



Unlocking \$2B in Climate Financing for the Apparel & Footwear Value Chains

Apparel Impact Institute
June 2023



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Executive Summary

The GHG Gap

In 2021, the World Research Institute (WRI) and Aii published the [Roadmap to Net Zero: Delivering Science-Based Targets in the Apparel Sector](#). In this report, WRI and Aii developed an estimate of annual apparel sector GHG emissions and the reductions needed - a 45% emission reduction by 2030, on a scientific consensus, to maintain the world's temperature increase below 2C - hopefully below 1.5C (the latter being "net zero" by 2050) through high-impact supply chain interventions.

The Financing Opportunity

The [Trillion-Dollar Fashion Decarbonization Opportunity](#) report, in partnership with Fashion for Good and HSBC, estimates that \$1 trillion will be needed for apparel and footwear to reach net zero by 2050. This includes \$300 billion in grant funding from philanthropy and corporate brand treasury for riskier pre-seed and seed technologies and to de-risk decarbonization investments; as well as \$700 billion of debt and equity investments to scale existing solutions and fund the next wave of innovations.

The Proposal

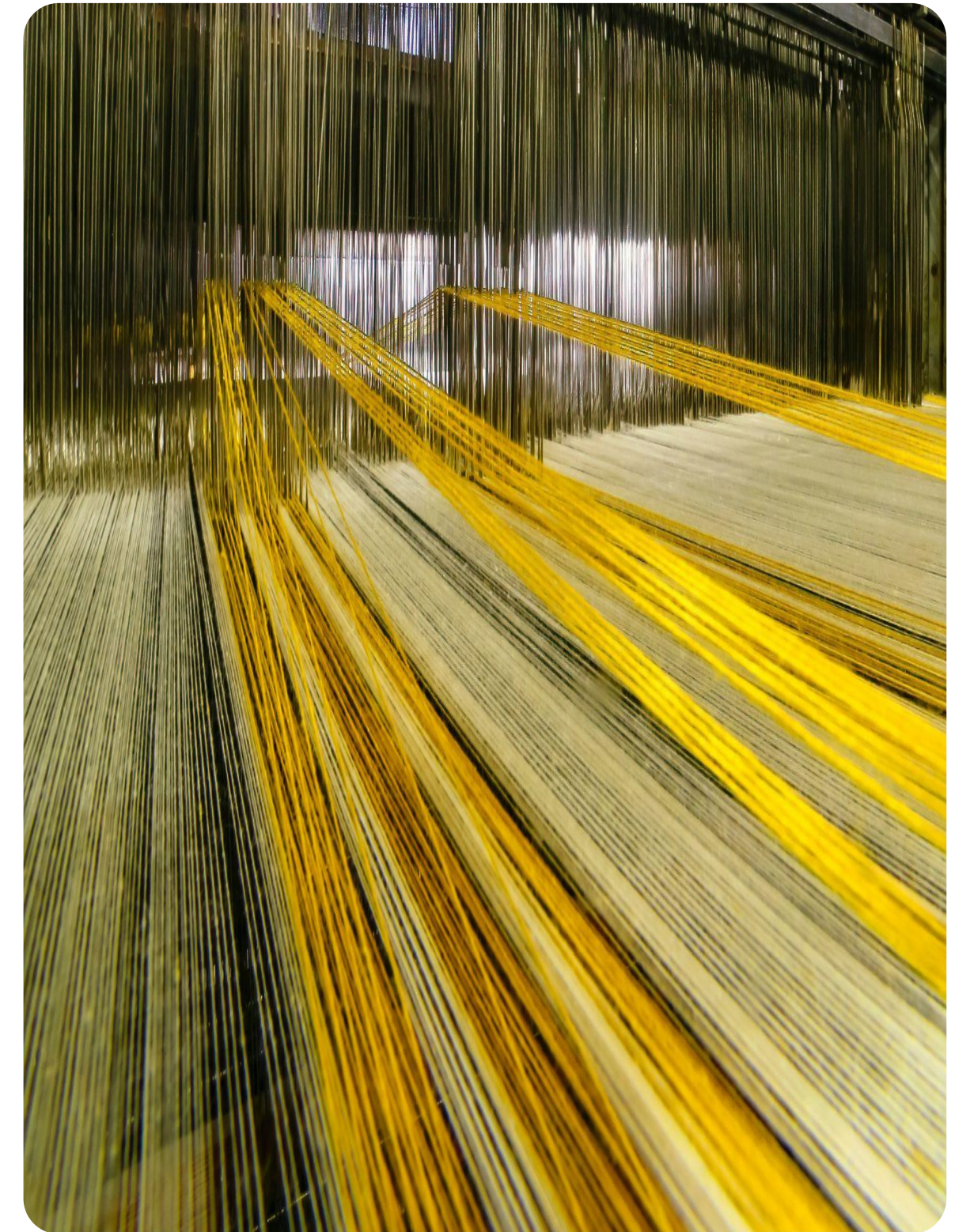
Aii is building a platform to house a coalition of partners to collectively fund the decarbonization of the apparel and footwear industry supply chain through a mix of capital sources with the aim of showcasing and supporting manufacturing MSMEs and innovative business models (demonstration effect) creating a graduation pathway by attracting follow-on capital (catalytic effect).

The Impact

Through advocacy & capacity development instruments, non-revolving instruments, and commercial capital, Aii aims to foster a diverse, inclusive, and resilient financial ecosystem serving the decarbonization of the apparel industry. Ultimately, Aii will seek to drive a systemic change to foster the climate transformation of apparel stakeholders; improve access to finance, jobs, and income while also boosting local regulatory conditions.

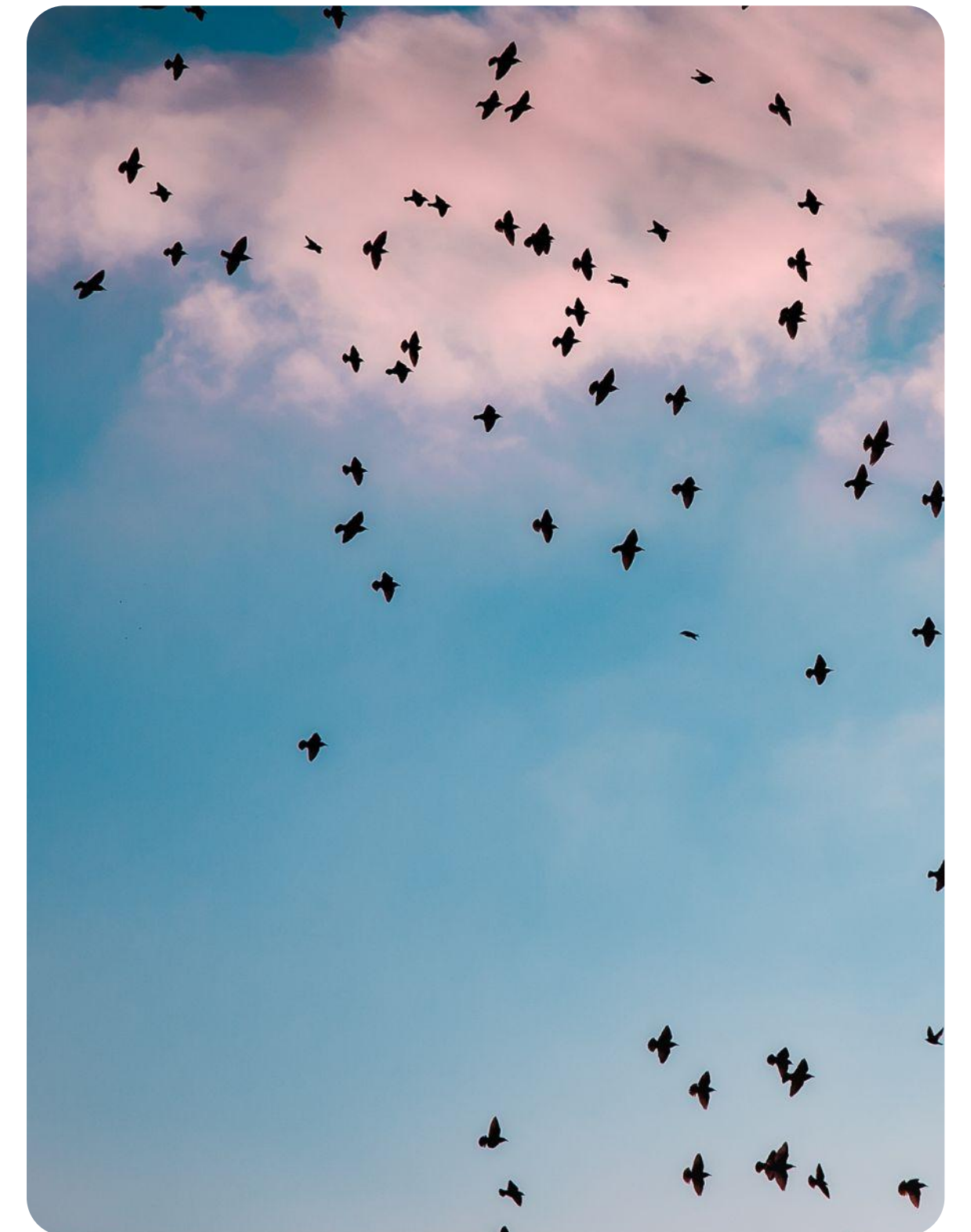
The Ask: A Commitment to the Fashion Climate Fund

Structure	Program under the Apparel Impact Institute
Size	Total facility size of \$250M; Target of \$10M commitment;
Life	Seven years with a successor fundraise to reach until 2050
Capital	Deploying 100% philanthropic capital
Budget	15% - G&A, opex 85% - programs inc. first loss
Governance	Comprehensive Board of Directors at Aii level Expert-led selection committee to lead implementation Lead Partners provide guidance via the Apparel Impact Roundtable
Target expenditure	Manufacturing facilities, implementation partners, convening events
Instruments	Grants, first-loss instruments
Geographic scope	Americas, Europe, South & Southeast Asia



The Ask: A Pledge to Provide Financing to the Industry

	Brands	Commercial financial Institutions	Development financial institutions	Suppliers and Manufacturers
Capital pledge	Ad-hoc	Pledge of up to \$300m to the industry	Ad-hoc	Ad-hoc, as permitted by cashflows
Ambition	Achieving Science Based Targets	Improving climate portfolio	Achieving Sustainable Development Goals	Supply Chain Decarbonization and Operational Sustainability
Financial instruments & mechanisms	Credit enhancement, co-investment, grants	Debt, equity, supply trade finance, working capital	Guarantee facilities, concessional debt and equity, first-loss positions	Equity from cashflows



Envisaged Strategic Finance Partners

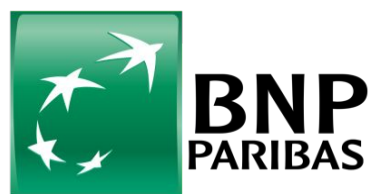
Aii's Fashion Climate Fund



Aii is evolving to be the industry's clearinghouse and registry of quality programs proven to reduce carbon emissions with applied blended capital for scale. Powering the Climate Solutions Portfolio, the Fashion Climate Fund identifies, funds, and scales impactful initiatives in the fashion industry.

FCF is funded by H&M Foundation, H&M Group, lululemon, PVH Group, Target, and the Schmidt Family Foundation

Envisaged Strategic Finance Partners



We would like to invite envisaged partners to:

- Join us as partners to the Fashion Climate Fund with a multi-year \$10m commitment to implement Aii programs
- Pledge \$200-300m in financing towards the industry towards the goal of unlocking \$2B in catalytic financing
- Help us shepherd the next round of partners of the FCF and towards the \$2B unlock

Tracked Outcomes

1. Tonnes of carbon removed by 2050
2. Jobs created and sustained
3. Water efficiency
4. Exploration of biodiversity and gender impact
5. Localized influencing and advocacy strategy
6. Industry leadership and convening



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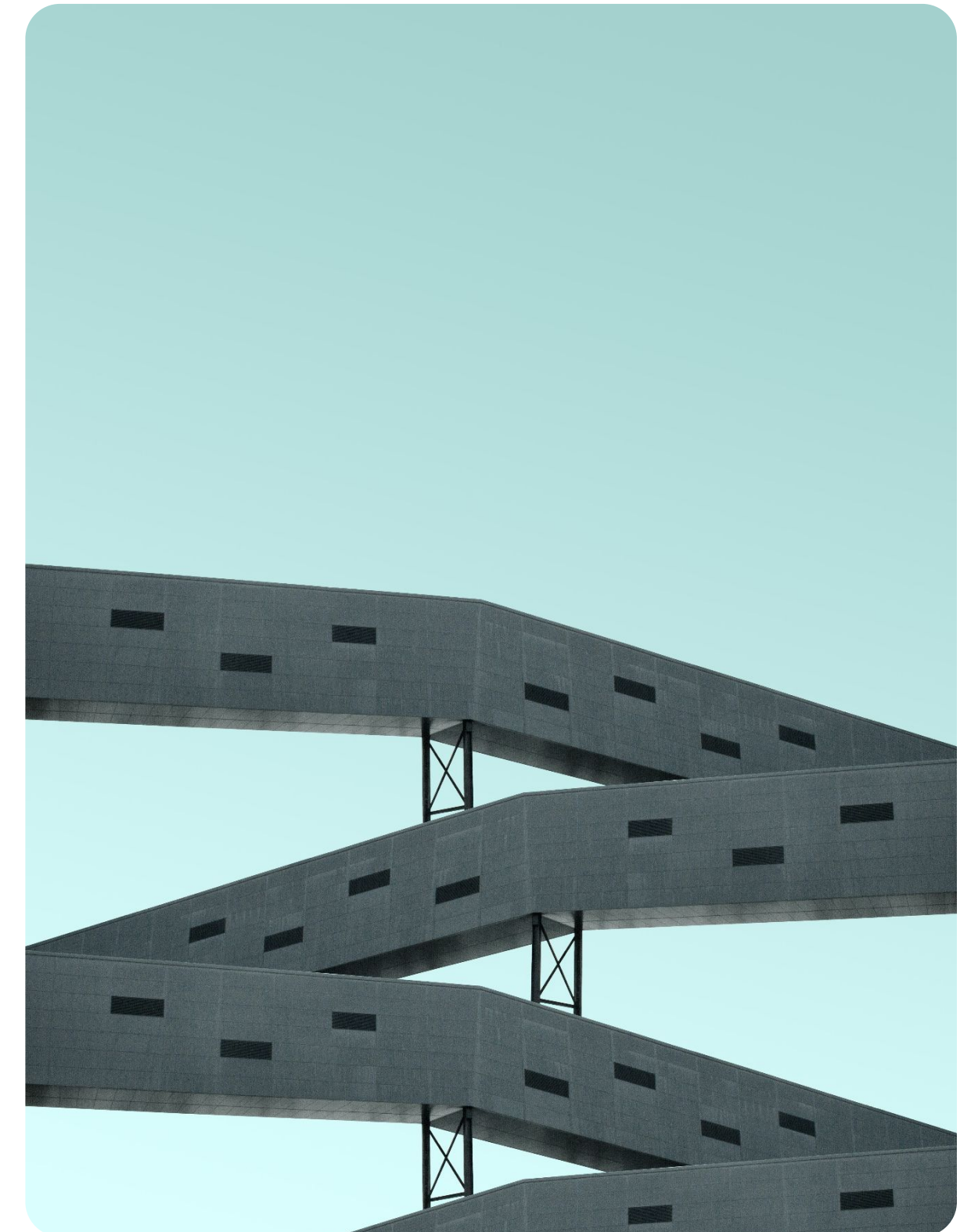
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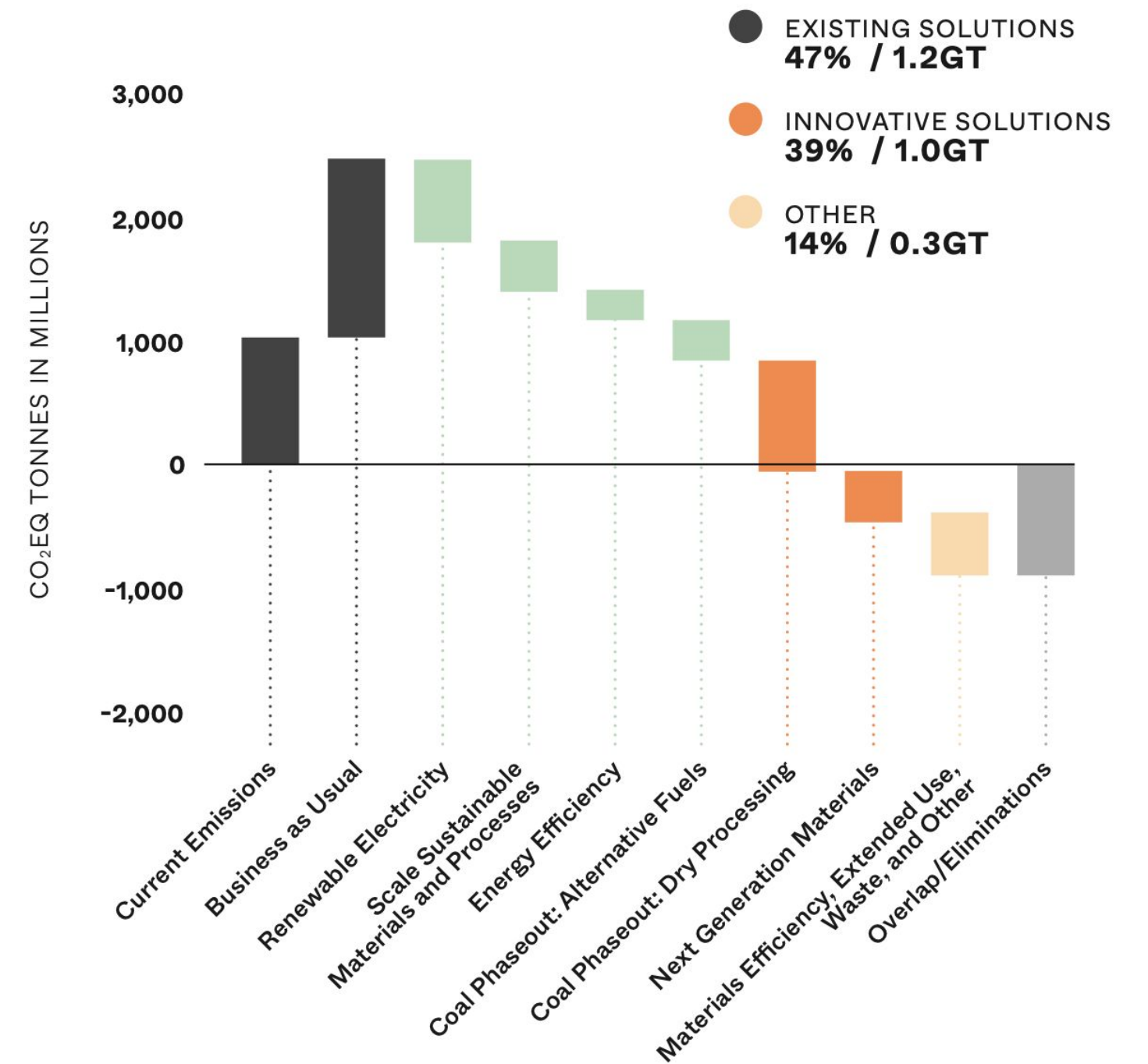
GHG Emissions in the Apparel & Footwear Industry

Apparel and footwear is a multi-trillion dollar industry that creates a number of environmental issues - most critically, an estimated 2-8% of global Greenhouse Gas (GHG) emissions. The vast majority of these emissions are in emerging markets where perceived risk and actual risk create barriers to investment.

In 2021, the World Resources Institute (WRI) and Aii published the [Roadmap to Net Zero: Delivering Science-Based Targets in the Apparel Sector](#), developing an estimate of annual apparel sector GHG emissions and projecting these emissions out to 2030. WRI and Aii also identified how the industry could reduce GHG emissions to stay in line with a 1.5°C trajectory.

The solutions categories enable a net-zero industry to be achieved by 2050, with a combined GHG emissions reduction potential of 2.5Gt CO₂e - 47% of that contributed by already existing solutions, 39% by innovative solutions, and 14% by other solutions including materials efficiency and reducing overproduction.

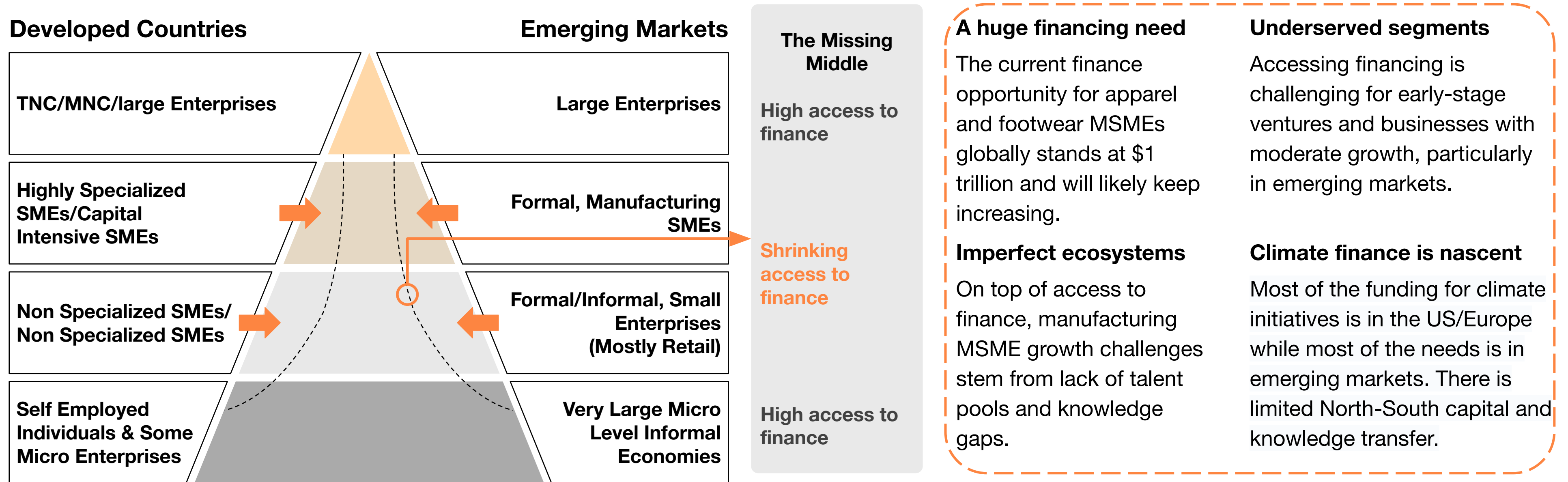
Pathway to Net-Zero: Reduction Potential by 2050



The Financial Missing Middle is a global problem

Micro, Small and Medium Enterprises (MSMEs) in the manufacturing sector are one of the main drivers for employment and economic development globally. Firms in this sector face a unique finance dilemma, known as the Missing Middle, as they have outgrown local microfinance, are too small or risky for commercial financial market players or lack the growth or return on investment sought by traditional venture capital players.

This Missing Middle is characterized by high information asymmetry, lack of collateral availability and high transaction costs.



Source: Azfar Khan, University of Ottawa

How Do Problems Co-Exist and What Can be Mitigating Techniques?

	Challenges	Actor	Examples Mitigating Instruments
<p>Missing middle challenges</p> <p>Sector challenges</p>	<p>Collateral: limited possibility to access secured lending due to access of registered collateral</p>	<p>Commercial banking</p>	<p>Traditional financial instruments: debt, equity, mezzanine products</p>
	<p>Information asymmetry: Difficulty accessing reliable performance data, track record, money multiples, and market intelligence</p>	<p>Private Equity and Venture Capital</p>	<p>Sustainability premiums (ie. concessional terms, loan forgiveness against KPIs)</p>
	<p>Transaction costs: High cost of capital (hedging, ticket size, origination costs, etc.) preventing an adequate risk-return balance</p>	<p>Concessionary finance and Philanthropy</p>	<p>Pilot support track record buildout (hand holding + finance)</p>
	<p>Limited cashflow predictability: Limited visibility on cashflow given short-term/variability of order contracts</p>	<p>Industry (Brands and Facilities)</p>	<p>Co-investment collaboration models</p>
	<p>Restricted access to capital: Macro situations prevent risk/return alignment between investor and investee</p>	<p>Government and regulators</p>	<p>Virtual PPA offtake agreements; revenue share</p>
	<p>Interest misalignment: Reason behind investment different for brands/sponsors (SBTs) and facilities (finance)</p>		<p>Guarantee enhancement mechanisms</p>
			<p>Longer-term brand guarantees; first-loss facilities; guarantee facilities</p>

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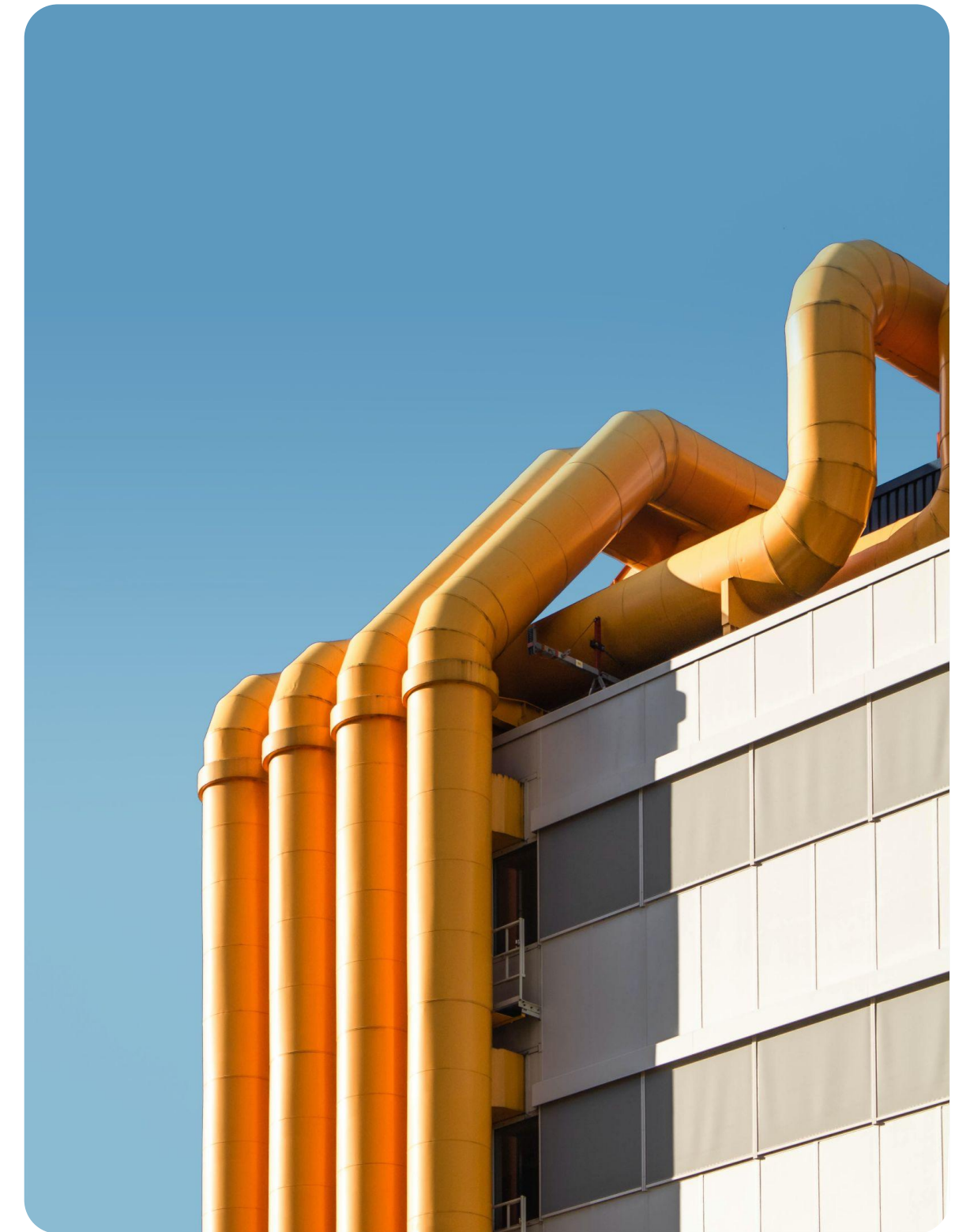
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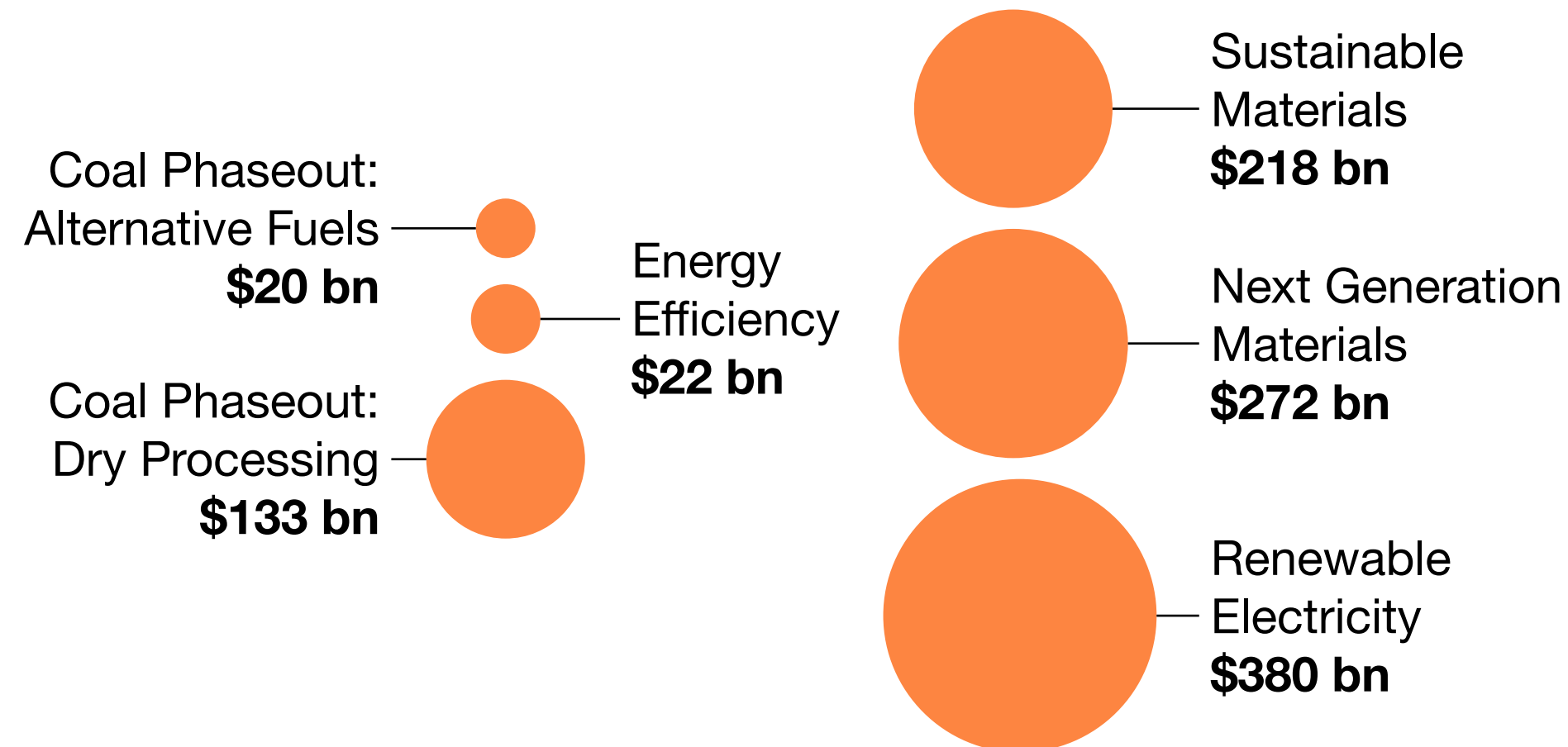


A \$1T opportunity in the apparel and footwear industry

Leveraging the Roadmap to Net Zero Report, Aii worked with Fashion For Good and HSBC to determine the size of the investment needs for the sector in the [Unlocking the Trillion Dollar Fashion Decarbonisation Opportunity](#) report. The report identifies 6 key types of investments that will be critical to decarbonizing the apparel supply chain.

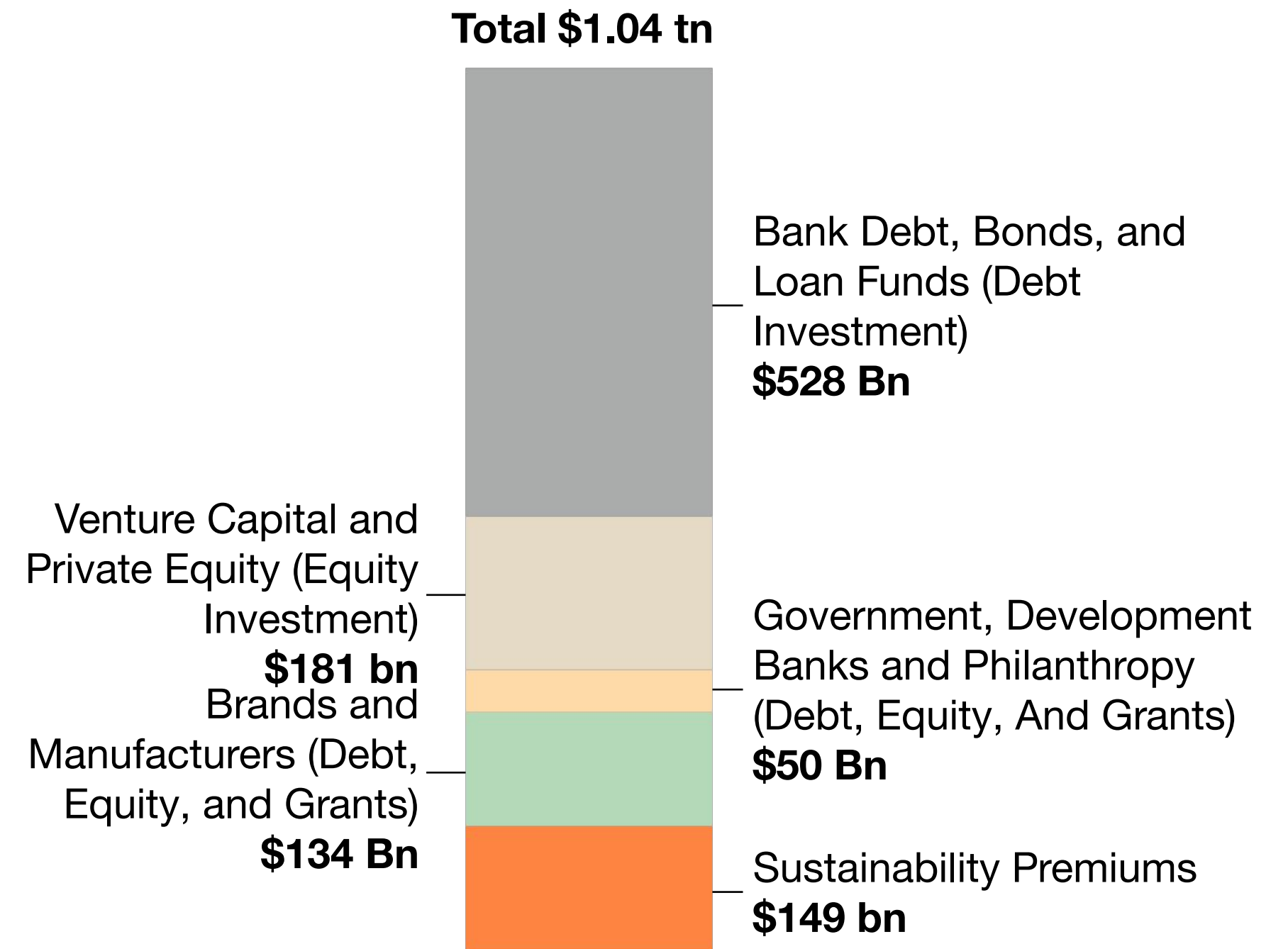
For each existing and innovative solution category the total funding requirement across all stakeholders was estimated at \$ 1.04 trillion:

- Total funding for existing solutions: \$639 billion
- Total funding for innovative solutions: \$405 billion



Source: Aii, Fashion for Good, HSBC

With \$1 Trillion of total investment required, each solution offers a unique mix of risk/reward, and therefore will be funded by a different mix of capital types



Source: Aii, Fashion for Good, HSBC

The Opportunity



The \$1T opportunity of the apparel and footwear industry is mainly concentrated in South and Southeast Asia.

We will look to focus the initial efforts in 5-6 regions where Aii has a strong network of facilities which have completed an Aii program, have been nominated by partner brands, or have been identified as relevant.

These regions are being targeted as access to finance has been reported as a significant barrier to the decarbonization efforts.

Source: Aii

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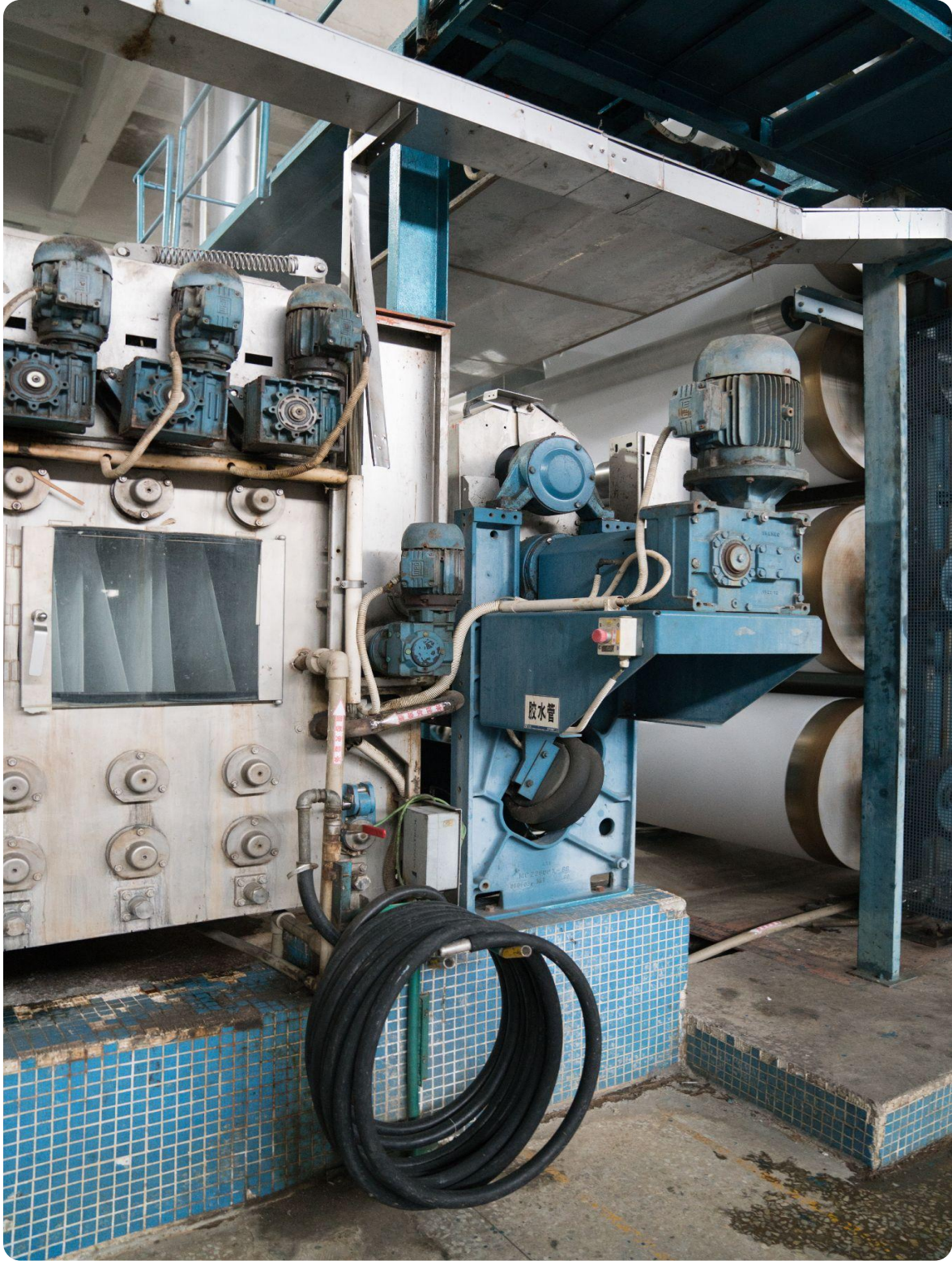
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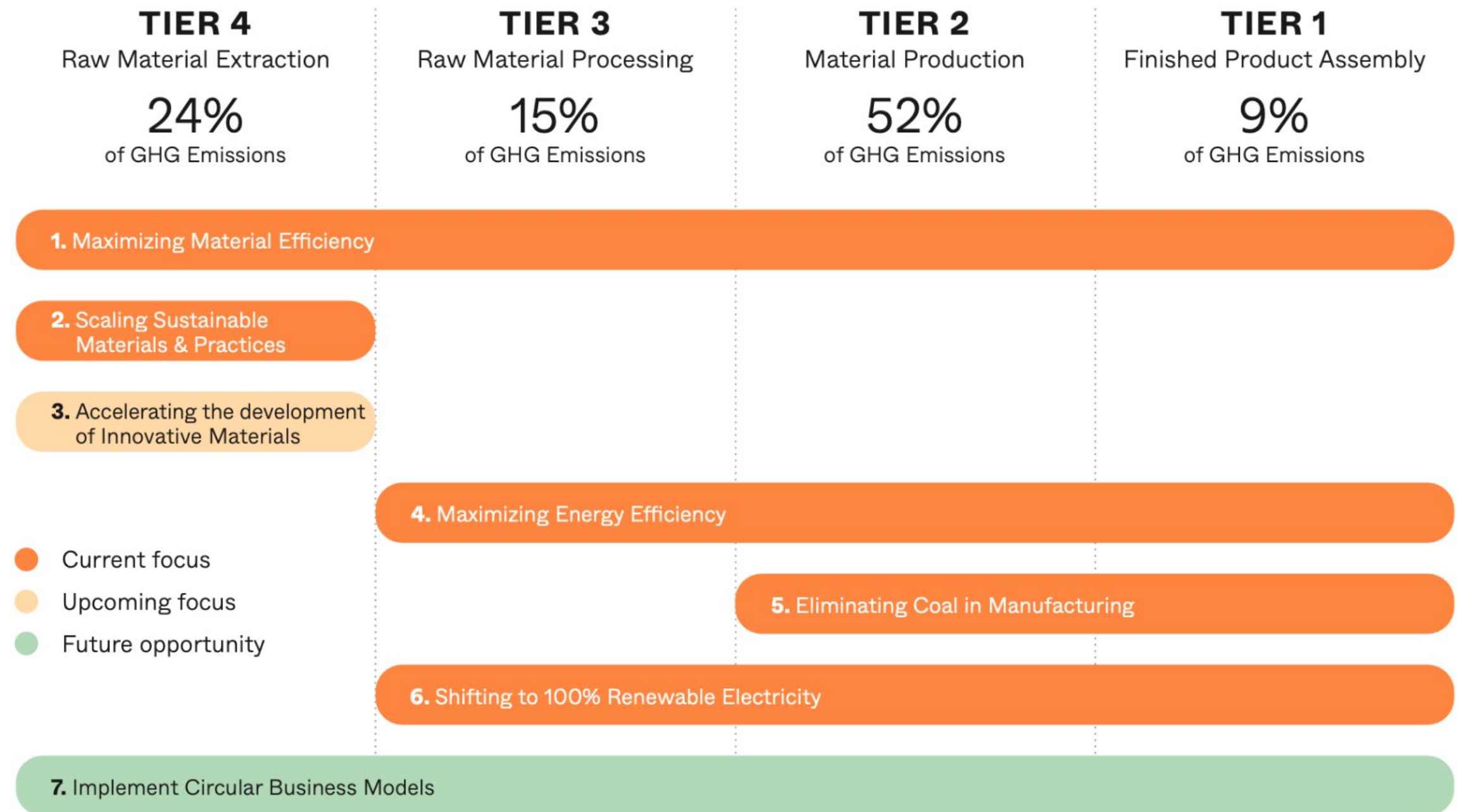
Aii's Focus - Sector Decarbonization

Our immediate priority is carbon reduction to work towards a zero-carbon fashion industry.

Through the [Roadmap to Net Zero](#) report we concluded that six interventions would help the sector deliver the reduction needed for a 1.5°C pathway:

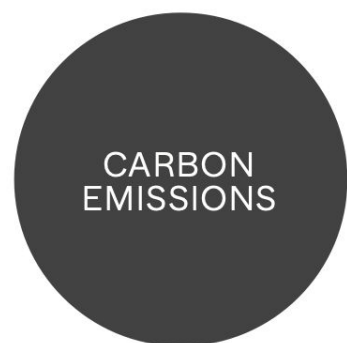
1. Maximizing material efficiency
2. Scaling sustainable materials and practices
3. Accelerating the development of innovative materials
4. Maximizing energy efficiency
5. Eliminating coal in manufacturing
6. Shifting to 100% renewable energy
7. Implementing circular business models

Aii currently focuses on five out of the seven areas and will integrate the others in upcoming years.



Source: Aii

Primary Impact Area



Related Impact Areas



Source: Aii

An impact-pathway for the sector

Input: facilitate access to finance for manufacturing MSMEs through innovative and blended finance propositions leveraging the Fashion Climate Fund and the team's track record, expertise, and network.



\$250M deployed by the Fashion Climate Fund into 100 initiatives



Output: build a repository of manufacturing MSMEs supported by a network of partner financial intermediaries and international brands.



Overall invested amount of \$2B by 2030 by partner financial intermediaries



Outcome: aggregate and showcase climate-forward and resilient manufacturing MSME initiatives, catalyze additional investments into Aii-backed projects, while helping brands achieve their Net Zero targets



Leverage effect on FCF investment capital raised by manufacturing MSMEs

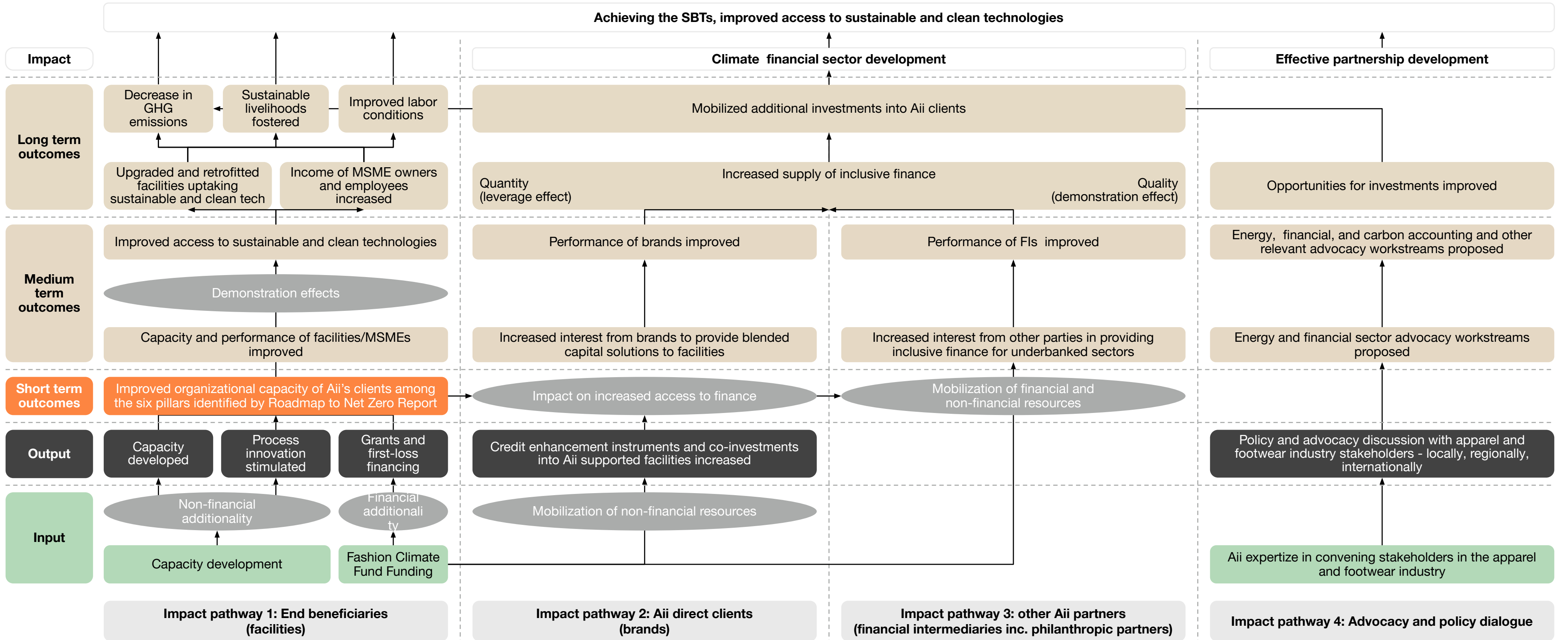


Impact: drive a systemic change to foster the climate transformation of apparel stakeholders. Improve access to finance, jobs and income while improving local regulatory conditions.



100M tonnes of CO₂e emissions reduced
1B m³ fresh water savings
>1,000 MSMEs supported
jobs created and supported
Revenue growth (CAGR)
Gender consideration exploration
Biodiversity exploration
Policy and advocacy initiatives

Rooted in a systemic-change Blended Capital ToC



Source: Aii

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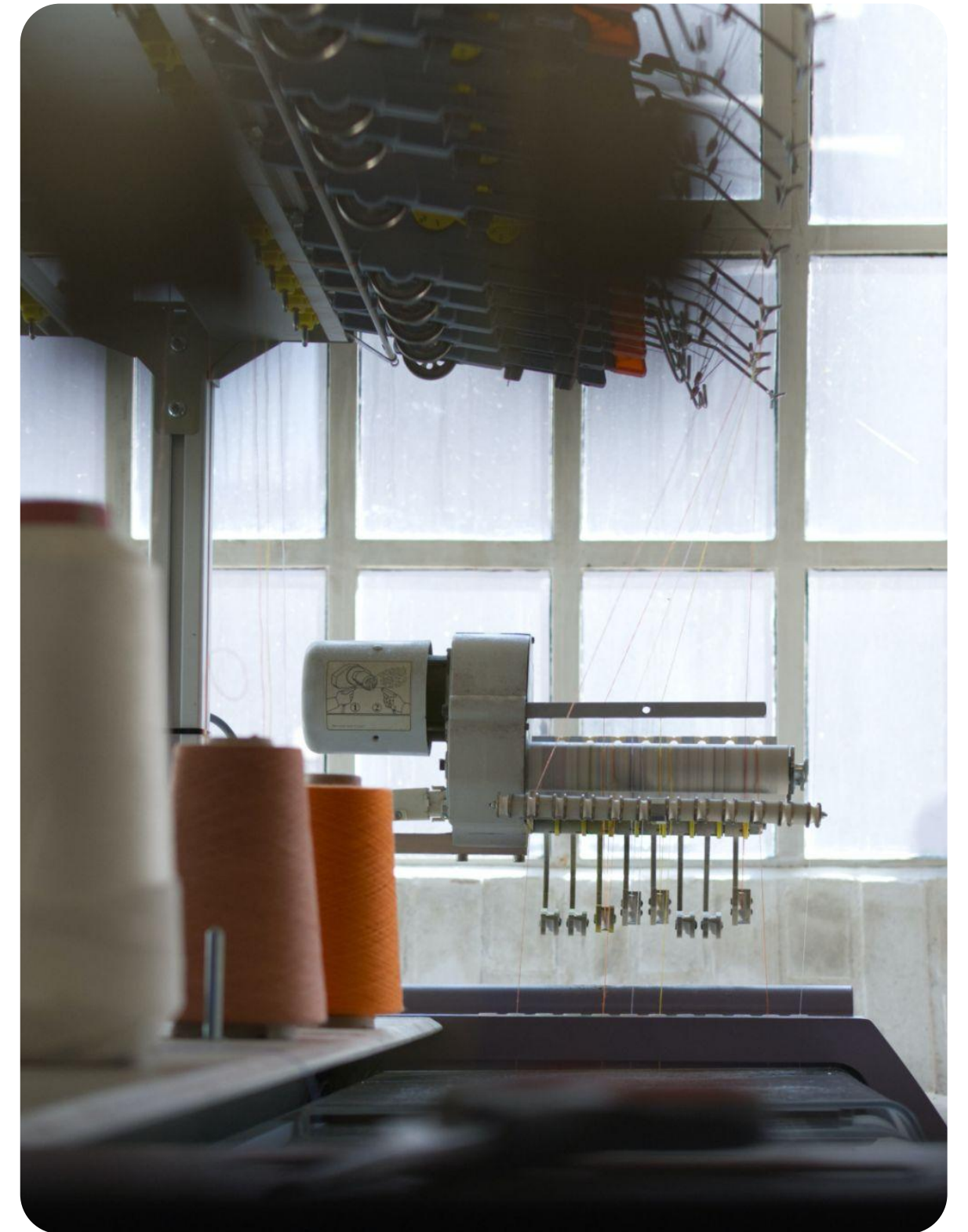
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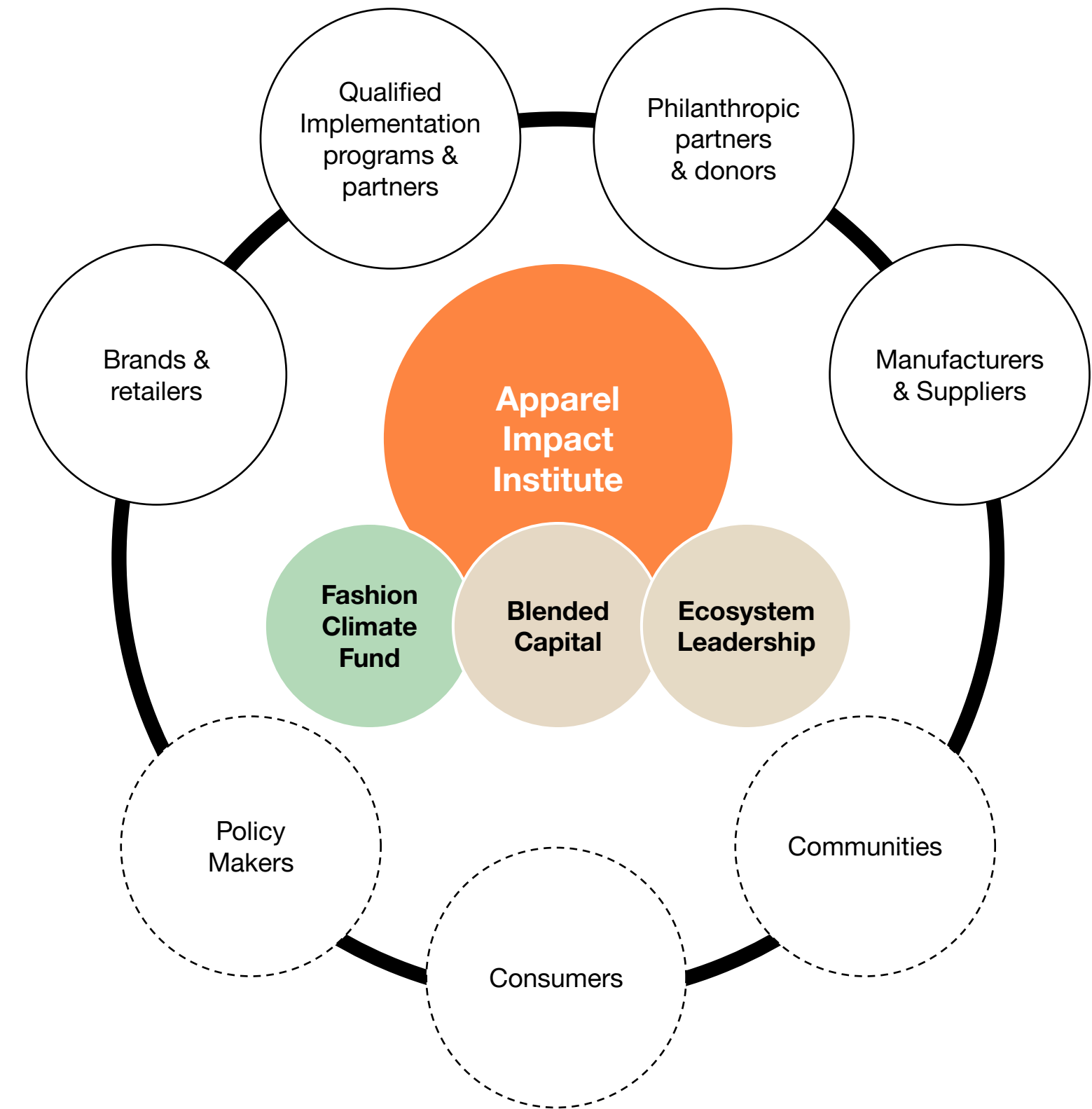


Aii is the Convener of the Apparel Industry

As a leading industry convener, we can align influencers around the biggest opportunities to urgently act on scope 3 decarbonization efforts.

In addition to direct support of programs, Aii amplifies its impact by engaging in several lines of work that are designed to strengthen the capacity and engagement of industry stakeholders to further the goal of reducing carbon emissions across the sector. Aii’s work to build ecosystem leadership centers on three key categories of results:

- Developing a technology platform to support Aii and industry-wide tracking of carbon reduction efforts and results.
- Supporting industry-wide public goods.
- Establishing the foundation to secure blended capital to amplify the impact of Aii’s work.



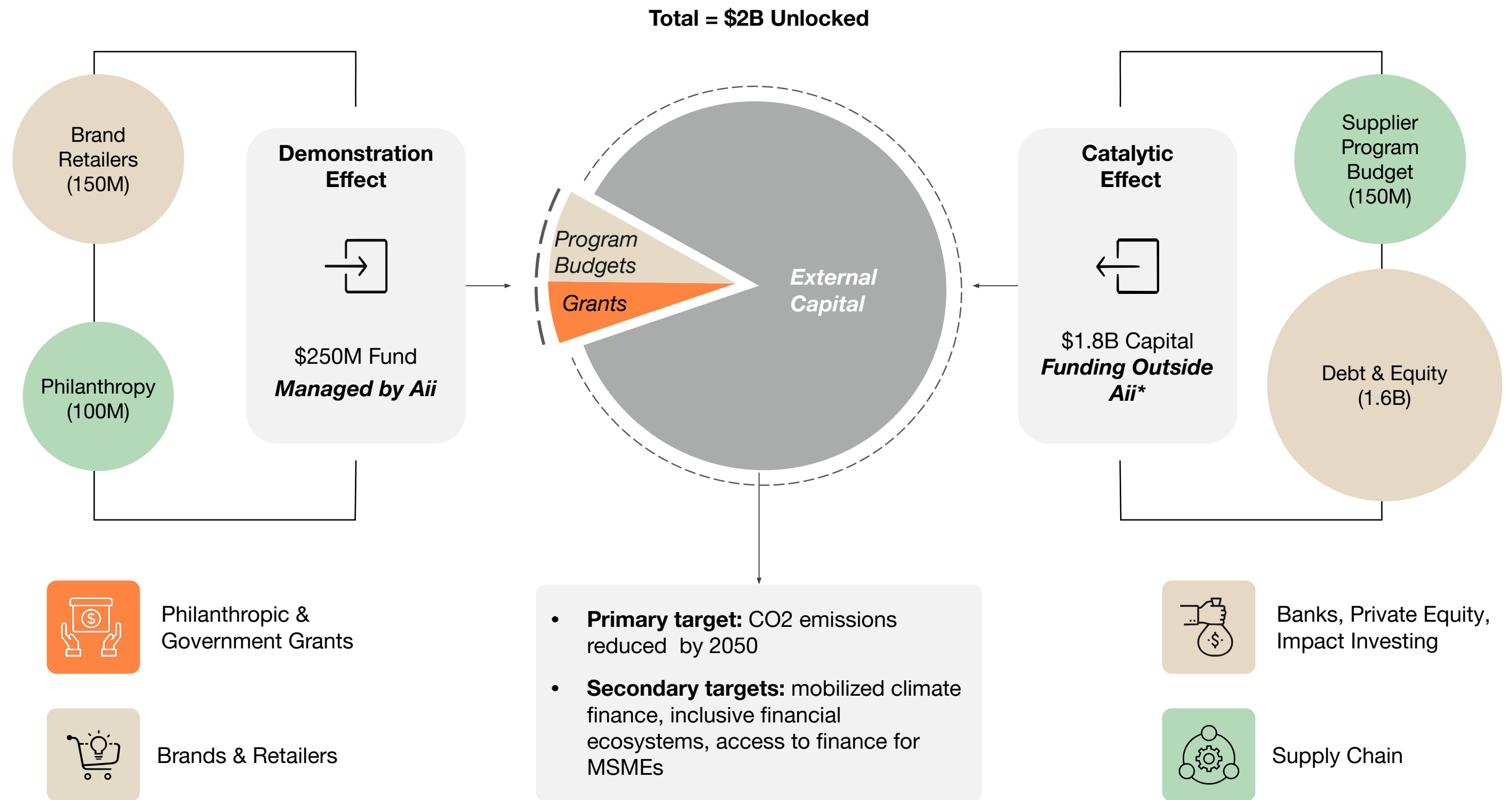
The Fashion Climate Fund as a Decarbonization Platform

The Fashion Climate Fund (FCF) is a \$250M grant-deploying fund built to catalyze some \$1.8B in capital across capital markets philanthropy, and industry players.

The FCF aggregates corporate contributions and philanthropic funding to apply toward identifying and rapidly scaling proven CO² emissions interventions inside our shared global supply chain.

The Fashion Climate Fund accelerates existing Aii programmatic work - moving from the target setting and incubation phase into rapid implementation - by providing the necessary capital investment in technologies to achieve our collective science-based targets.

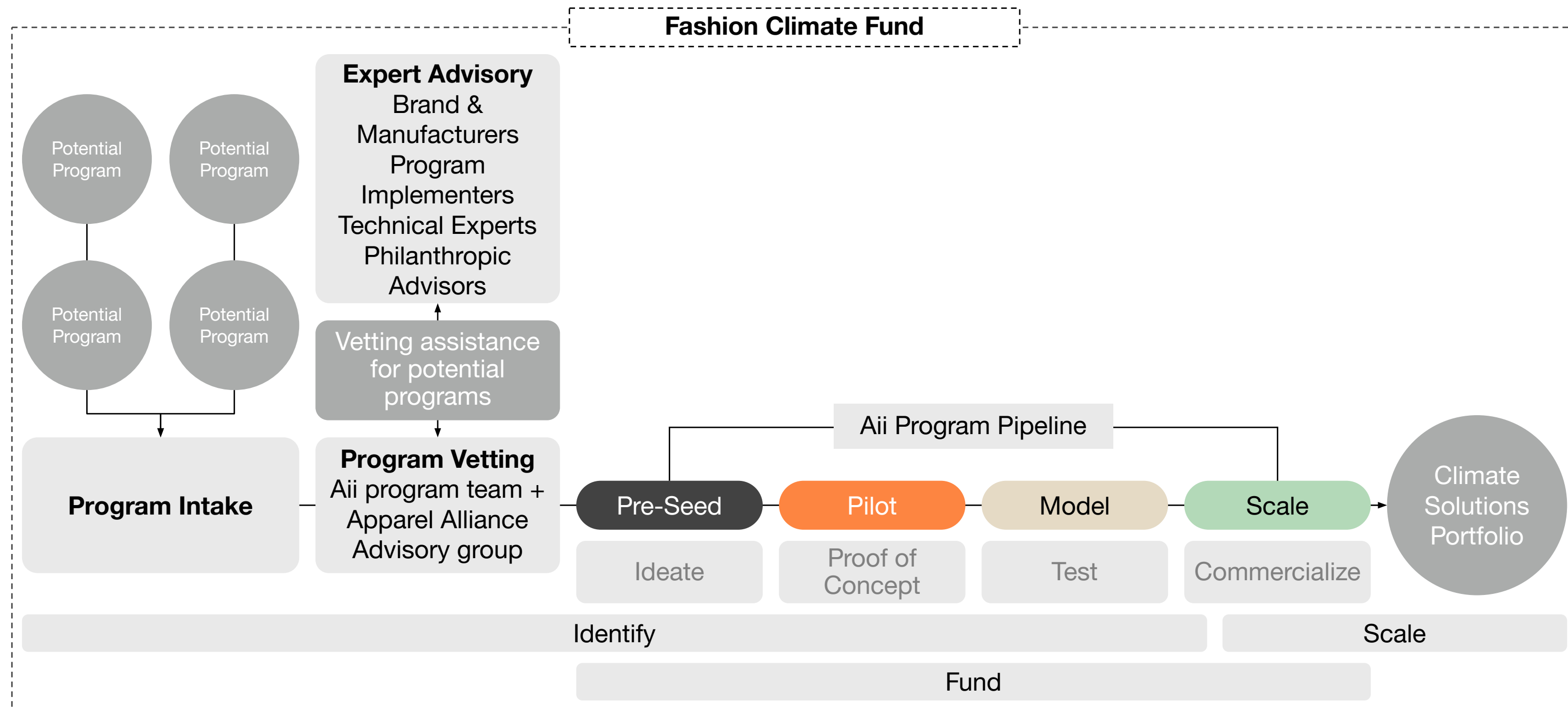
The funding also supports the exploration of new innovations required to achieve these ambitious goals.



*Linked to the Fund, managed by external partners (e.g. banks, private equity, impact investment funds)

The FCF intake process

FCF’s process has strong vetting standards and consists of two approval levels with an expert advisory committee as well as contracting templates which have been fine tuned over 700 implemented projects and six years of operations. The FCF will seek to provide grants of \$50-250K to selected solutions, innovations, and projects to help decarbonize the apparel industry.



The Climate Solutions Portfolio (CSP)

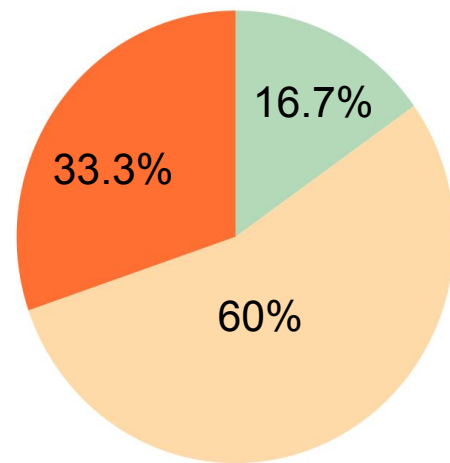
The CSP will serve as both: (i) a **registry** and (ii) **digital tool** for transparent, standardized impact reporting to identify, fund and scale impact programs leading to scope 3 emissions reduction in the apparel sector

The aim of the CSP is to create greater transparency for the impact work being financed via the fund by aligning the industry’s programs and providing data assurance based on clearly defined impact criteria.

Expected CSP Registry Construction and Long Term Targets

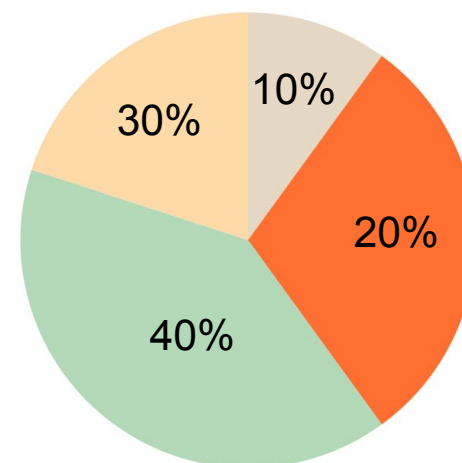
We will use the extensive knowledge harvested from Aii’s programs to build a balanced portfolio that seeks to reduce over 100m tonnes of CO₂eq by 2050.

Pipeline Composition



● Energy Source ● Energy Efficiency ● Materials

Pipeline Maturity



● Pre-Seed ● Pilot ● Model ● Scale

Category	Sub-category
Materials	• Maximize material efficiency
	• Scale preferred materials
	• Material innovation
Energy Efficiency	• Improve energy delivery
	• Improve energy recovery
	• Reduce energy losses
	• Reduce process demand
Energy Source	• Thermal energy
	• Renewable electricity

Category	Sub-category
Pre-Seed	Concepts / Pre-work
Pilot	Tests / Proof of concept
Model	De-risk / Address known barriers
Scale	Commercial / Market driven

Year	Facilities starting an Aii Program (p.a)	Total Carbon reduction per year (tonnes CO ₂ eq)	Aligned Capital (p.a., 8x)
2023	100	500k	\$60M
2024	200	1.4M	\$120M
2025	300	2.6M	\$160M
2026	400	4.1M	\$200M
2027	500	5.9M	\$240M
2028	>500	>8M	>\$240M
2029	>500	>11M	>\$240M
2030	>500	>15M	>\$240M
TOTAL	>3,000	>100M	>\$2B

FCF - Governance

The **CSP Advisory Council** is a multi-stakeholder group focused on determining which solutions should receive funding from the Fashion Climate Fund. This advisory group is named by the Aii Board of Directors.

The role of the CSP AC includes:

- Reviewing the entire cohort of applicants;
- Connecting Lead Funder representatives with the Apparel Impact Roundtable (AIR);
- Reviewing and analyzing applications for impact opportunities;
- Calling upon a pool of experts as needed;

As of June 2023, the Aii board has approved the nomination of a supply chain representative to the CSP AC.

Apparel Impact Roundtable (AIR)

The AIR is a strategic advisory body consisting of brands, retailers, and manufacturers responsible for driving the strategic scale and implementation of sponsored initiatives.

The Roundtable is composed of industry partners contributing to the FCF along with additional strategic industry partners. Their primary responsibility is to review and provide feedback on the recommended docket of the fund.



Linda Greer, Ph.D.
Environmental Scientist and Impact Advisor



Phil Patterson
Managing Director, Colour Connections Textile Consultancy



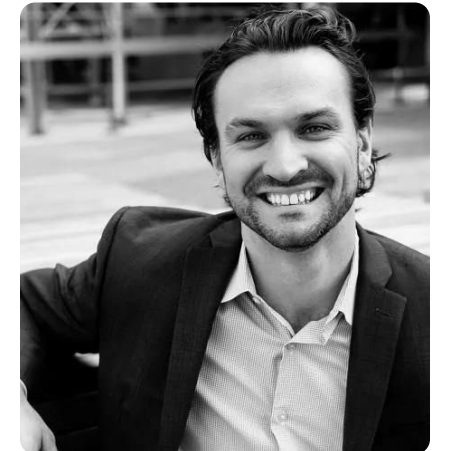
Beth Jensen
Director, Climate+ Impact, Textile Exchange



Crispin Wong
Senior Director of Product Sustainability & Environment, lululemon



Mallory McConnell
Vice President of Corporate Responsibility, PVH Corp



Kurt Kipka
Chief Impact Officer, Apparel Impact Institute



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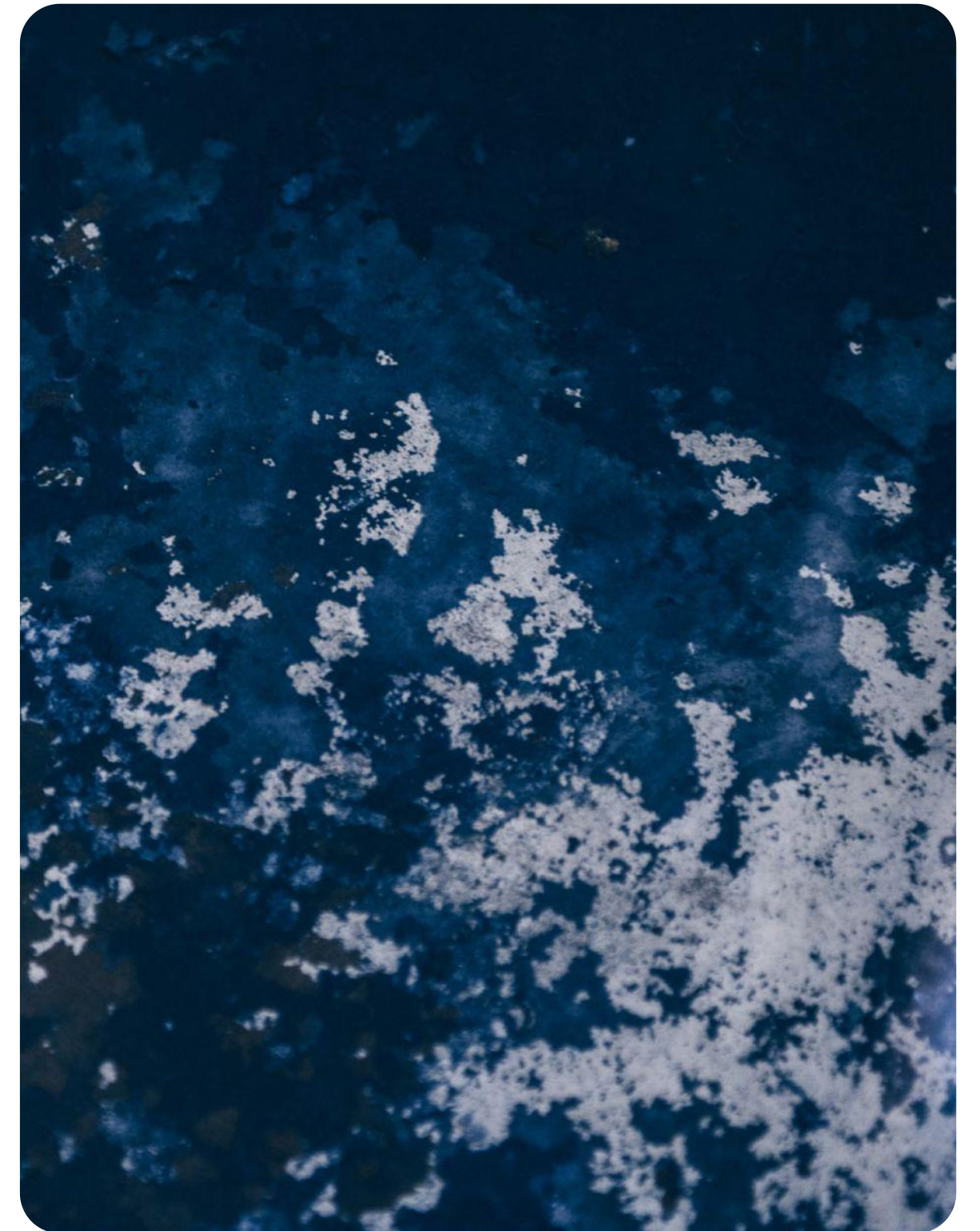
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Aii's Role - Influencing, Leadership, and Convening

Influencing strategy



Working with international, regional, and local trade and manufacturing associations as partners to generate a system-wide change in regulations.



Where possible, advocacy work with local organizations to promote new energy regulations; carbon accounting standard adoption; impact measurement, management, and disclosure norms.



United Nations Climate Change
Global Climate Action



Development of a technology platform to support Aii and industry-wide tracking of carbon reduction efforts and results.

Leadership strategy



Market intelligence reports such as the Unlocking the Trillion Dollar Decarbonization Opportunity paper to be updated frequently to keep stakeholders informed of the progress towards the financing objectives and science-based targets.



Local *doing business* and investment readiness analysis, and regulatory environment reports to be developed and shared with relevant stakeholders.



Promotion of policy-level changes on an international level through membership to impact networks (Confluence, Nexus, GIIN, Sustainable Markets Initiative, etc.)

Convening strategy

Building this kind of blended capital unlock means convening the following actors:

- Brands
- Foundations
- Financial institutions
- Owners/shareholders
- Industry

Aii has secured a 3-year support package from the Rockefeller Foundation to host convenings at the Bellagio Center.

Relevant blended finance, decarbonization, and apparel-specific events to be hosted and curated by Aii for a wider audience.



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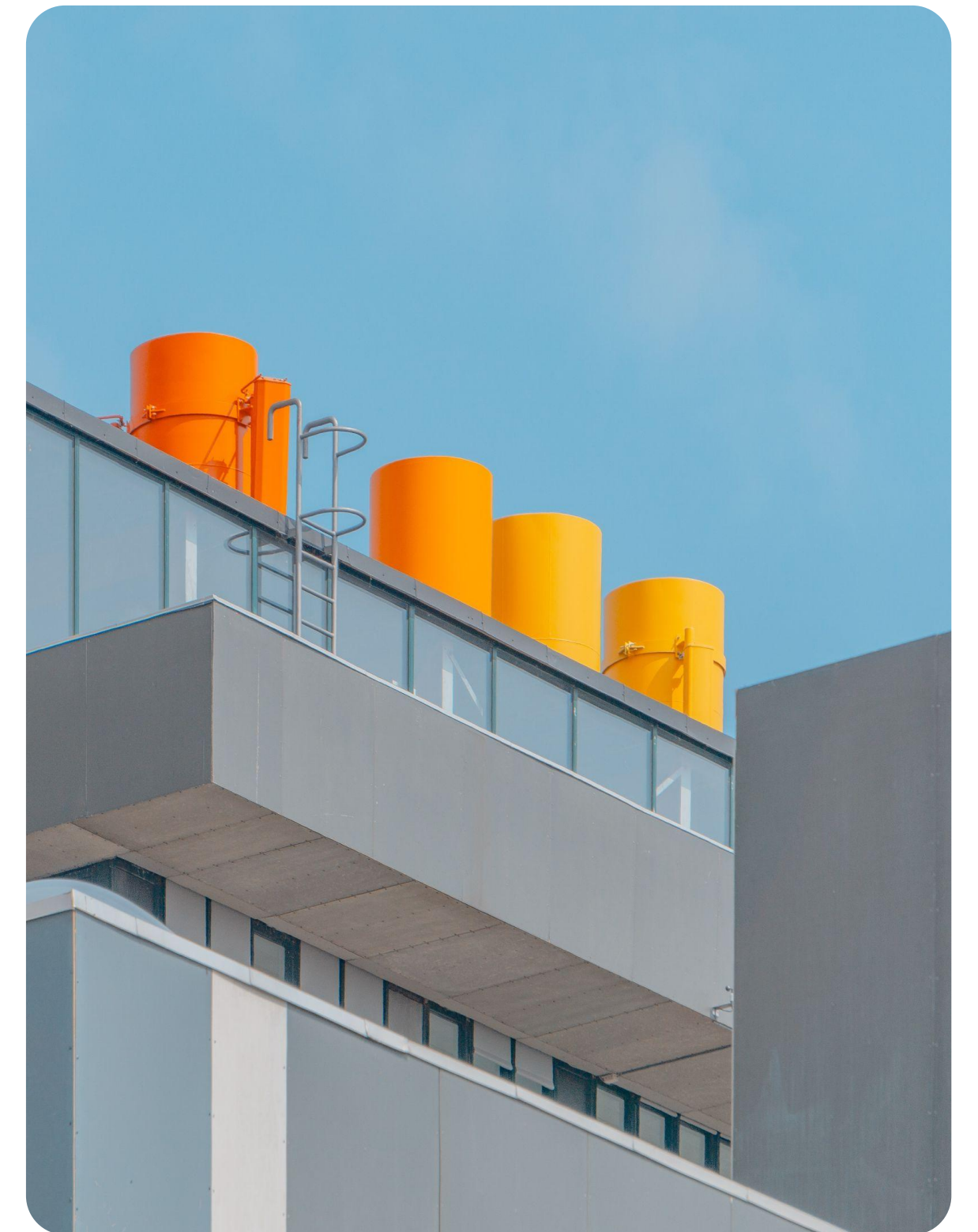
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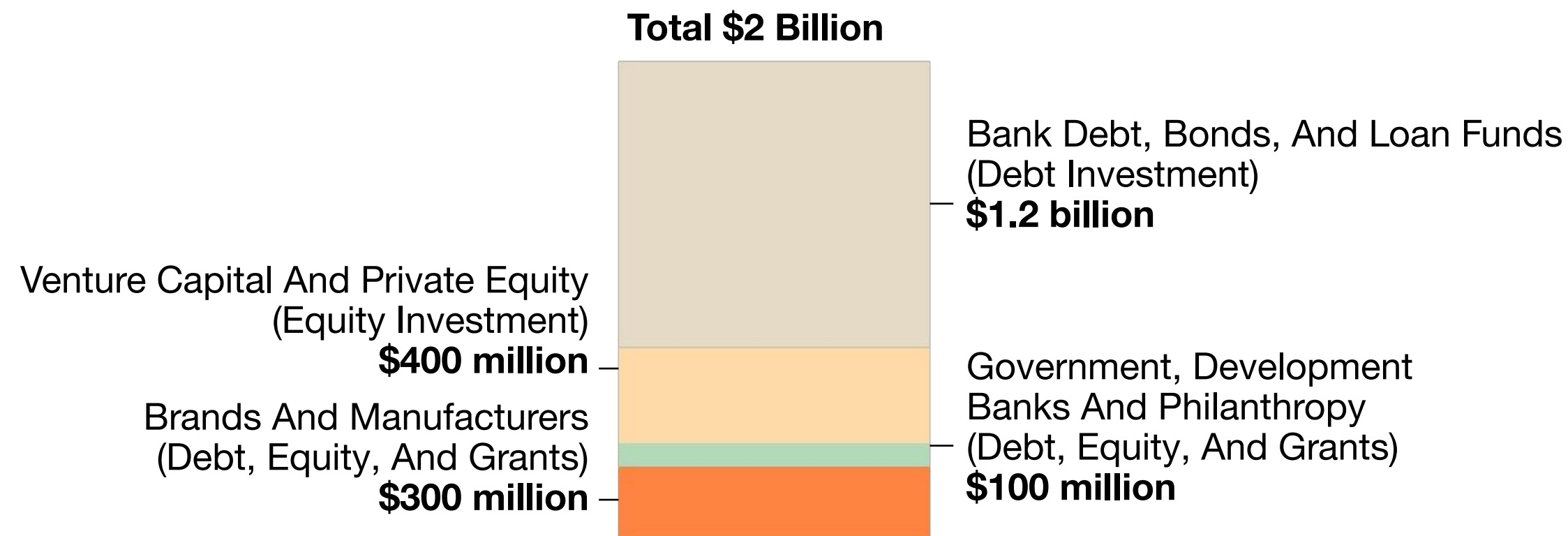
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The Blended Finance Strategy - Scaling Aii's Impact


Building on the success of Aii's programs, we are seeking to mix a combination of two types of commitments from partners: (i) a USD 10M commitment to the Fashion Climate Fund to fuel Aii's de-carbonization work; and (ii) a USD 250-300M pledge to the industry to mobilize capital onto the industry via innovative channels.




Goal: creating a systemic change in the apparel and footwear industries by helping local MSMEs, brands, and financial institutions in their decarbonization efforts through the deployment discipline capital to foster responsible innovation.

Vision: We envisage a net zero aligned apparel, footwear, and textile industry that has a positive impact on people and planet.


The target market consists of manufacturing and innovative MSMEs globally with the core objective of showcasing new and inclusive financing mechanisms for decarbonization (demonstration effect), helping the latter to attract follow-on capital (catalytic effect). Aii will also apply an influencing strategy where possible to improve local conditions.



Science based targets
100m+ tonnes of CO² (45% reduction) removed by 2050



Mobilized climate finance
13.a.1 - Amounts mobilized towards climate action using innovative finance

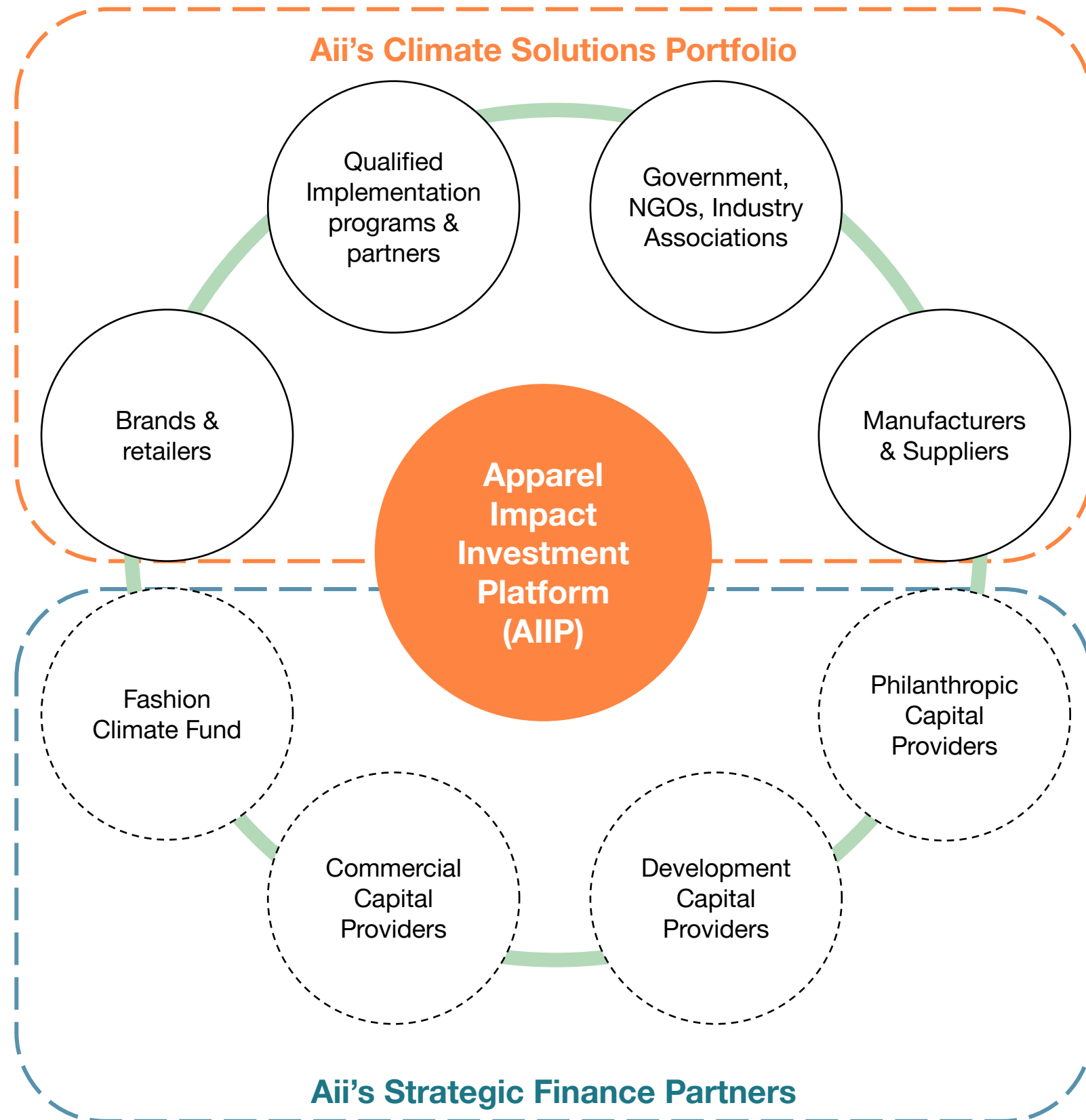


Improve access to clean technologies
9.4 - Upgraded and retrofitted facilities adopting sustainable and clean technologies



Effective partnership development
17.17 - Knowledge developed and disseminated across Aii's stakeholder base

The Apparel Impact Investment Platform to Unlock Blended Capital



Aii is building a platform, the Apparel Impact Investment Platform (AIIP) to house a coalition of partners to collectively fund the decarbonization of the apparel and footwear industry supply chain through a mix of capital sources with the aim of showcasing and supporting manufacturing MSMEs and innovative business models (demonstration effect) creating a graduation pathway by attracting follow-on capital (catalytic effect).

Through advocacy & capacity development instruments, non-revolving instruments, and commercial capital Aii aims to foster a diverse, inclusive, and resilient financial ecosystem serving the decarbonization of the apparel industry. By improving access to finance to local manufacturing MSMEs GHG emissions can be reduced and local livelihoods enhanced.

AIIP as a Blended Capital unlock tool

Pipeline generation	Financing convening	Knowledge dev. and reporting
<p>Leveraging existing programs to generate pipeline:</p> <ul style="list-style-type: none"> • Graduates from the Fashion Climate Fund's Climate Solutions Portfolio • Facilities graduating through Aii programs able to identify financial/investment needs • Brand nominations of facilities with whom they have a working relationship • Aii mapping exercises and recommendations from industry partners 	<p>Aii will work as the convener of networks to match facility needs paired with financing solutions:</p> <ul style="list-style-type: none"> • Commercial financing: capex syndication, supply trade finance • Impact financing: concessional finance, impact bonds, result-based financing • Non-cash instruments: guarantees, hedging costs • First-loss positions: grants, forgivable loans, convertible grants 	<p>Leveraging existing programs to generate pipeline:</p> <ul style="list-style-type: none"> • Automated and standardized reporting across stakeholder class • Carbon benefit allocated to investors based on best available practices • Harvesting key lessons learned, creating case studies and knowledge documentation • Coordination across industry and global forums to disseminate knowledge

AIIP - Envisaged Platform Processes

- Through a series of workshops and convenings, Aii will work with Strategic Finance Partners on the Apparel Impact Investment Platform, including a joint strategy, definition of roles/responsibilities, elementary processes and appropriate policies, governance and set-up.
- The AIIP is envisaged as a collaboration model applying a co-investment logic and a tailor-made governance structure.
- Throughout the investment process, Aii’s role is envisaged as follows:

Leveraging existing programs to generate pipeline:

- FCF serves as the clearinghouse and registry of solutions and manufacturing facilities
- Facilities graduating from Aii programs able to identify financial/investment needs

Local condition assessment

- Studies led by Aii to assess local *doing business*, investment, and regulatory conditions.
- When needed, local advocacy groups engaged to further understand risk levels and factors

Investment packaging

- Identification of possible sources of financing
- Packaging of investment opportunities depending on investor interest
- High-level due diligence performed

Facility assessment

- Facilities are assessed according to level of maturity, emission reduction potential, and readiness for financing
- Aii endorses manufacturing facilities with clearly defined climate finance action plans

Blended finance development

- Financial mechanisms designed and specialized consultants engaged to begin implementation
- Deal templates created and shared with relevant parties
- Blended partnerships established: brands, funders, facilities

Specialized climate due diligence

- Aii engages on detailed climate due diligence to enhance Financial Institutions’ own processes - estimated savings (kWh, \$/tCarbon, CO² reduction)
- Convening across participating FIs to avoid work duplication

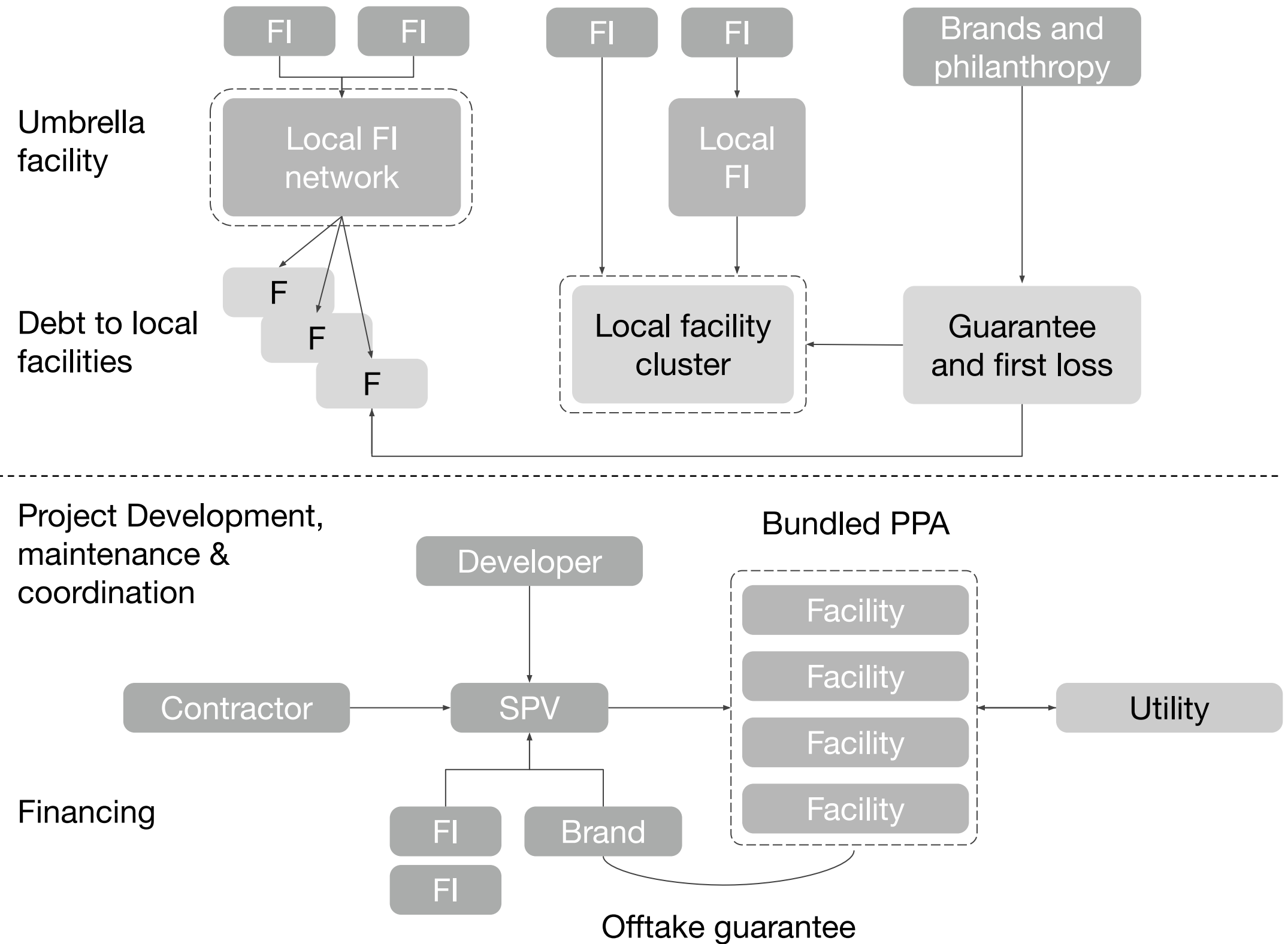
Implementation and reporting

- Automated and standardized reporting across stakeholder class
- Carbon benefit allocated to investors based on best available practices

Archetypes of financial instruments to be tested through the AIP

Archetype	Cluster - bundle - South & Southeast Asia
Capital needs	Syndication deals, umbrella facilities, Tier II banking financing, brand guarantees
Underlying assets	Multiple facilities with similar action plans
Expected returns	IRR 2.5-5% in HCY

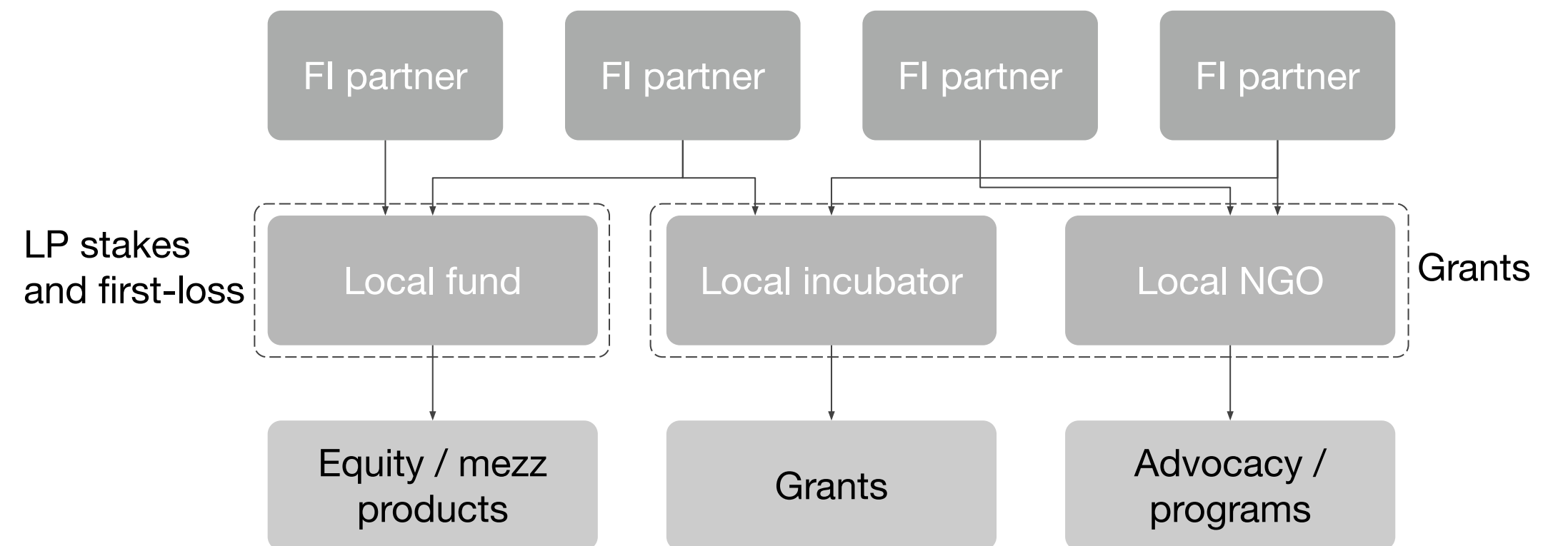
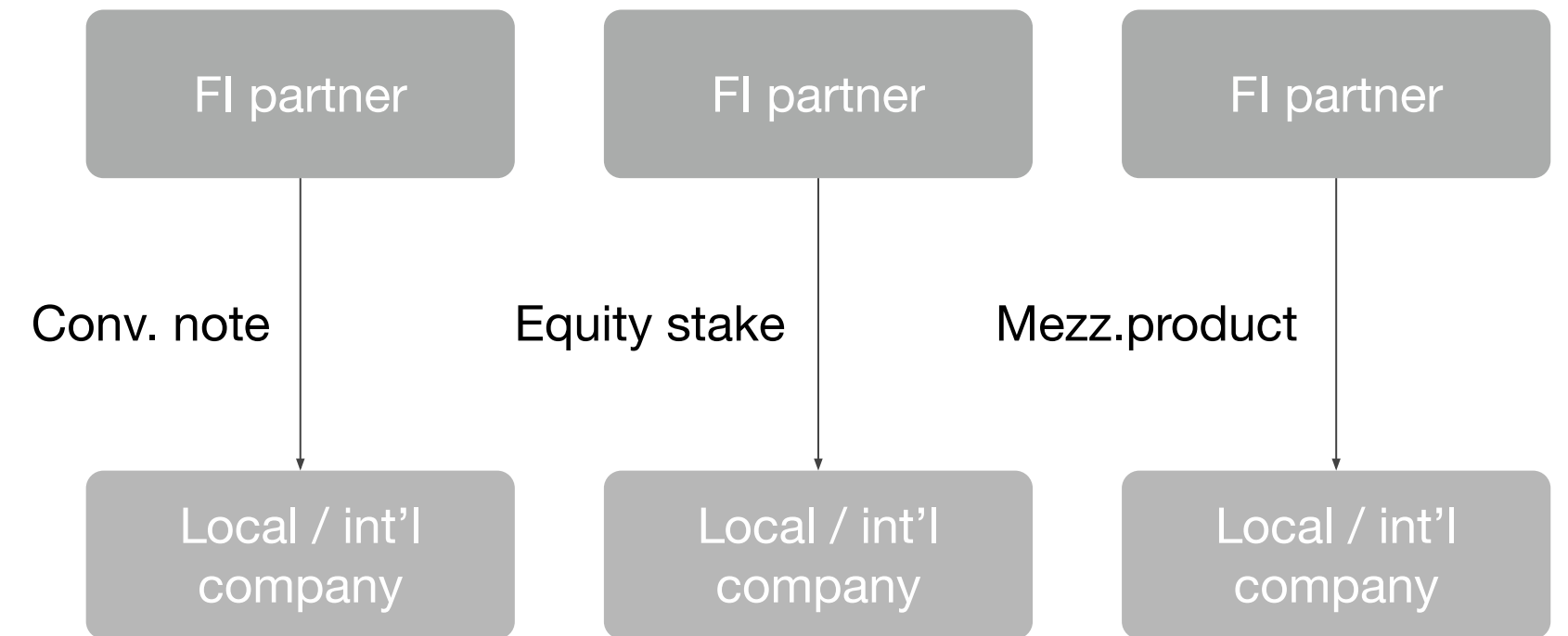
Archetype	Mature - standalone - South & Southeast Asia
Capital needs	Debt and growth equity, guarantees, hedging solutions, brand guarantees, mezzanine instruments
Underlying assets	Mature facilities
Expected returns	IRR 7-12% in HCY



Archetypes of financial instruments to be tested through the AIP

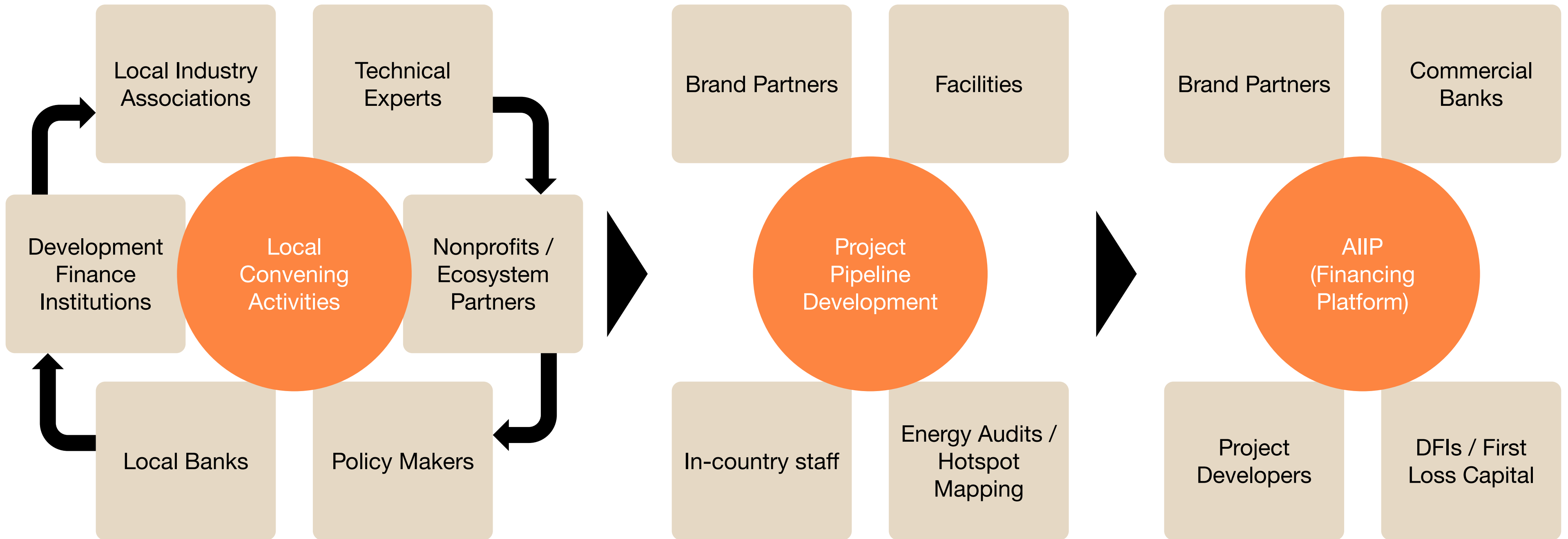
Archetype	Innovation - standalone - Global
Capital needs	Venture capital, acceleration grants, mezz products
Underlying assets	Early-stage technology enabled companies
Expected returns	IRR > 20% in HCY

Archetype	Ad-hoc ecosystem - Global
Capital needs	First-loss LP positions, grants
Underlying assets	Fund managers, accelerators and incubators, think tanks, NGOs - focus on innovation
Expected returns	TBD



Regional Approach

Aii takes a local, place-based approach, engaging local actors to ensure projects are aligned with local needs, regulations, existing JETPs, and financial market conditions



Replication across 6 key regions



Aii is engaging DFI International, a global consultancy, to develop an overall mapping and deep-dive on the selected geographies. The engagement should yield results as early as 2Q23 which will be incorporated as an additional section.

China (1-2 regions):

- \$692M financing opportunity
- Focus on Guandong, Zheijang, and/or Jiangu
- 25K+ Tier 1-3 facilities

India (1-2 regions):

- \$180M financing opportunity
- Focus on Tamil Nadu
- 6.5K+ Tier 1-3 facilities

Vietnam:

- \$68M financing opportunity
- 2.4K+ Tier 1-3 facilities

Pakistan:

- \$30M financing opportunity
- 1.1K+ Tier 1-3 facilities

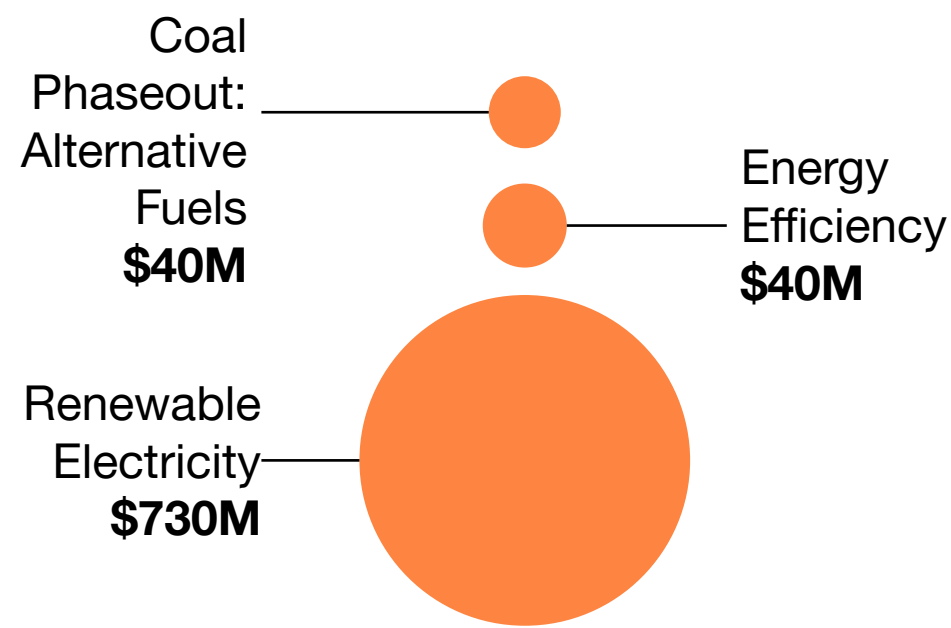
Indonesia (\$30M):

- \$30m financing opportunity
- 1K+ Tier 1-3 facilities

Bangladesh (\$200M):

- \$200m financing opportunity
- 7K+ Tier 1-3 facilities

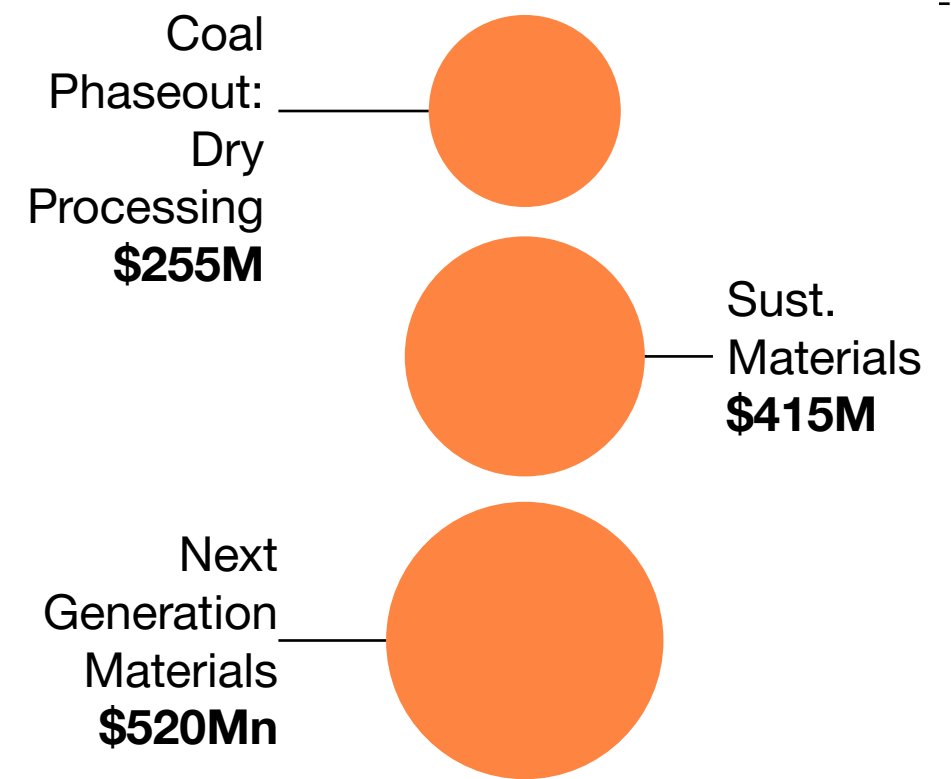
Project-specific approach to decarbonization



Primary focus

Financial Instruments

- Debt**
- Commercial debt (capex, project finance)
 - Concessional instruments (capex, project finance)
- Private Equity**
- Project finance
 - M&A
- Others**
- Guarantees, impact-linked instruments



Related focus

Financial Instruments

- Debt**
- Venture debt (capex)
- Venture Capital and PE**
- Early-stage equity instruments
 - M&A
- Others**
- Guarantees, impact-linked instruments, seed capital
 - Grants and non-revolving instruments



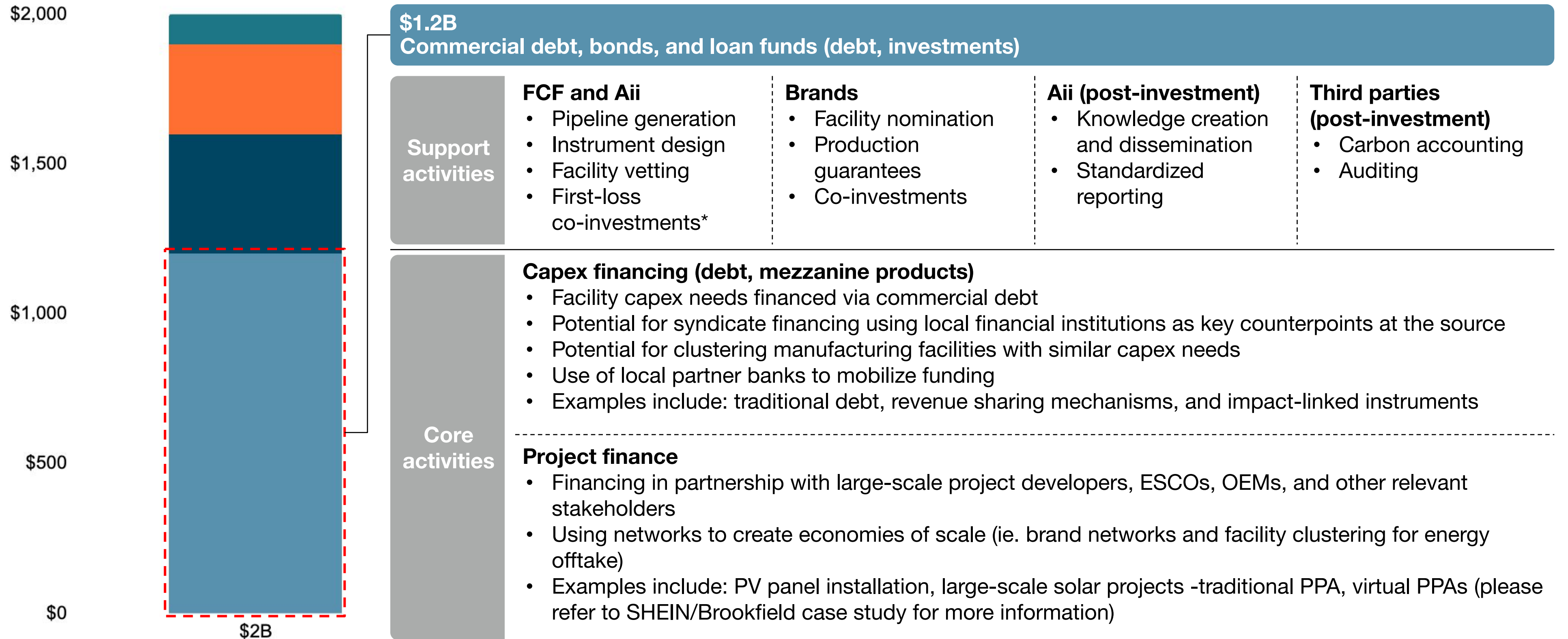
Source: Aii, Fashion for Good, HSBC

Governance Roles for our Envisaged Partners

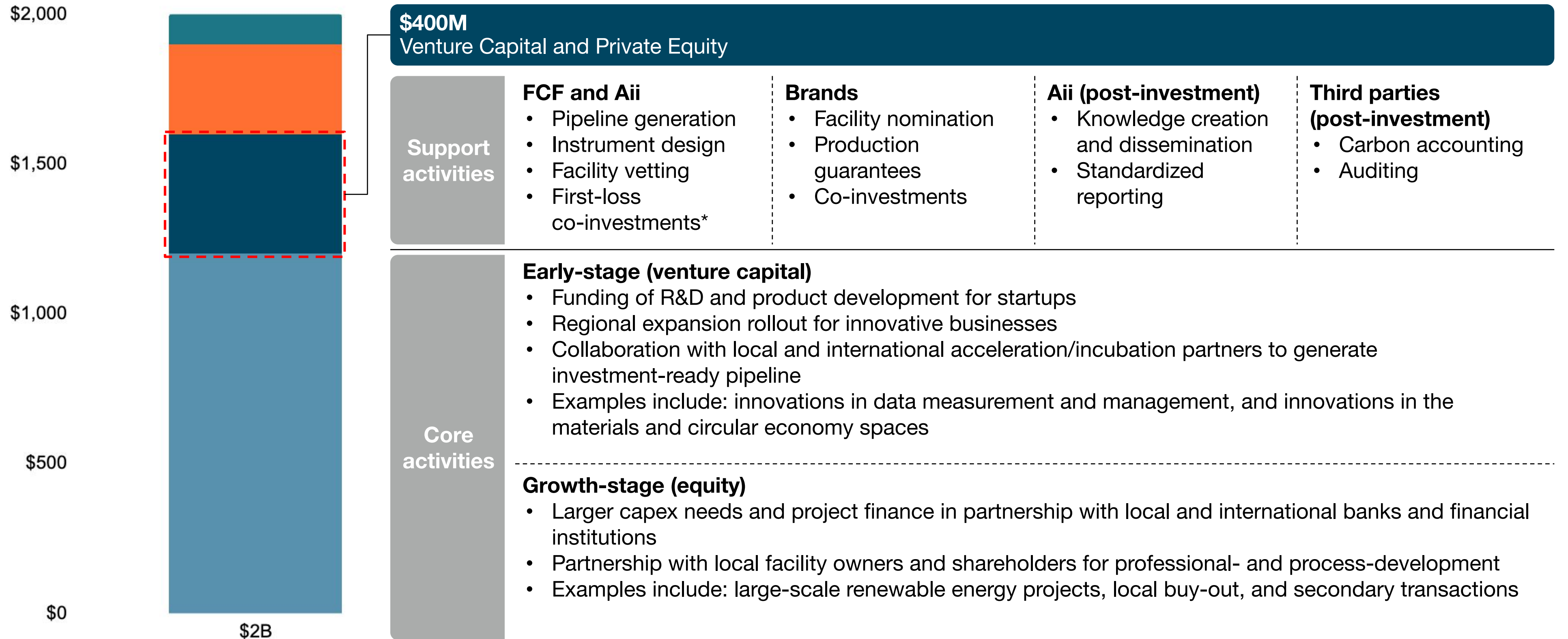
Aii will look for guidance from Lead Partners to the FCF and Strategic Finance Partners to the Blended Capital Strategy to steer strategic decision making, amplify networks, and serve as institutional sparring partners to gauge market demand for services and products on the ground. In order to do this, Aii will look to offer different roles and responsibilities to each partner.

Commitment to FCF		Industry Pledge
<p>Lead Partner to the Fashion Climate Fund</p> <p>Commitment to the Fashion Climate Fund</p> <ul style="list-style-type: none"> • \$10M to fuel Aii’s decarbonization work <p>Role within the Fashion Climate Fund and Aii:</p> <ul style="list-style-type: none"> - Listing as Lead Partner to the FCF - Apparel Impact Roundtable (AIR) membership to help lead the strategy around the fund 	<p>Lead FCF & Aii Strategic Finance Partner</p> <p>Commitment to the Fashion Climate Fund</p> <ul style="list-style-type: none"> • \$10M to fuel Aii’s decarbonization work <p>Role within the Fashion Climate Fund and Aii:</p> <ul style="list-style-type: none"> - Listing as Lead Partner to the FCF - Apparel Impact Roundtable (AIR) membership to help lead the strategy around the fund <p>Pledge to the industry</p> <ul style="list-style-type: none"> • \$200-300M to mobilize capital via innovative channels <p>• Access to the strategic finance network and AiiP</p> <ul style="list-style-type: none"> ○ No origination fees charged <p>• Potential to be a part of the Blended Capital Convening SteerCo which will include:</p> <ul style="list-style-type: none"> ○ Governance around platform implementation ○ Guidance on instrument design ○ Guidance on high level decisions <p>• Listing as a strategic finance partner in marketing materials</p> <p>• Invitation to multi-annual stakeholder convenings (target of 2-3 p.a.)</p>	<p>Aii Strategic Finance Partner</p> <p>Pledge to the industry</p> <ul style="list-style-type: none"> • \$200-300M to mobilize capital via innovative channels <p>• Access to the strategic finance network and AiiP</p> <ul style="list-style-type: none"> ○ Origination fee charged to cover opex <p>• Listing as a strategic finance partner in marketing materials</p> <p>• Invitation to multi-annual stakeholder convenings (target of 2-3 p.a.)</p>

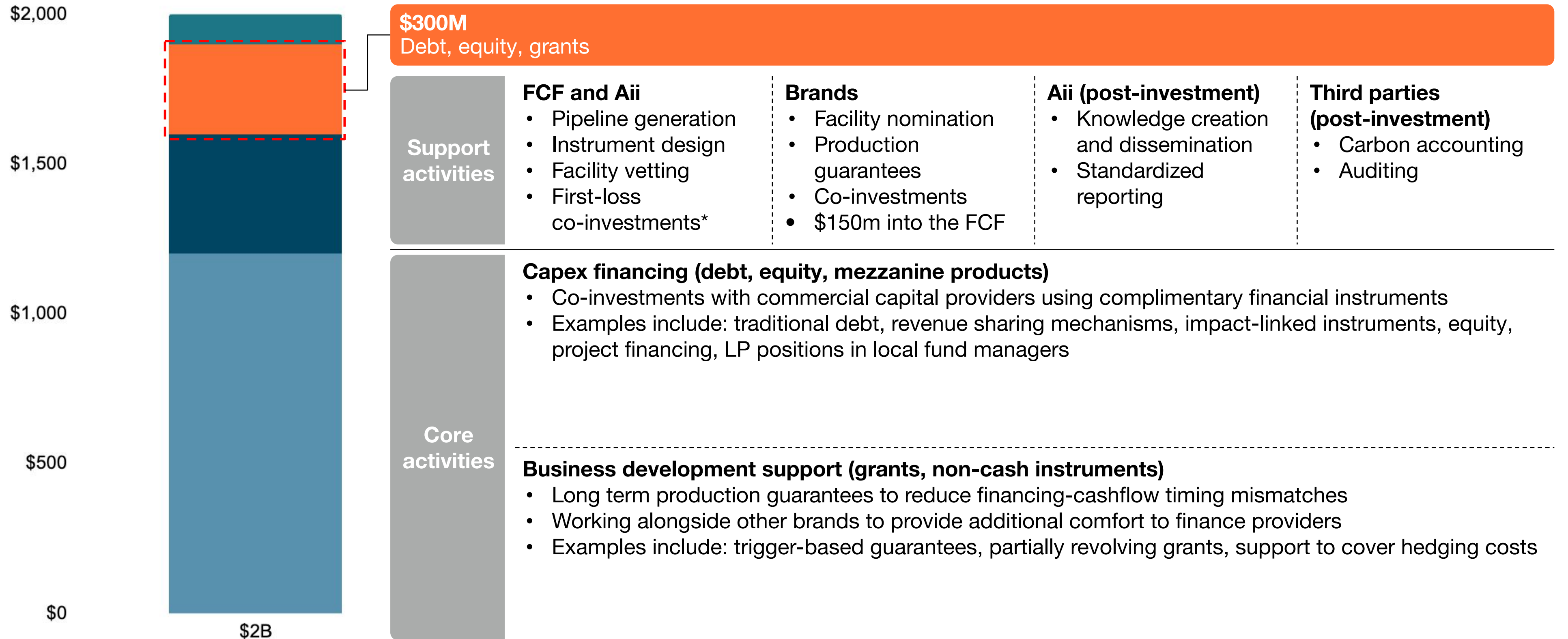
Types of Commercial Debt Capital Deployment



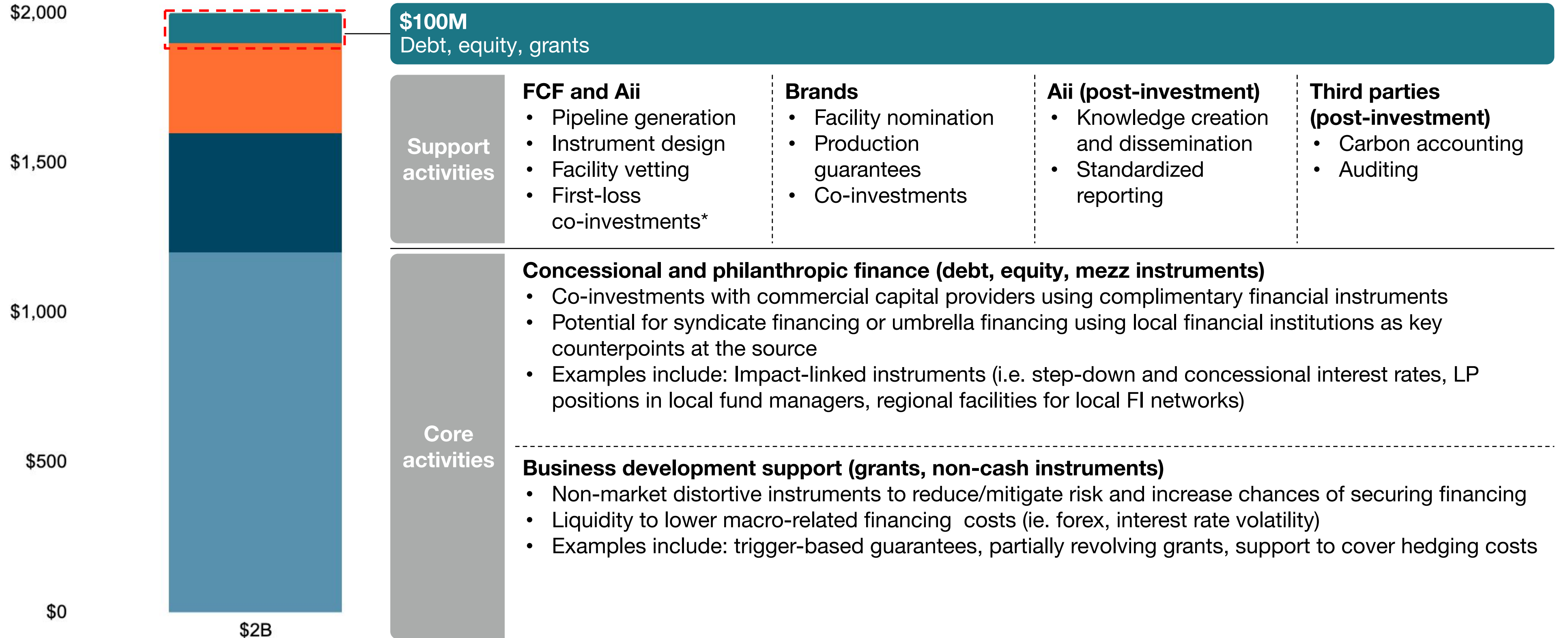
Types of Equity Capital Deployment



Types of Industry Capital Deployment



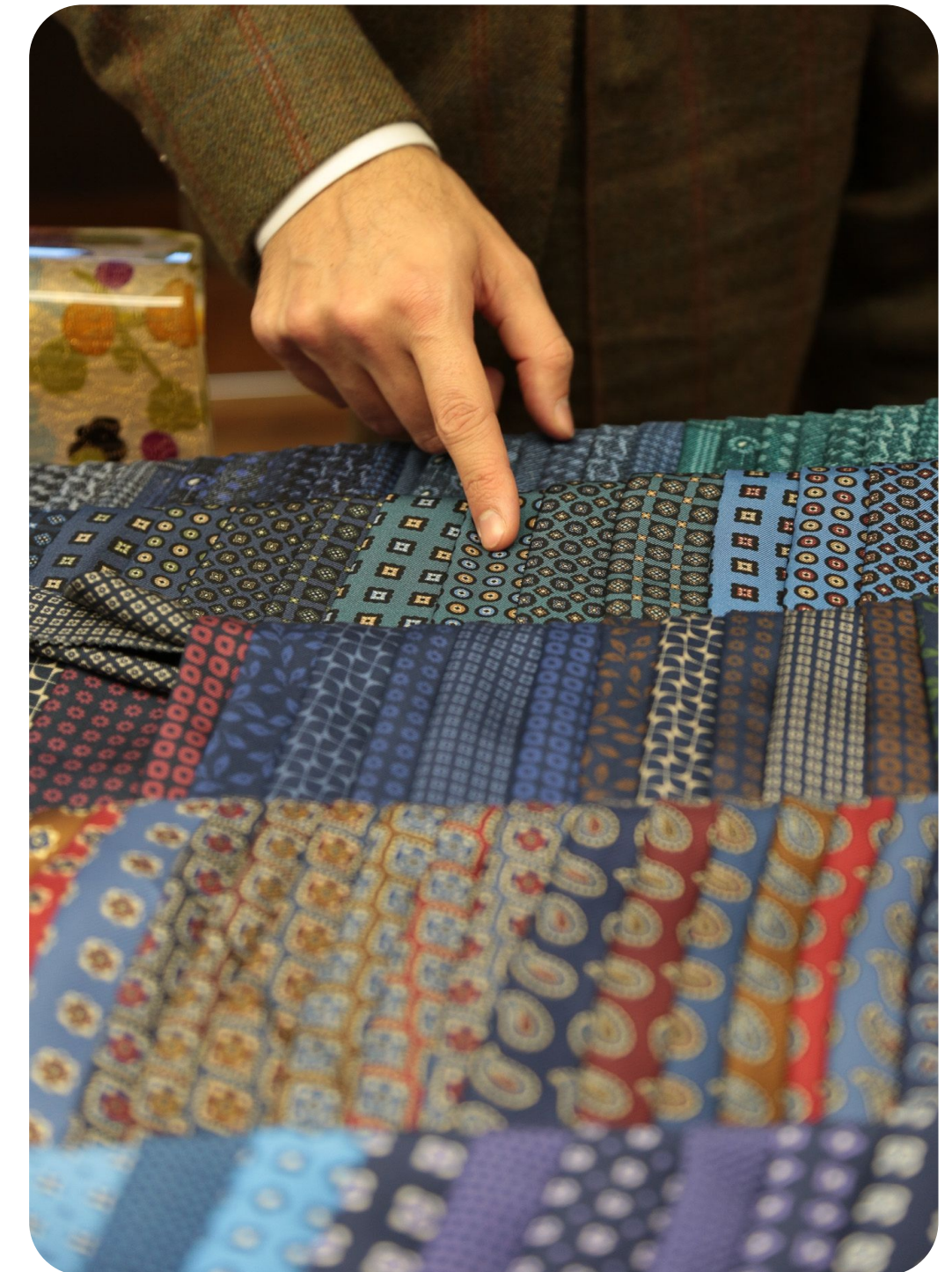
Types of Development Finance Capital Deployment



Example: Mantero

About Mantero	Mantero is a textile company founded in Como in 1902 and has been managed for 120 years by the Mantero family. The company produces and distributes luxury textile fabrics and accessories, managing all stages of the process.
Aii program	Mantero has gone through two iterations of Clean by Design, once in 2015 and a second in 2022
Action plan	<ul style="list-style-type: none"> • Enhanced metering practices and data management • Upgrade of Heat Exchanger • Automatization of water consumption in cold washing machine • Automatization of water consumption in hot washing machine • Steam production optimization
Expected savings	<p>Energy (methane): reduction of 28% in consumption</p> <p>GHG: reduction of 21% in GHG output</p> <p>Financials: Savings of ~ €900K p.a.</p> <p>The project payback period was less than 12 months.</p>
Catalyzed financing	Mantero has been able to secure funding from a local financial institution to put the action plan in place. The combination of both rounds yielded a capex need of €5M+. The company was able to secure a guarantee from SupportItalia SACE Guarantee Scheme, the Government of Italy's credit finance agency. This guarantee covers the full amount of the loan triggered by the energy savings from the Aii action plan.

MANTERO | 1902



CONFIDENTIAL
This deal is still being finalized.

Example: Brookfield and Shein

About the partners	SHEIN is a global fashion and lifestyle e-retailer committed to making the beauty of fashion accessible to all. Brookfield Renewable operates one of the world's largest publicly traded platforms for renewable power and decarbonization solutions.
Aii program	SHEIN approached Aii to design a carbon reduction program that could be deployed at scale across SHEIN's supply chain in China.
The project	SHEIN committed to reducing absolute GHG emissions across its entire value chain by 25% by 2030. SHEIN partners with Aii and Brookfield on implementing emission reduction projects (efficiency/renewables) into its tier 1 and tier 2 supply chain.
Financing gap	Most of SHEIN suppliers are small-sized private businesses that struggle to meet investor's investment criteria such as rooftop area, company credibility, and business stability. Currently Brookfield is working with SHEIN and other stakeholders to try to figure out if any credit support can be provided through SHEIN or external financial institutions to balance the investment risks and enable the rooftop solar investment.
Expected structure	Brookfield is exploring the possibilities of integrating the electricity demand from both SHEIN facilities and suppliers for a bundled corporate PPA solution, and SHEIN as an "aggregator" would guarantee the power consumption volume at a fixed rate regardless of supplier change.

SHEIN / **Brookfield**
Renewable Energy Partners



Photo credits: Aii

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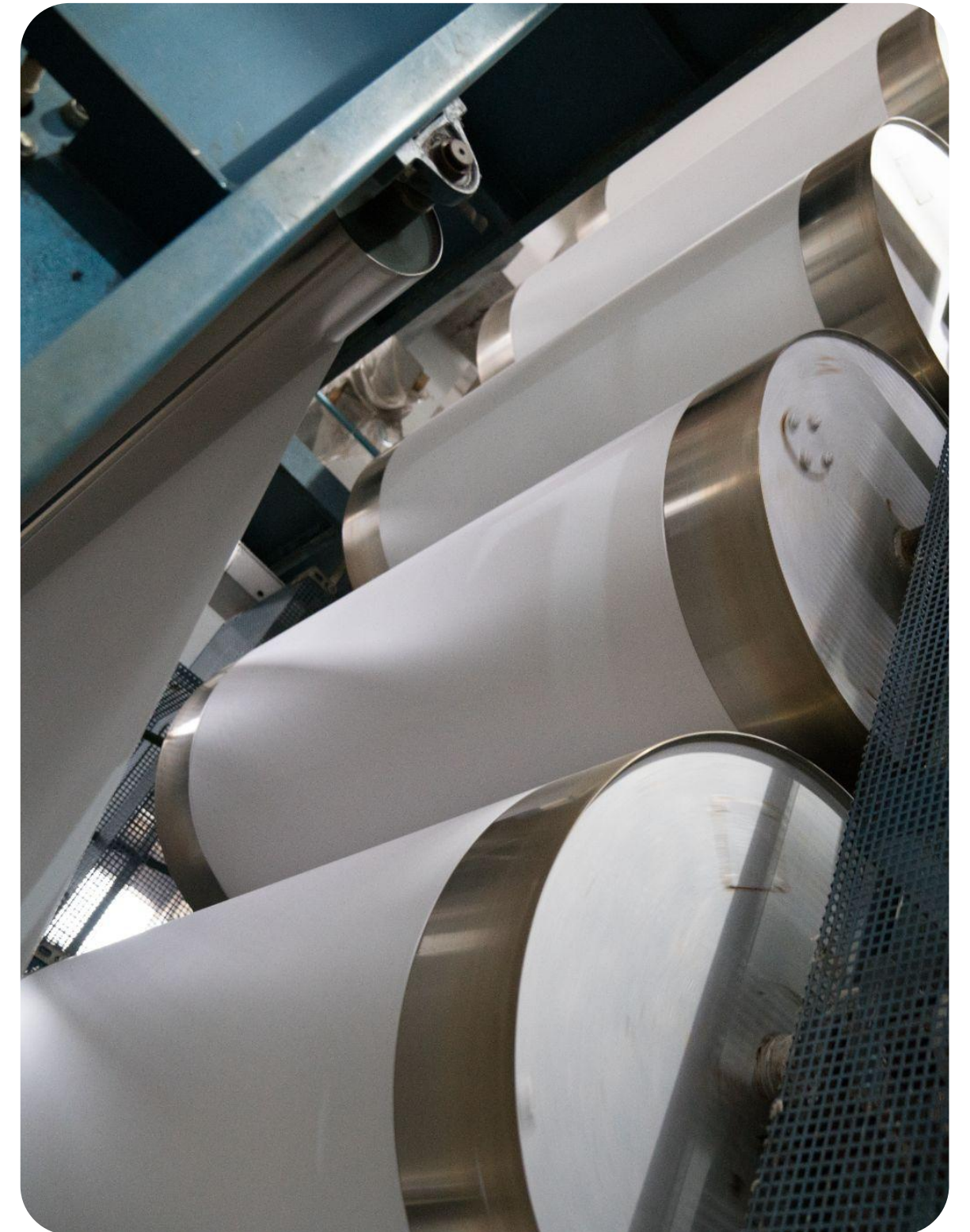
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How a \$10M Contribution to the FCF Gets Used

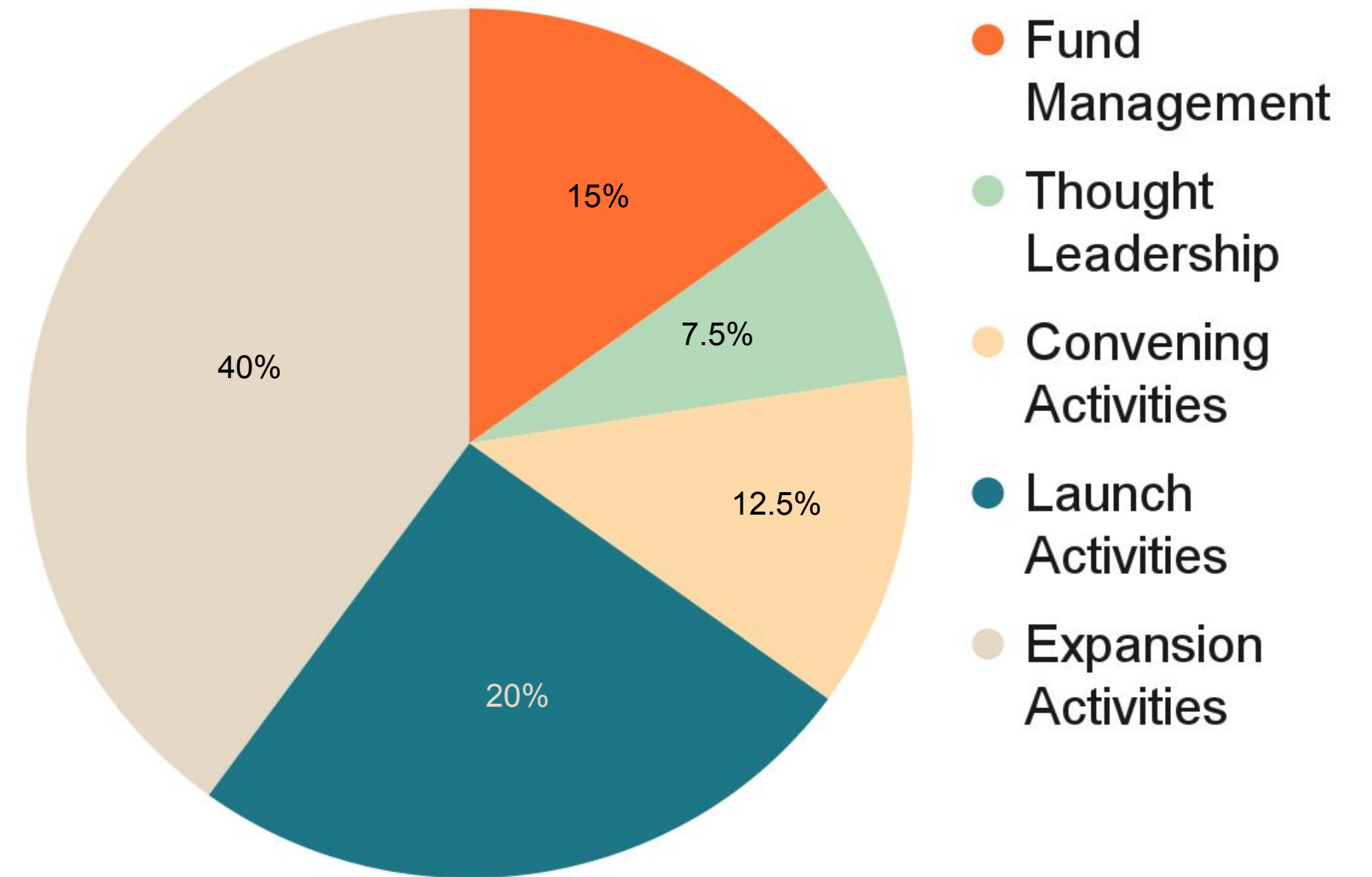
A \$10M philanthropic contribution will serve as seed capital to build the infrastructure to enable the \$1.2B of debt financing, including:

- Conducting deep dive research by region on existing JETPs, development bank financing programs, regulatory environment, and market maturity
- Convening banks, DFIs, brands, government actors, other NGOs, and facilities to develop risk mitigation strategies, align on priority regions, and defragment siloed workstreams
- Building out a more effective advocacy approach, including engagement with expert local partners to develop specific messaging and lobbying strategies
- Engaging resources to operationalize and launch financing structures, including specific terms, funding structures, and project types for initial 1-2 regions
- Replication of financing structures across new regions
- Expansion of impact metrics to include job growth, livelihood enhancements, water measurement and management, and reduction of negative nature outcomes



Budget Breakdown for a \$10M Contribution to the FCF

Use of Funds	
<p>Thought Leadership / Research Activities</p> <ul style="list-style-type: none"> Country-landscaping project Publishing scope 3 impact reporting guidelines Additional white papers on specific regional focus areas 	<p>Convening Activities</p> <ul style="list-style-type: none"> Event space and meeting costs Staff/consulting partners to support convening Travel costs for convening Announcement and PR activities Engaging local actors / advocacy approach
<p>Launch Activities</p> <ul style="list-style-type: none"> Financial tool rollout in initial 1-2 regions Legal and technical advisory Policies, procedures, and governance Educational materials for facilities 	<p>Expansion Activities</p> <ul style="list-style-type: none"> Replication to new regions Expansion of impact criteria Third-party data verification & impact reporting Expanded software tools / data collection



Thought Leadership / Research Activities



Overview

- **Country-landscaping project:** Conducting deep dive research by region on existing JETPs, existing development bank financing programs, regulatory environment, and market maturity in priority countries (India, Bangladesh, Pakistan, China, Indonesia and Vietnam). Outcomes include identification of priority regions for first projects, demonstrating the potential to scale up renewables infrastructures, and highlighting job opportunities / local economic growth. Including in-person research in exploration of Public-Private Partnership opportunities in at least two regions. See [Concept Note](#)
- **Scope 3 carbon accounting guidelines:** Aii provides much needed guidance to the apparel industry on carbon reporting compliance and identifies new systems / partnerships required in order to enable market-based mechanisms and incentivise investment
- **Additional white papers** on specific regions / other focus areas (similar to the \$1 Trillion Report)

Aii will engage additional partners as needed to complete the above workstreams.

Stakeholder Groups For Convening

Brands / Facilities

- **Who:** Corporate treasury/CFOs
- **Ask:** Provide credit enhancements and long-term offtake agreements
- **Example partners:**



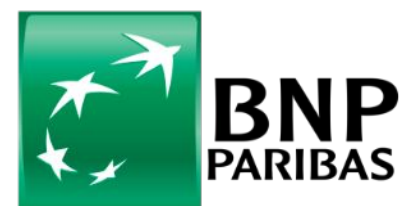
Development Banks & Philanthropy

- **Who:** Apparel, climate, and regional group leads
- **Ask:** Participate in lending, concessionary vehicles, loan guarantees
- **Example partners:**



Commercial Banks & Equity Investors

- **Who:** Commercial Bank, Supply Chain Finance, and Sustainable Finance Leads
- **Ask:** \$200M each in aligned capital
- **Example partners:**

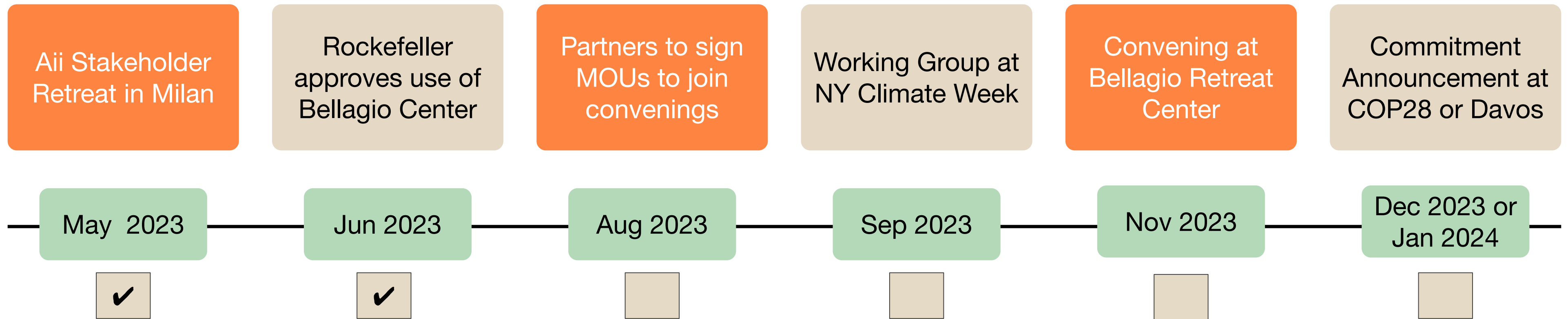


Governments / NGOs / Industry Groups

- **Who:** Representatives from key manufacturing regions, and other convening organizations
- **Ask:** Support development of financing structures and provide local incentives
- **Example partners:**



First Twelve Months Convening Outcomes



Near-Term Convening Objectives:

- Develop risk mitigation strategies / partnerships
- Align on priority regions for initial launch
- Integrate into existing JETPs / financing structures
- Defragment siloed workstreams (e.g., Sustainable Markets Initiative, WRI, WWF, UNFCCC, Pollination, Policy Hub, etc.)
- Confirm details of press release
- Activation at COP or Davos gives a stage for the announcement and serves to recruit additional partners

Timelines for \$2B in Blended Capital towards the industry

2023/2024

- Network created by 3-5 launch partners committing \$200-300M each to the industry
- Commitment from 3-5 Lead Partners to the Fashion Climate Fund (\$10m each)
- Operationalization of platform with assignment of responsibilities
- Target of \$50-60M in financing committed to the industry
- 2-3 gatherings and convenings sponsored by Aii
- Aii explores advocacy and policy work locally/regionally

2024/2025

- AIIIP is the platform focusing on blended capital for the industry using the CSP as the clearinghouse and registry of solutions and facilities
- 2-3 Additional banking partners, PE and VC funds join the pledge
- Aii explores first-loss financing tools for FCF deployment
- Aii explores advocacy and policy work locally/regionally
- 2-3 gatherings and convenings sponsored by Aii

2025/2026

- 10+ FI partners subscribed to the call to action
- 1-3 pension funds and asset managers join the pledge
- 2-3 gatherings and convenings by Aii
- FCF providing first-loss capital locally
- Aii explores advocacy and policy work locally/regionally
- Aii helping mobilize \$100M+ of financing to the industry

2027 and beyond

- Working on the path towards unlocking \$1T+ in financing for the sector
- Aii as the fashion industry's leading climate finance convener and first-loss co-investor
- 15+ leading financial institution partners actively using the platform

Core Activities to Support Launch in 1-2 Countries on a yearly basis

Establish Regional Approach In 1-2 Countries:

- Develop custom financing structures based on local market customs, regulations, financial conditions, etc.
- Local banks and other local actors to be engaged as necessary
- Staffing for pipeline development, deployment, and impact measurement
- Support with engagement with MDBs for capex financing (to test possible collaborations between banks / brands / energy companies and MDBs)
- Coordination of multi-lateral financing structures
- Build out a more effective advocacy approach, including engagement with expert local partners to develop specific messaging and lobbying strategies
- Establish best practices and operating procedures for replication into additional markets

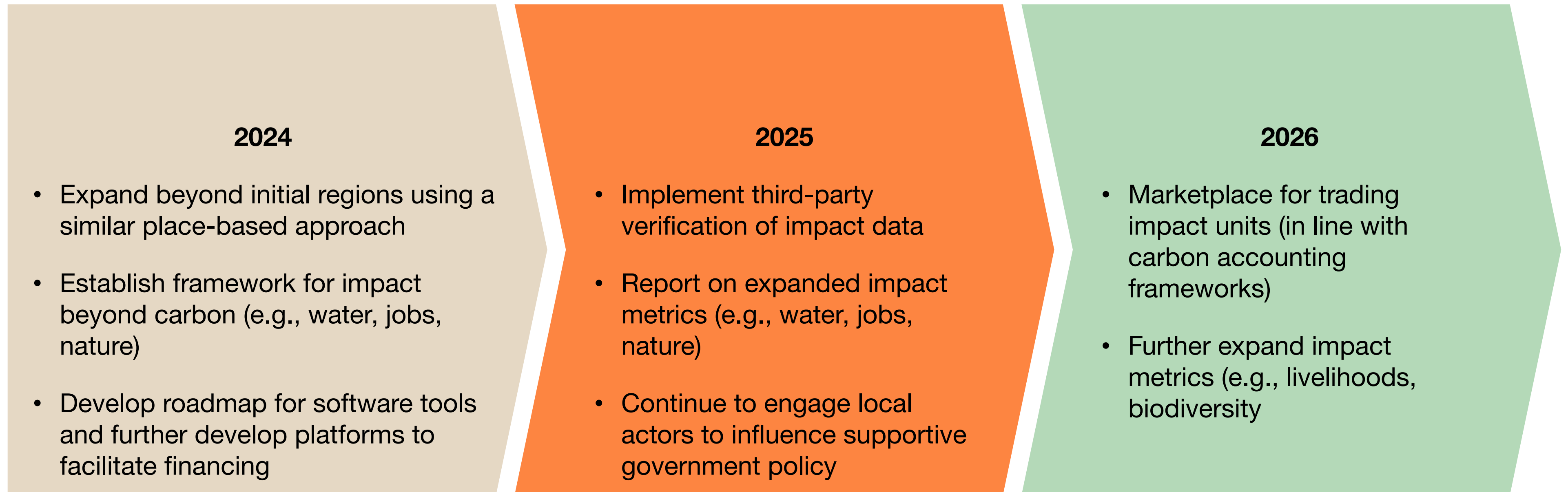
Technical & Legal Assistance:

- Legal advisory on financing structures and regulatory requirements
- Internal policies, procedures, & governance
- Engaging resources to operationalize and launch financing structures, including specific terms, funding structures, and project types (e.g., Pollination)

Knowledge Development + Sharing

- Educational materials to support facilities in navigating options for financing impact projects
- Engaging local facilities to understand local conditions and tailor financing strategies
- Additional white papers on specific regions / other focus areas (similar to the \$1 Trillion Report)

Funding Would Support Further Expansion After Launch



Potential Contract Partners to Support Development & Launch



DFI brings a distinct perspective to emerging market challenges and solutions – namely international financial institution (IFI) expertise. DFI supports clients to adopt best practices, leverage convening power and market expertise, and engage on policy matters.



Pollination is a specialist climate change investment and advisory firm, accelerating the transition to a net zero, nature positive future. Pollination brings strong relationships at the highest levels of government and the private sector to shift barriers and catalyze transformative partnerships.



Guidehouse is a leading consulting firm in sustainability, decarbonization, and ESG spaces, and has developed methodologies for leading sustainability protocols and standards for organizations such as the Science Based Targets initiative (SBTi) and the World Business Council for Sustainable Development.

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About Aii

Aii provides access to, implementation, and tracking of programs that result in positive environmental impacts in the production of apparel and footwear products. Aii programs look at climate through a holistic lens, including impacts on water, air, land, biodiversity, and chemical use with a focus on reducing carbon.

Our Vision

A transformed apparel, footwear, and textile industry that has a positive impact on people and planet.

Our Mission

We identify, fund , and scale proven quality solutions to accelerate positive impact in the industry.

Approving the funding concept

SAC, HSBC, IDH, Target, Gap, PVH, and Arvind recognized the need for an organization to drive sustainability improvements in the industry

Building the case for the Fund

Worked with Geneva Global to scope the Fashion Climate Fund, commitment from The Schmidt Family Foundation

Climate Solutions Portfolio and Blended Capital Strategy

Begin selection of the first cohort of the FCF’s applicants and subgranting to new programs, securing partnerships with financial partners



Approving the funding concept

Adoption of Clean by Design, mill improvement alliance, expansion of programs

Launch of the Fashion Climate Fund

Announced the Fund and addition of Lululemon, H&M, PVH, and Target as lead funders

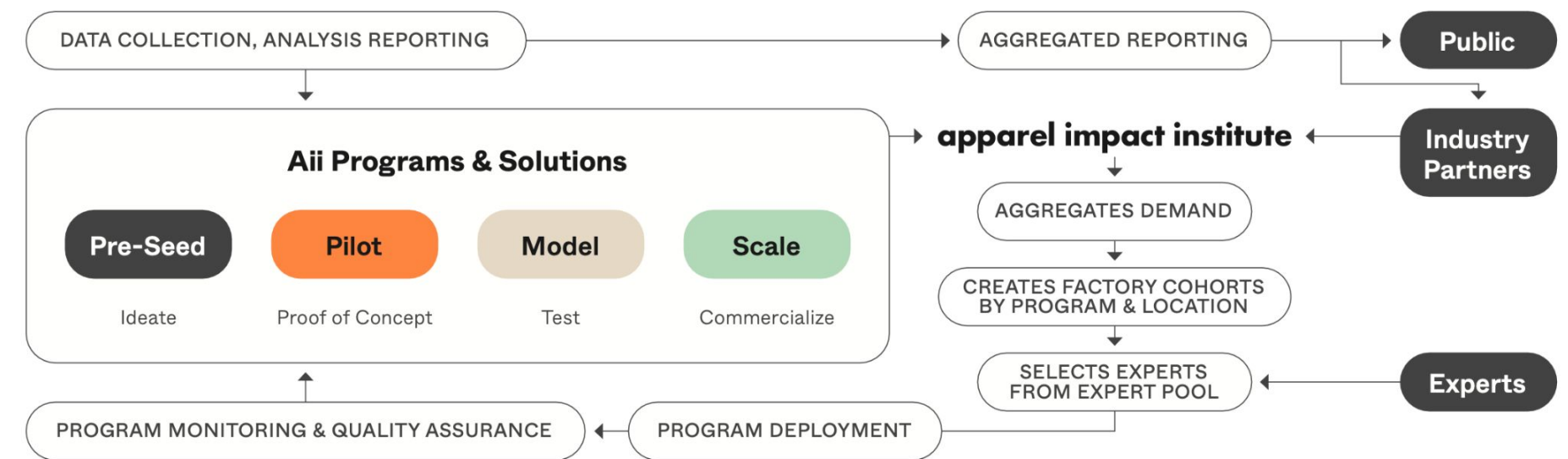
Program Deployment

At Aii, we identify and validate program opportunities that drive decarbonization on the factory level. Once a program is selected, we pilot and test it before we bring it to a model phase and ultimately scale it.

It is important to us to accelerate the implementation of impact programs and projects that meet our criteria for quality programming: science-based, measurable results, profitable, and globally scalable

- **Identify:** Identifies and validates opportunities that align with current industry roadmap interventions and industry demand.
- **Fund:** Catalyzes industry and philanthropic funding and organize deployment around pre-seed innovation, program testing and de-risking, and accelerating validated impact programs.
- **Scale:** Accelerates implementation of impact programs and projects that meet our criteria for quality programming: science-based, measurable results, profitable, globally scalable.

Aii’s process and programs as of 2022 are depicted as follows.



The programs offered by Aii in 2022 were:

● Early-stage ● Model ● Available at scale

PROGRAM	TIER 1	TIER 2	GHG REDUCTION	ENERGY EFFICIENCY	WATER REDUCTION	CLEANER CHEMICALS	WASTE-WATER	RENEWABLES	COAL PHASE-OUT	MATERIAL EFFICIENCY
Carbon Technology Assessment (CTA)	X	X	X	X	X			X	X	
Carbon Target Setting (CTS)	X	X	X	X	X			X	X	
Clean By Design Energy & Water Efficiency (CbD)	X	X	X	X	X					
Clean By Design Plus (CbD+)		X	X	X	X			X		
Clean By Design Chemistry & Wastewater Management (CbD Chem)		X			X	X	X			
Renewable Energy Transition Initiative (RETI)	X	X	X					X		
Renewable Energy Procurement	X	X	X					X		
Production Waste Management	X		X							X
New Construction Factory Optimization		X	X	X	X	X	X	X	X	

Source: Aii

Track Record

Aii's inaugural Clean by Design Energy & Water Efficiency program has proven an effective and scalable solution in energy efficiency intervention with an average of 8.27% energy and 8.24% GHG emission savings for wet-processing units since 2018.

Year	Number of facilities starting an Aii program	Average carbon reduction for facilities completing a program	Avg. Investment per Facility	Average Payback Period	Number of brands funding Aii programs
2022	<ul style="list-style-type: none"> • 87 impact work (ie. CbD, renewables) • 261 CLP (CTA/CTS) 	3,521 tons	TBD	TBD	50
2021	<ul style="list-style-type: none"> • 67 impact work (ie. CbD, renewables) • 213 CLP (CTA/CTS) 	3,061 tons	\$719k	21 months	32
2020*	<ul style="list-style-type: none"> • 18 impact work (ie. CbD) 	2,731 tons	\$482k	23 months	14
2019	<ul style="list-style-type: none"> • 66 impact work (ie. CbD) 	3,623 tons	\$683k	14 months	14
2018	<ul style="list-style-type: none"> • 57 impact work (ie. CbD) 	3,279 tons	\$490k	13 months	10

*Dip is due to the Covid pandemic

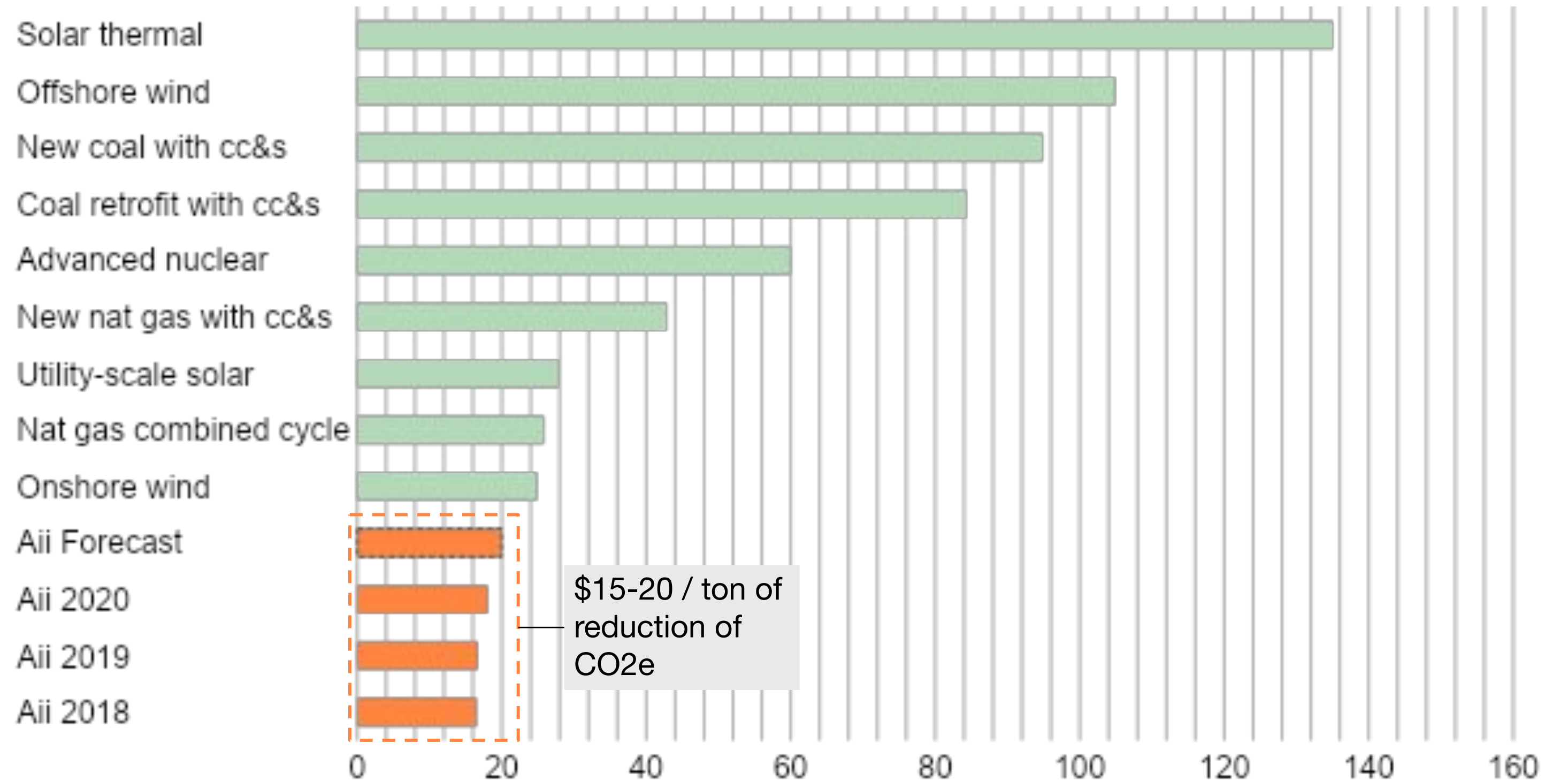
Aii's Competitive Advantage

Aii's data show the costs for an Aii program to reduce CO2e emissions by one ton, including Aii's total spending (G&A and program related cost) as well as the invested capital by the facility to implement the actions.

Aii's programs compare favorably with other carbon reduction programs, resulting in a cost per ton of reduction of CO2e of \$15 - \$20.

This analysis was used to compute Aii's expected impact from \$2 billion of deployed capital. At \$20 per ton, \$2 billion of blended capital results in 100 million tonnes of carbon removed.

Cost per Ton of Reduction of CO2e over Useful Life

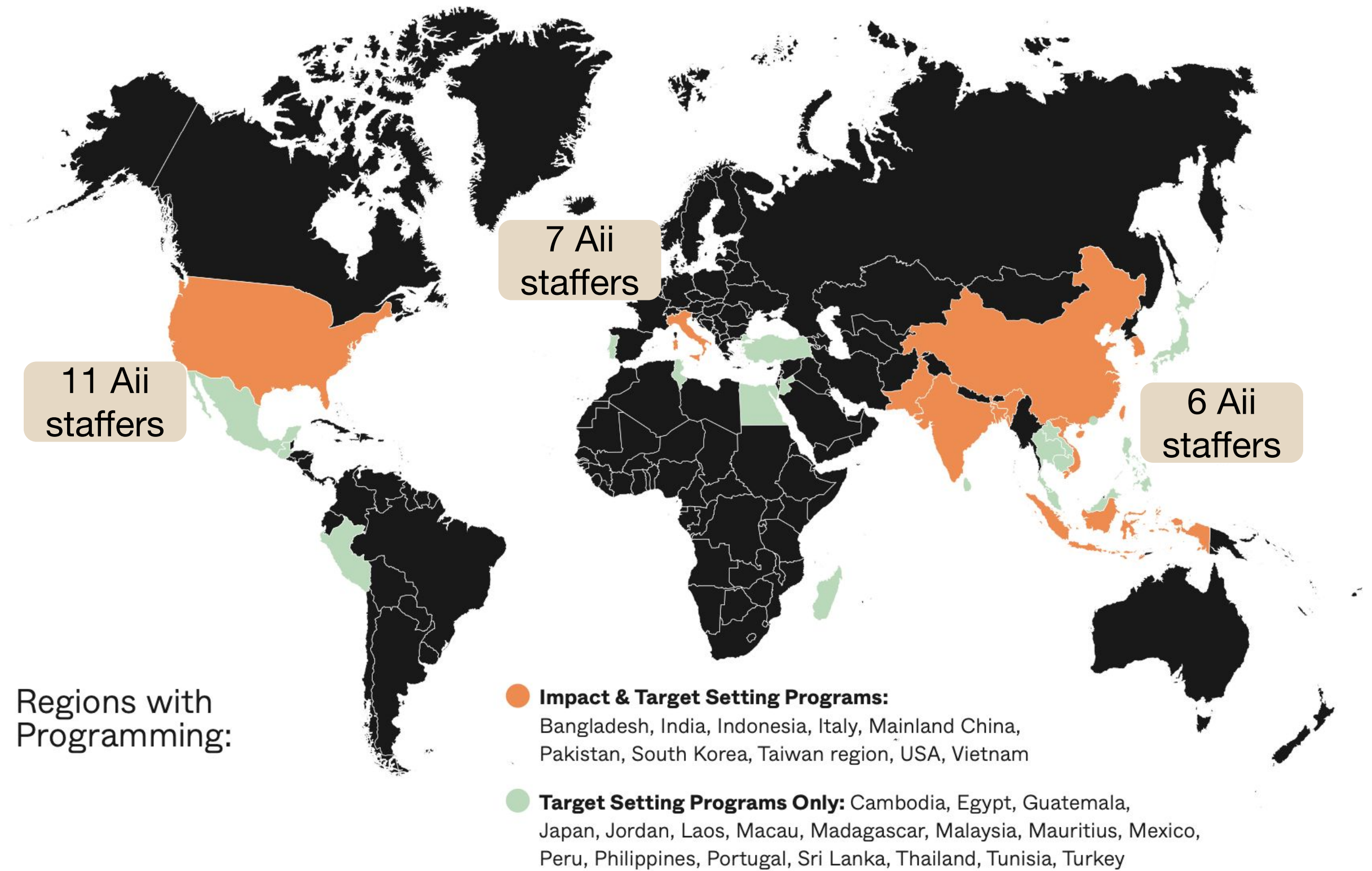


Source (for comparables): International Monetary Fund (2018)

Aii's Global Presence

Aii has a global presence with over 21 employees based in the United States, Portugal, the Netherlands, Spain, Switzerland, the United Kingdom, Italy, and China.

Aii programs have a global scope with a strong focus on South and Southeast Asia - where the biggest cluster of manufacturing facilities are located.



2022 Stakeholders - Fashion Climate Fund

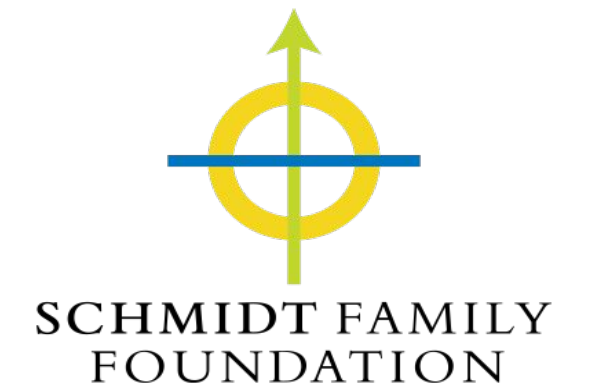
Fashion Climate Fund Strategic Collaborators

Non-profit organizations with expertise and knowledge of the apparel, footwear, and textile industry or adjacent sectors collaborating with and providing guidance and insights to Aii.



Fashion Climate Fund Lead Partners

Organizations committing at least USD 10M to the USD 250M Fashion Climate Fund.



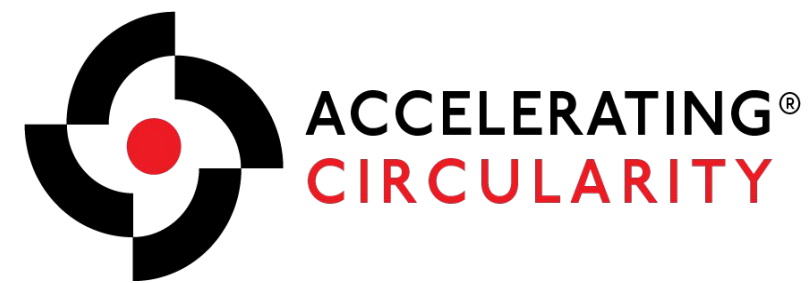
Partnerships - Brands

Aii has worked with over 50 apparel and footwear companies. These brand partners nominate, sponsor, or provide funding to Aii to drive facility-level environmental improvement programs and impact reductions.



Partnerships - Thought Partners, Advocacy, and Policy

Organizations with expertise and knowledge on issues relevant to the apparel, footwear, and textile sector collaborating with and providing guidance to Aii.



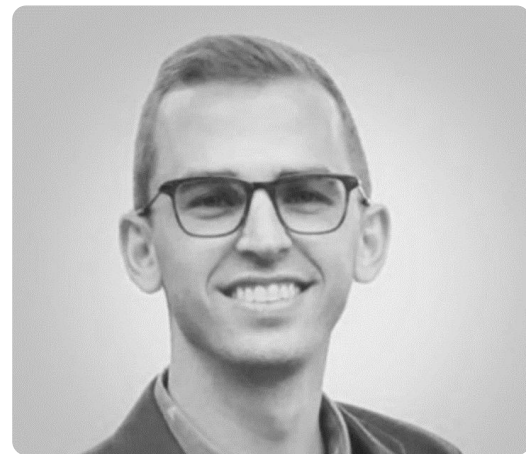
United Nations Climate Change
Global Climate Action



The Team Leading the Blended Capital Strategy



President and CEO
Lewis Perkins



CFO
Ryan Gaines



Dir. Sustainable Finance
Giovanni Zenteno



Chief of Staff
Kay Bloomberg



Chief Impact Officer
Kurt Kipka



Dutch Good Growth Fund



Venture Philanthropy



TARGET



WORLD BANK GROUP



Learn more



Governance: Aii's Board of Directors

Aii is governed by its Board of Directors, whose role includes:

- Determining mission and purpose of Aii
- Monitoring and strengthening programs and services
- Ensuring adequate financial resources
- Protecting assets and providing proper financial oversight
- Building a competent Board, including articulating prerequisites for candidates, orienting new members, and periodically and comprehensively evaluating their own performance
- Maintaining legal and ethical integrity
- Establishing a variety of representation from a variety of fields on the Board to maintain diversity and encourage inspiration and innovation for a wide range of sources
- Nominating members of the Climate Solutions Portfolio Advisory Council
- Approving the final Fashion Climate Fund allocations as part of the budgeting process

Aii Board Members serve a two-year term and attend quarterly Board meetings. The Board has two established committees Audit and Finance.



Melissa Fifield
Bank of the West
BOARD CHAIR



Amina Razvi
Sustainable Apparel Coalition
BOARD MEMBER



Devon Rothwell
Condé Nast
BOARD MEMBER



Amanda Tucker
Target
BOARD MEMBER



Claire Bergkamp
Textile Exchange
BOARD MEMBER



Prमित Chanda
IDH
BOARD MEMBER

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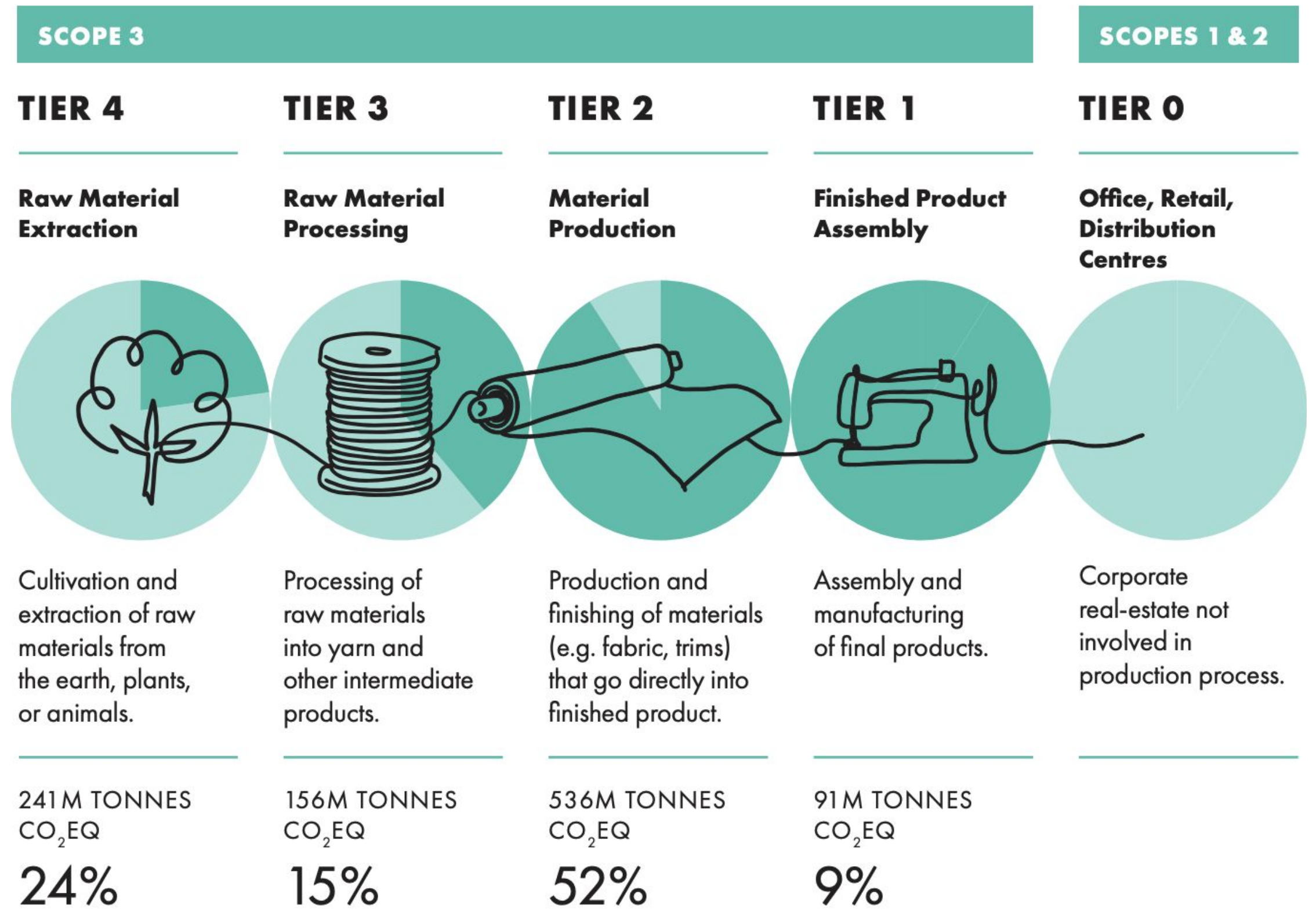
Annexes



GHG Protocol Application to the fashion industry

As with other industries, GHG emissions in the fashion industry are divided and measured — in keeping with the Greenhouse Gas Protocol’s Corporate Accounting and Reporting Standard, across three Scopes: direct emissions, indirect emissions, and indirect value chain emissions, respectively

Scope 1 Direct emissions	Scope 2 Indirect emissions	Scope 3 Indirect Value Chain Emissions
Emissions from owned or controlled facilities (ie. offices, distribution centers)	Emissions from the generation of purchased energy, steam, heat, and/or cooling	Emissions that occur in the value chain of the company (not included in scope 2 emissions), including both upstream and downstream emissions. Examples of upstream emissions are: emissions of purchased goods and services, transport of supplies, and business travel. Examples of downstream emissions are: transportation of products, use of sold products, and product disposal

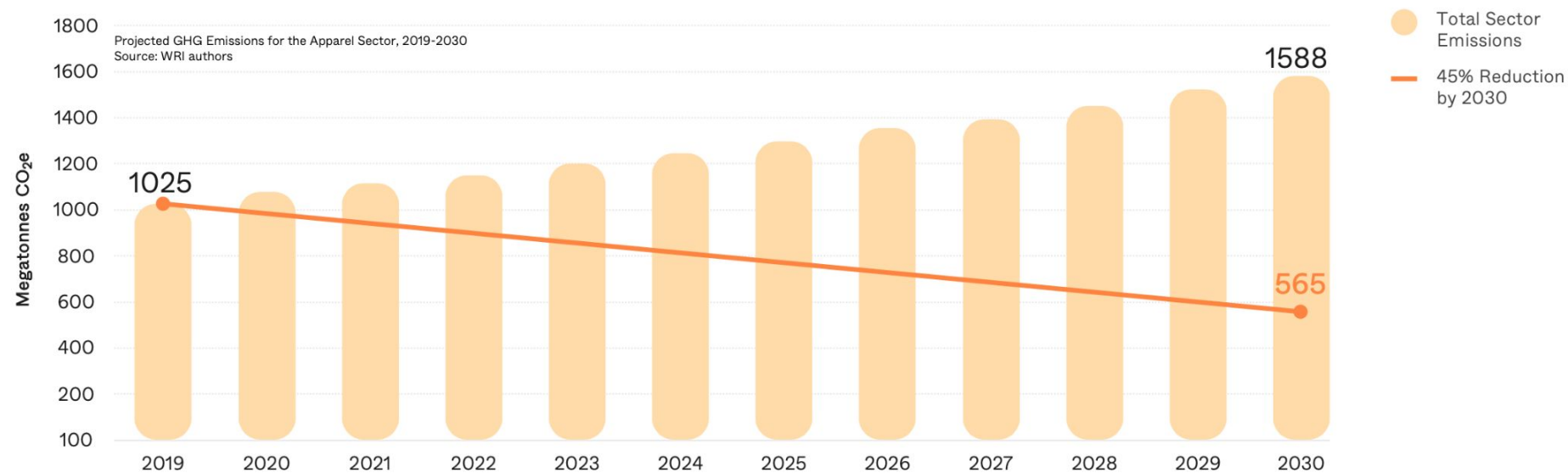


Source: Aii, Fashion for Good, HSBC

The Science-Based Targets and *Net Zero*

Through the 2015 Paris Agreement, world governments committed to curbing global temperature rise to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C. In 2018, the Intergovernmental Panel on Climate Change warned that global warming must not exceed 1.5°C to avoid the catastrophic impacts of climate change. To achieve this, Greenhouse Gas emissions must halve by 2030 – and drop to net-zero by 2050. ([Science Based Targets](#))

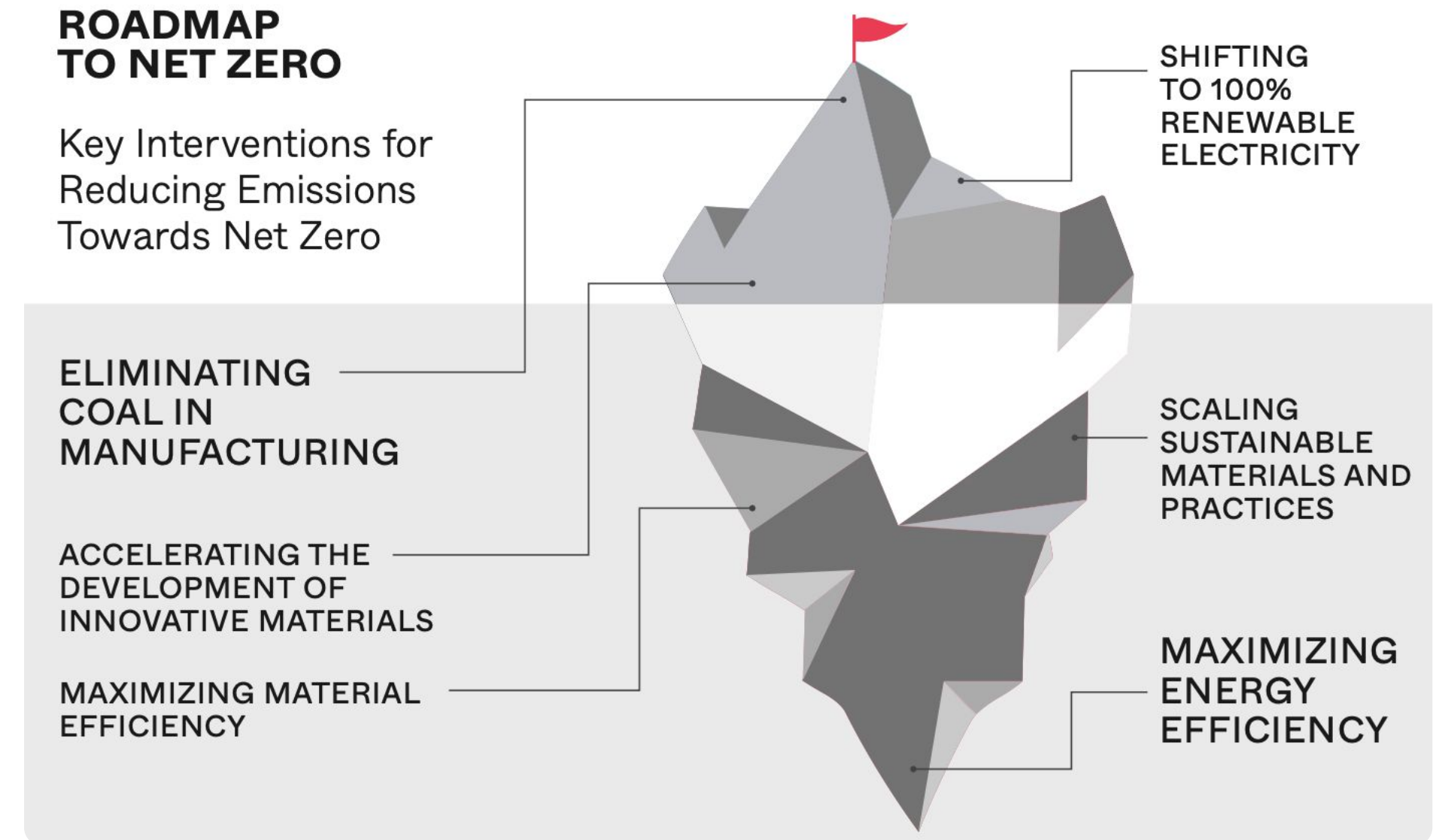
Mission: 45% reduction by 2030...and net zero by 2050



Source: Aii, WRI
Source: Aii, WRI

ROADMAP TO NET ZERO

Key Interventions for Reducing Emissions Towards Net Zero



Source: Aii, Fashion for Good, HSBC

The complete Aii team

