

Shenzhou Case Study

Constructive Dialogue Strengthens Reporting & Supply Chain Monitoring

Shenzhou International Group is one of the largest, vertically integrated apparel manufacturers in China. With customers that include prominent athletic brands around the world, innovation, performance and the ability to manage the many challenges facing the apparel industry are key. Apparel is water, energy and labor intensive, particularly in the early segments of the supply chain. Moreover, as consumers begin to recognize the environmental impacts of apparel, including the amount of waste produced, major brands are making environmental commitments and pushing these upstream to their suppliers.

ROCKEFELLER ASSET MANAGEMENT PHILOSOPHY

At Rockefeller Asset Management, we believe that rigorous, ESG-integrated analysis coupled with deep shareholder engagement can deliver strong long-term results for our clients. We also believe that companies working to improve their ESG performance will see stronger financial performance over time. Shareholder engagement is a core part of our investment process - evaluated before purchasing a stock and employed throughout the holding period. Our engagement approach strengthens our investment process by identifying material ESG issues and constructively engaging with companies to create long-term shareholder value and catalyze positive ESG improvement. We appreciate companies that recognize that achieving ESG leadership requires continuous improvement. Shenzhou is one of these.

MUTUALLY BENEFICIAL CONSTRUCTIVE DIALOGUE

We strive to engage 100% of our Global ESG holdings every year. As part of our regular engagement procedures, we initially reached out to Shenzhou by email to request a call and got no response. We then escalated to an official letter, expressing our sincerity



Source: Shenzhou International Group

and clarifying the scope of the discussion to reduce any concern on behalf of the recipient. This was effective in setting up our first call with the Corporate Secretary, Kenji Chan.

Given the resource intensity of the industry, we knew that we wanted to discuss the value of setting resource reduction targets. We were also focused on sustainability oversight and governance, as well as a system to monitor suppliers. We did not expect to learn so much about the formidable progress made by Shenzhou so far, particularly on water. Mr. Chan described the extensive wastewater treatment installations at the Ningbo, China facility, water reduction efforts as well as numerous initiatives to improve worker wellbeing such as a massive nap area. Additionally, given the company's presence in China, Shenzhou was one of the first holding companies with which we were able to discuss the effects of Covid-19 on operations and get a sense of how facilities were handling worker safety and demand-side impacts. Through mutual dialogue we were able to understand several of Shenzhou's concerns with regards to reporting and frame our requests in a way that responded to the interests of both parties. In a subsequent call, we shared slides highlighting the growing number of investments flowing into ESG funds. We also shared examples of major brands - Shenzhou's customers - that have set Science Based GHG emission

reduction targets of their own, or other environmental targets that include their supply chain (scope three). As a starting point for a discussion about opportunities, we benchmarked Shenzhou's disclosure against other apparel manufacturers and customers. We suggested Shenzhou consider describing the sustainability oversight and governance structure in its next report, set water and energy reduction targets, and expand its efforts to monitor suppliers.

QUICK PROGRESS WITH IMMEDIATE IMPROVEMENT

Two months later, Shenzhou alerted us that they had been inspired by some of our suggestions, and that they had increased disclosures in their annual report which would soon be published. Specifically, they included a section describing the governance structure for sustainability within the company, including Board oversight into sustainability topics. They included a table illustrating resource efficiency projects completed, in progress or planned between 2017-2021. This included water reduction and energy reduction targets in two areas. They also included a discussion about supplier management. After the call, Mr. Chan enquired with his team about the firm's process for monitoring supply chain standards upstream. As per Shenzhou, they had not previously received investor questions about such topics and did not realize that investors were interested in knowing more about the company's own supply chain management. The question was an impetus for company leadership to deepen its knowledge on how labor standards upstream are monitored enabling them to better communicate these procedures to investors and brush them up in the process.

Shenzhou reports having benefited from dialogue with Rockefeller. "No enterprise can say they are the best on ESG, all enterprises can be better," said Kenji Chan, Corporate Secretary at Shenzhou International Group. He added, "Rockefeller clearly put forth investors' expectations on ESG, pointed out shortcomings and provided clear guidance on improvement which was ultimately helpful for us. In doing so, Rockefeller bridges the gap between enterprises and investors on ESG issues."

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Corporate Secretary,
Shenzhou International Group

NEXT STEPS

CONTINUOUS IMPROVEMENT

Like in many sectors, tasks including reducing the use of natural resources, curbing pollution and ensuring fair labor contracts are in place, require a process of continuous improvement. Shenzhou is one of the larger Chinese suppliers and is committed to upholding the high standards of its clients. We intend to continue to discuss the value that setting ambitious, overarching water and energy reduction targets can have to help improve the bottom line by cutting long term costs, driving innovation, and differentiating the company as a supplier able to help its

customers meet their own environmental targets.



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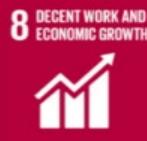
ESG Engagement Lead



Casey Clark, CFA

Global Head of ESG Investments

SUSTAINABLE DEVELOPMENT GOALS



Goal 8

Decent Work & Economic Growth

Engagement Target

Improve disclosure oversight of supply chain labor conditions



Goal 13

Climate Action

Engagement Target

Set aggregate GHG reduction targets



Goal 12

Responsible Consumption & Production

Engagement Target

Set aggregate water reduction targets



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