.
- **Transparency on aged and unsold inventory is very limited.** Seamless described the scale of destruction of aged inventory across the industry as poorly understood publicly, which is precisely why our framework requires companies to evidence end-of-life pathways and take-back or resale arrangements rather than take marketing claims at face value.

This engagement directly informed how we now expect companies — particularly off-price and discount retailers — to evidence their circularity claims, and it shaped several of the stewardship questions set out later in this note.

The Sustainable Compliance Committee played an important governance role throughout this work. The Committee is responsible for approving companies for inclusion in our sustainable investment universe and overseeing the SDG and ESG analysis that supports those decisions. It is made up of four members, including two external experts with deep experience across ESG, sustainability and human rights, who provide independent challenge and guidance. For the apparel framework, the Committee reviewed and tested the assumptions underpinning how apparel-related revenues are assessed, helping ensure the methodology is robust, consistently applied and aligned with the intent of our sustainable investment approach.

The base case: why most apparel starts net negative

Without a specific sustainability driver, the production and retail of goods such as clothing and shoes in our assessment is generally a net negative activity. While clothing is a basic human right and affordable, accessible goods can support SDG 10.2 on social and economic inclusion, this does not offset the sector's structural negative under SDG 12.5, which captures resource use, waste generation and the excess consumption encouraged by fashion cycles. High-frequency trend releases, scarcity marketing and low price points that encourage disposal rather than repair all contribute to this negative.

The SDGs for Better Fashion initiative summarises it well:

"The environmental and social implications of fashion production and disposal make it of high relevance to integrate the targets of the 17 Sustainable Development Goals into this industry, to make it fully sustainable and positive for people and the ecosystem. The aim of the commitment is to integrate the UN SDGs in this industry, to tackle the environmental and social issues related to clothing production and consumption: implementation of sustainable design strategies, promoting the use of sustainable technologies and appropriate resource management throughout the textile supply chain, proposing new business models and engaging with consumers for better consumption habits."

This is the starting point for all apparel companies we assess. The question we then ask is: what additional sustainability drivers, if any, shift the outcome?

Pathways to a net positive outcome

Our research has identified four distinct drivers that can lift an apparel company from a net negative score to a net positive SDG outcome using our framework. Each requires specific, credible evidence — not aspirational targets or pilot programmes.

- **Affordability and access to essential goods.**

  A low to medium positive SDG 10.2 alignment may apply where a retailer demonstrably provides genuine everyday necessities to lower-income households, supported by price-point data. The key test is whether the products meet essential needs, rather than aspirational or discretionary demand. Luxury products do not receive SDG 10.2 alignment, regardless of affordability claims.

- **Purpose and utility.** Products with a direct, evidence-based link to a specific SDG outcome attract additional positive alignment. Performance apparel and footwear — where the product is designed to enable physical activity and supports better health outcomes — can attract a medium to high positive under SDG 3.4 (good health and well-being). The test is whether the product is genuinely functional or primarily a fashion item with an athletic aesthetic. Celebrity endorsements and runway collaborations can be markers of the latter.

- **Business model circularity.** Off-price and discount retailers whose inventory model is built on absorbing surplus, overflow and cancelled-order merchandise generate a positive SDG 8.4 alignment — improving the effective resource yield from goods whose production inputs have already been committed. This is a structural positive, not a programme, though inventory that is not overflow stock still attracts an SDG 12.5 negative, which must be weighed accordingly.

- **Sustainable materials and production.** A company with significant, independently verified use of recycled or certified sustainable fibres — supported by physical traceability, and with credible time-bound targets — can reduce the SDG 12.5 negative from production. We distinguish between initiatives that are material and embedded in company strategy and those that remain pilots. Similarly, companies that operate on genuinely slower inventory cycles, explicitly avoid scarcity marketing and release new lines at a lower frequency can achieve a more favourable SDG 12.5 calibration than their peers.

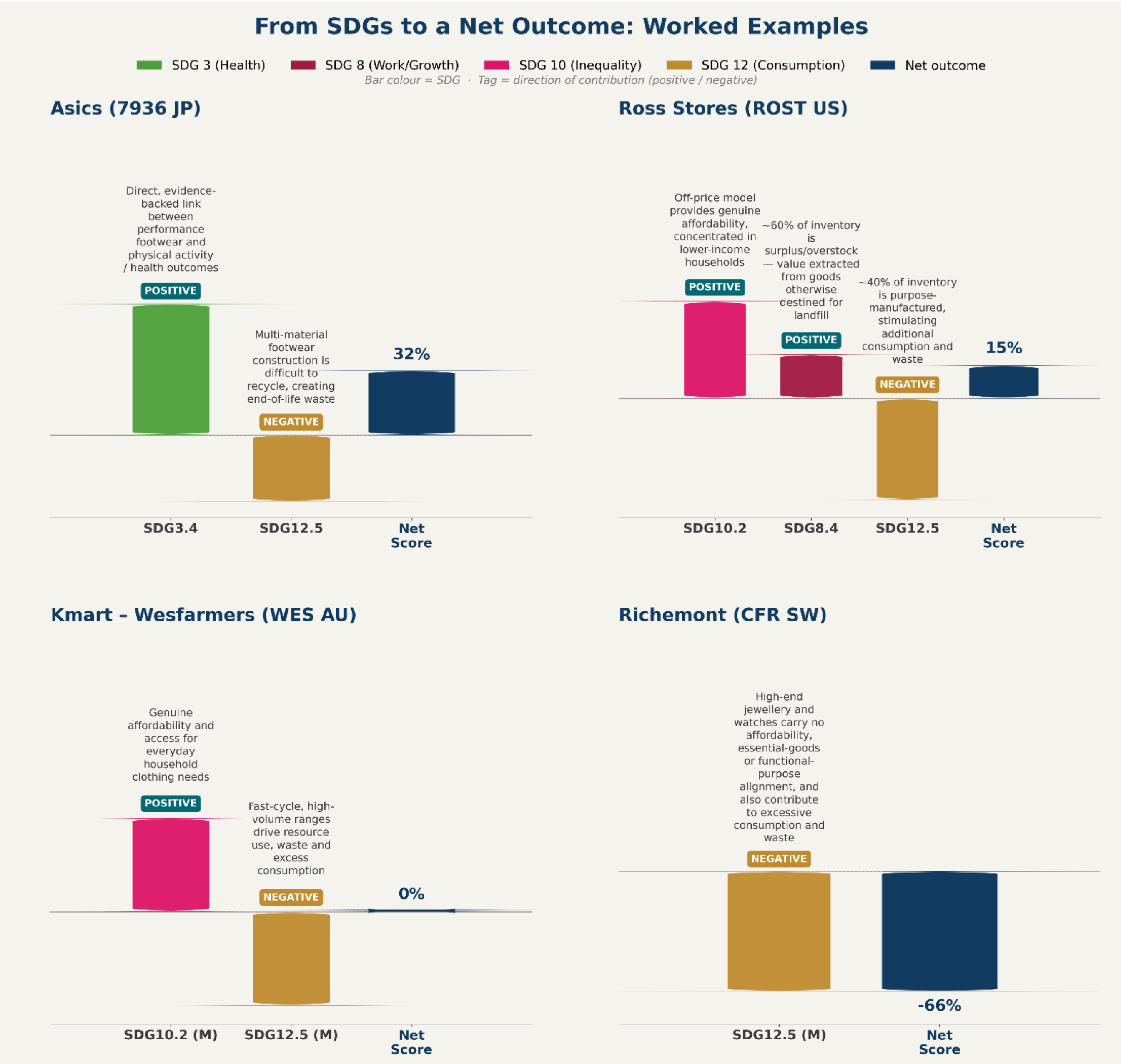
Bringing it together: our SDG alignment approach

The framework works in two steps. We start with the base case — a typical positive from affordability and access, weighed against a typical negative from fast fashion cycles and resource use — which nets to negative by default. We then test for the specific sustainability characteristics set out above, which can add further positive alignment or reduce the negative, to arrive at a company-specific net outcome.

Source: Alphinity Investment Management. Illustration of our SDG Alignment approach for companies with apparel-related revenues (manufacture and retail). Further information on our approach and methodology is available in our Sustainable Investing Factsheet.

Applying the framework: Worked examples

The framework produces materially different outcomes across apparel-exposed companies because each business model creates a different mix of positive and negative SDG alignment. The four examples below illustrate how affordability, health and wellbeing, circularity, luxury exposure and group-level diversification affect the final score.



Source: Alphinity Investment Management

Asics *(7936 JP)*

+32% net SDG score

This is the strongest of the four apparel examples because the positive alignment is linked to product purpose, rather than affordability alone. ASICS' performance footwear has a direct, evidence-backed connection to physical activity and health outcomes, supporting SDG 3.4. This is only partially offset by the negative associated with multi-material footwear construction and the difficulty of recycling products at end of life under SDG 12.5.

Ross Stores *(ROST US)*

+15% net SDG score

Its positive alignment is driven by two features: genuine affordability for lower-income households under SDG 10.2, and an off-price model that extracts value from surplus and overstock inventory under SDG 8.4. However, the score is lower than ASICS because Ross does not have the same direct product link to health or wellbeing, and the positive circularity benefit is partly offset by the portion of inventory that is purpose-manufactured and still contributes to additional consumption and waste under SDG 12.5.

Kmart *(within Wesfarmers, WES AU)*

0% net SDG score

Kmart's apparel business receives positive alignment for affordability and access to essential goods under SDG 10.2, particularly given its low-priced everyday clothing and focus on basic necessities. This is offset by the structural negative attached to high-volume, trend-cycle apparel production, consumption and end-of-life waste under SDG 12.5. The result is different from Ross Stores because Kmart's model is not primarily based on absorbing surplus or overstock inventory, so it does not receive the same circularity benefit under SDG 8.4. Wesfarmers as a group remains net positive because other businesses, including Officeworks and Bunnings, contribute different positive alignment outside apparel.

Richemont *(CFR SW)*

-66% net SDG score

Richemont's apparel and accessories exposure is concentrated in luxury goods. Luxury products do not receive affordability or access alignment under SDG 10.2, and any positive sustainability case would need to be supported by strong evidence of durability, repairability, responsible materials or circularity. In the absence of a broad affordability, health or surplus-inventory driver, the apparel-related score is more constrained and is primarily shaped by whether the company can reduce or mitigate the SDG 12.5 negative associated with production, consumption and end-of-life impacts.

The comparison shows why apparel cannot be assessed using a single sector assumption. ASICS scores most positively because its product purpose creates a direct health-related benefit. Ross Stores is positive because affordability is combined with a surplus-inventory model. Kmart's apparel business is neutral because affordability is offset by volume-driven consumption and waste, although Wesfarmers is positive at the group level. Richemont is more constrained because luxury exposure does not deliver an affordability benefit and requires stronger evidence of durability, repairability or circularity to offset the sector's structural negatives. None of these outcomes should be read as an endorsement of the status quo; rather, they identify the specific sustainability drivers and unresolved issues that shape our stewardship priorities.

Engagement questions for apparel companies

The table below sets out the questions we use to test each of the framework's core criteria in company engagement, moving beyond headline sustainability claims to the underlying evidence.

Framework criterion	Engagement questions
Affordability & essential goods	What price-point and customer data supports a genuine affordability/access argument, as distinct from an aspirational or discretionary purchase?
Purpose & utility	What evidence links the product to a specific, measurable health, safety or wellbeing outcome?
Business model circularity	What proportion of inventory is genuinely surplus, overflow or cancelled-order stock versus purpose-manufactured? Is this independently verifiable?
Sustainable materials & production	What proportion of materials is independently verified recycled or certified sustainable content? What are the time-bound targets, and what is the track record against past targets?
Waste, circularity & end of life	Does the company apply positive or negative screening to suppliers based on waste and circularity practices? What happens to unsold or aged inventory, and are take-back or resale pathways in place?
Supply chain human rights due diligence	Does social compliance auditing extend beyond tier 1 and directly developed merchandise? What remediation outcomes result from identified violations?

The role of stewardship

Stewardship is an important complement to our SDG Alignment Framework. The score helps identify the sustainability drivers and unresolved risks within a company's business model; engagement then allows us to test those assumptions, encourage stronger disclosure and focus companies on the issues most likely to affect long-term value.

This is particularly important in areas where regulation, disclosure standards or market incentives have not yet fully developed. In apparel, engagement can help encourage earlier action on structural risks such as resource use, waste, supply chain transparency and scope 3 emissions, while also identifying customer-related opportunities linked to affordability, durability, repair, recycling and lower-impact products.

Case study: Wesfarmers — circular economy strategy

Wesfarmers demonstrates how stewardship can add value where an apparel exposure is not clearly positive or negative in isolation. At the group level, Wesfarmers remains net positive because of the contribution from businesses such as Bunnings and Officeworks. Kmart's apparel business, however, is assessed as net neutral: its low-price essentials and school uniform offer support affordability and access, but this is offset by the structural impacts of high-volume apparel production, consumption and end-of-life waste.

This nuance matters. Rather than treating Kmart apparel as either a simple positive or a reason to exclude the whole group, the assessment helps focus our engagement on the levers that could improve the sustainability profile of the business over time. These include clearer disclosure on recycled fibre use, responsible sourcing, product durability, circular economy initiatives, waste reduction and scope 3 emissions, as well as the constraints affecting progress such as recycling infrastructure, supply chain capacity and access to recycled feedstock.

Engagement is particularly important in higher-risk sectors such as apparel, where supply chain human rights standards are not always matched by consistent regulation. We use engagement to test the credibility of a company's own due diligence and remediation processes directly. See our Modern Slavery Fact Sheet for more detail on our approach to human rights risk across our investments.

Case study: Fast Retailing — human rights due diligence

Fast Retailing (parent company of Uniqlo) is a holding in our core fund. It sources at scale from a complex, multi-tier supply chain concentrated in higher-risk garment manufacturing markets, an area we had flagged as a key risk following a human rights review. In engagement, the company was open about its factory audit programme covering all tier 1 suppliers, and its active approach to incident remediation. The company also shared plans to strengthen human rights due diligence ahead of upcoming EU supply chain due diligence legislation. Given this transparency and the credibility of its approach, we revised our ESG risk of the company improved. We will continue engaging with Fast Retailing as it rolls out these enhancements.

Conclusion

Apparel illustrates why sector-level assumptions are not enough within our SDG Alignment Framework. A blanket exclusion would overlook genuine affordability, circularity and purpose-led business models, while blind inclusion would ignore the sector's well-documented environmental and social costs. The relevant sustainability benefit, the SDG indicator applied and the strength of alignment all depend on the company's business model, price point, product mix and the credibility of evidence behind its sustainability claims.

Our dedicated approach for the apparel industry is designed to make these judgements with greater consistency and rigour. It distinguishes between broad marketing claims and specific, evidenced sustainability drivers, including affordability for lower-income households, product utility, surplus-inventory circularity, verified materials and credible end-of-life pathways. It also recognises the structural constraints that continue to limit progress across the sector, including weak or fragmented regulation, opaque tiered supply chains and limited consumer willingness to pay a premium for sustainability.

This work has sharpened both how we assess new apparel-related investments and how we prioritise stewardship with existing holdings. The SDG score is not the end of the analysis; it helps identify the specific levers companies can use to improve their sustainability profile over time, and the areas where better disclosure is needed for investors to assess progress. In a sector still shaped by long-term structural risks and evolving customer expectations, that combination of disciplined assessment and targeted stewardship is essential.

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[i] UNFCCC (2018), *"UN Helps Fashion Industry Shift to Low Carbon"*; UNEP (2025), *"Unsustainable fashion and textiles in focus for International Day of Zero Waste 2025."*

[ii] Untangling textile waste flows: A detailed product and material flow analysis of Dutch clothing waste, ScienceDirect (2026).

[iii] Clean Clothes Campaign, "Do any brands pay their workers living wages?" (cleanclothes.org/faq/pay-living-wages).

[iv] Barclays Research, *"Thematic Investing: Conscious Consumer — Where wellness, wealth and values collide"* (26 January 2026)

[v] Barclays Research, *"Thematic Investing: Conscious Consumer — Where wellness, wealth and values collide"* (26 January 2026)

[vi] Seamless, *"Evidence for change: Australia's circular clothing future"* (2026), p.7. The $500,000 in public funding allocated to the Seamless Circular Clothing Textiles Fund delivered $1.55 million in in-kind industry contributions