A4S CFO LEADERSHIP NETWORK

ENHANCING INVESTOR ENGAGEMENT

Practical example: Burberry

THE PRINCE OF WALES'S CHARITABLE FUND

BURBERRY LONDON ENGLAND

INTRODUCTION

The A4S Essential Guide to Enhancing Investor Engagement was first published in 2014. Since the initial publication, the nature, quality and extent of investor interest in the topic of sustainability has grown dramatically, with members of the A4S CFO Leadership Network noting a shift from 'we never get asked about our sustainability initiatives' to 'it (sustainability) comes up in every investor engagement'. This growing investor focus on the link between environmental and social issues and long-term value creation means companies must think about the relevance of sustainability for their business and the opportunities for effective investor engagement.

As part of the 2021 refresh of the guide, we have generated a series of practical examples from companies in our CFO Leadership Network, including Burberry, to illustrate ways in which they are linking environmental and social trends, business performance and investor engagement. In addition to explaining why it is important to engage with investors, the guide provides recommendations around three broad themes:

- How to convince investors that sustainability is being integrated into your business.
- How to communicate with your investors.
- How to integrate into your investor relations activities.

This set of case studies explores aspects of how Burberry Group's sustainability activities align with increased investor interest in environmental, social and governance (ESG) topics. Specifically, it looks at how Burberry:

- Has introduced sustainability metrics into its executive compensation plans
- Is setting and communicating its climate targets
- Is adapting its reporting to meet investor expectations
- Is accessing new sources of financing in the form of a sustainability bond

BURBERRY

Burberry Group plc is a global luxury brand headquartered in London. We make luxury clothing, leather goods, accessories, fragrance and beauty products that marry the finest craftsmanship and design with cutting-edge technology. As a purposeful, values-driven brand, we are committed to being a force for good in the world, which includes:

- Creating a more sustainable future for luxury by reducing our environmental impacts and helping transform our industry.
- Creating the conditions for creativity to thrive by championing diversity and inclusion and ensuring the wellbeing of our people.
- Supporting our communities, and particularly young people, by providing them with the skills, confidence and opportunities to succeed.

DEMONSTRATING COMMITMENT: LINK TO REMUNERATION

Investors want to know that the ESG topics that a company is focused on are relevant for long-term value creation and that the company's commitments around those topics are credible. One of the ways that they assess this is by looking at whether a meaningful percentage of management's remuneration is tied to sustainability goals.

In 2017, as part of our 'Creating Tomorrow's Heritage' strategy, we introduced ambitious sustainability targets to 2022 under three core areas: communities, product and company.[1]

While we have already made important progress in line with these targets, to ensure that responsibility stays closely aligned with our business goals, Burberry's Remuneration Committee introduced a new restricted share plan in 2020 that included 'progress on fulfilling longer term sustainability objectives' as one of the factors that would determine the pay out of executive directors' share awards. Performance against this objective will be evaluated at the time of vesting alongside financial performance measures of revenue and return on invested capital, and progress on brand value.

Similarly, our approach for executive annual bonuses for FY 2021/22 will be based 75% on adjusted operating profit and 25% on performance against strategic objectives linked to progress against our strategy and our brand, sustainability targets and diversity, inclusion and leadership goals.

1 Creating Tomorrow's Heritage - Burberry (burberryplc.com)

MEASURE AND REPORT PERFORMANCE AGAINST TARGETS: CLIMATE POSITIVE BY 2040

We are committed to building not only a financially stronger Burberry, but also a better company that is a force for good in the world. Disclosure plays a key role in driving meaningful change. By reporting on our targets and the progress we are making against them, we enable investors (and other stakeholders) to hold us accountable.

Carbon commitments are a crucial part of our ambitious five-year responsibility agenda. We aim to become climate positive by 2040, going further than our previous net zero by 2040 target. In order to get there, we will invest in key initiatives to support wider climate change efforts beyond our value chain and aim to reduce emissions by 46% (rather than 30%) by 2030.

Our targets for scope 1 and 2 greenhouse gas (GHG) emissions from operations have been validated by the Science Based Targets initiative and are consistent with reductions required to limit global warming to 1.5°C – the most ambitious goal of the Paris Agreement, and we will aim to become net zero 10 years ahead of the 1.5°C pathway set out in the Paris Agreement.

We are also pushing ahead with our goal to achieve carbon neutrality in our own operational energy use by 2022. We are on track to be carbon neutral across our own operations this financial year, having reduced absolute scope 1 and 2 market-based emissions by 92% since FY 2016/17. Our engagement with suppliers on energy efficiency and renewable energy has also reduced scope 3 supply chain emissions from purchased goods and services by nearly 8,700 tonnes in the same timeframe.

Transitioning to renewable electricity use forms part of our carbon commitments. We are 93% towards achieving our goal of 100% renewable electricity by 2022, driving this through close collaboration with our procurement and retail teams and engagement with landlords. We continue to promote the use of renewables in our supply chain by creating a bespoke renewable energy guide for our Italian suppliers.

Rather than only purchasing offsets to balance our impact, we also invest in insetting projects, which focus on reducing emissions and storing carbon at source in our own supply chain. Our Regeneration Fund (established in FY 2019/20) supports a portfolio of carbon offsetting and insetting programmes.

The first of these insetting projects, developed in partnership with PUR Projet, involved designing regenerative agriculture practices with some of our wool producers in Australia.

We measure and report our carbon emissions and other relevant climate metrics, as assured by PwC, alongside financial metrics in our Annual Report. By integrating into the annual report, we make the information easily accessible to our investors and provide a clear signal to them that we see performance on climate as key to business success.

Global GHG emissions

	Current reporting year 20/21		Reporting year 19/20		Reporting year 18/19	
	Global	UK and offshore only	Global	UK and offshore only	Global	UK and offshore only
Total energy including: purchase of electricity, the operation of any facility, combustion of fuel for facilities and vehicles / kWh	63,293,411^	20,826,276	70,316,810	23,432,093	77,307,069	21,293,761
Combustion of fuel and operation of facilities (Scope 1) / tCO_2e	2,089^	1,478	2,061	1,581	2,155	1,487
Combustion of fuel use from owned or leased transport (Scope 1) / tCO_2e	66	0	78	5	85	2
Electricity purchased and used for operations (Scope 2) / tCO_2e	20,582^	2,934	22,661	3,400	25,298	3,793
Total emissions location based (scope 1 & 2) / tCO_2e	22,737^	4,412	24,800	4,986	27,539	5,281
Electricity purchased and used for operations (Scope 2, market-based) / tCO_2e	1,879^	0	3,122	0	12,086	60
Total emissions (Scope 1 & 2, market-based) / tCO_2e	4,034^	1,478	5,261	1,586	14,327	1,549
Total emissions offset by Verified Emissions Reduction Certificates / tCO_2e	2,089^	1,478	1,072	815	377	0
Location-based tCO_2e per £1,000,000 sales revenue	9.7^	n/a	9.4	n/a	10.1	n/a
% of energy from renewable sources	76%^	61%	82%	81%	58%	78%

Note: Burberry applies an operational control approach to defining its organisational boundaries. Data is reported for sites where it is considered that Burberry has the ability to influence energy management. Data is not reported for sites where Burberry has a physical presence, but does not influence the energy management for those sites, such as a concession within a department store. Overall, the emissions inventory reported equates to 98% of our net selling space square footage. The Company uses the Greenhouse Gas Protocol (using a location and market-based approach to reporting scope 2 emissions) to estimate emissions and applies conversion factors from Defra, IEA and RE-DISS. All material sources of emissions are reported. Refrigerant gases were deemed not material and are not reported. Market-based emissions for the UK relating to electricity purchased and used for operations (Scope 2) is stated as 0 due to 100% of UK electricity being procured from renewable sources. Combustion of fuel use from owned or leased transport is reported from FY 2018/19 onwards. Burberry has updated GHG data for FY 2019/20 and FY 2018/19 to account for updated emission factors and improvements in data availability and estimation methods. GHG emissions data reported is based on the period 1 April 2020 to 31 March 2021. For the avoidance of doubt, the company's financial accounting period is from 31 March 2020 to 27 March 2021. However, references to FY 2020/21 for the selected KPIs included in the Responsibility section of Burberry's Annual Report 2020/21 refer to the period 1 April 2020 to 31 March 2021.

Source: Extract from Burberry 2021 Annual Report

USE STANDARDS: IMPLEMENTING THE TCFD RECOMMENDATIONS

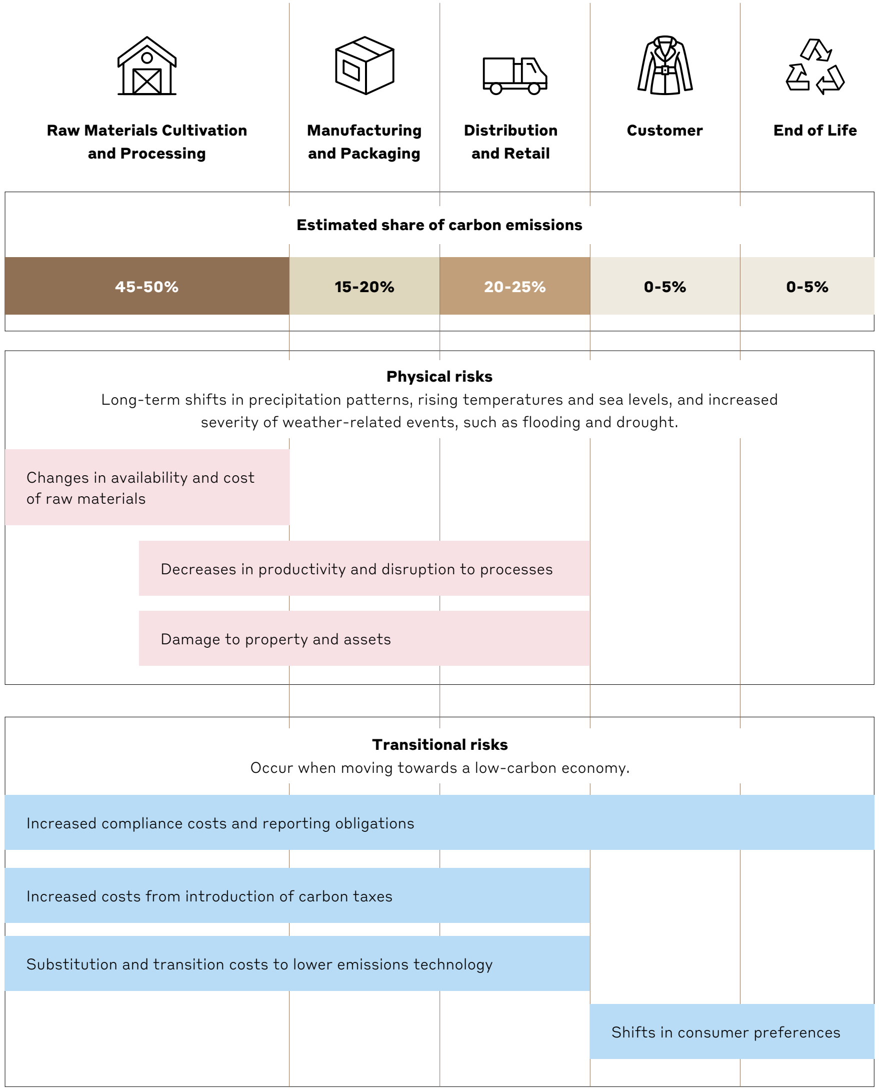
One of the most significant developments in the reporting space over the last five years has been the launch of the Task Force on Climate-related Financial Disclosures (TCFD). The TCFD was designed to provide investor-relevant climate-related information. In order to meet the investor need in this regard, we are now assessing and disclosing our climate-related risks and opportunities in line with the recommendations of the TCFD.

The cross-functional TCFD working group used our qualitative climate change scenario analysis performed in FY 2018/19 and FY 2019/20 to model the risks of climate change focused on our key commodities. During FY 2020/21, we developed a quantitative scenario-based analysis of climate-related risks that could impact the value chains of Burberry's key commodities: leather, cotton and cashmere. The analysis included an assessment of the impact of the most material physical and transitional risks for the period to 2050 in two distinct scenarios: 2°C and 4°C.

Our analysis of the key commodities illustrates that, without action, both scenarios present financial risks to Burberry. These financial risks predominantly result from increased cost of raw materials, decreased productivity, and the potential impact of carbon taxes in the 2°C scenario. However, we have also identified that the financial impact of physical hazards causing damage to property and assets is limited over this time period.

With respect to transitional risks, our climate targets are one of the ways we mitigate the risk of future policy and regulation, including carbon taxes. We have been measuring and reporting our energy consumption and carbon emissions since FY 2012/13 and water consumption since FY 2016/17. Our carbon and water reporting is assured by PwC, and we align our reporting against climate-related metrics to recognized standards including the GHG Protocol and SECR. In addition, we have company targets which cover absolute energy and carbon reductions, renewable energy procurement and delivery of products with positive attributes (covering social and environmental metrics).

Risks and impacts aligned with TCFD recommendations



Source: Extract from Burberry 2021 Annual Report

HOW DOES SUSTAINABILITY IMPACT YOUR BUSINESS?: ISSUING OUR FIRST SUSTAINABILITY BOND

The rapid growth of the sustainable bond market has provided Burberry with new financing options and new ways to engage investors. By linking our sustainability strategy to funding requirements, we have been committed to enlisting the support of investors in delivering our sustainability goals while further embedding environmental, social and governance principles into our business.

On 21st September 2020, we issued our inaugural five-year £300m sustainability bond, the first by a luxury company and one of a few bonds that includes operational expenditure as well as capital expenditure in its qualifying use of proceeds.

There were three steps involved in issuing the bond:

1. Securing a credit rating
2. Preparing a Sustainability Bond Framework document and getting a second party opinion on the eligible use of proceeds
3. Putting in place the suite of legal agreements and documents needed to issue a public bond namely:
    - The prospectus which provides details of the transaction and must meet legal and regulatory disclosure requirements to enable investors to make an informed decision
    - A subscription agreement, which governs the relationship between the company and the managers who will sell the bond and sets down the basis for the issuance
    - Trust deed
    - Agency agreement

Unlike many issuers of green bonds, we do not have large capital expenditure projects to finance. We therefore looked at funding requirements that were aligned with our overall sustainability objectives. The store refurbishment programme was included and the supply chain was examined to identify suitable products that would qualify as appropriate spend.

We appointed Sustainalytics as the second party opinion provider and, in consultation with them, we agreed that the following would be classified as appropriate use of proceeds:

- Green buildings
- Environmentally sustainable management of living natural resources and land use
- Pollution prevention and control (including waste prevention, waste reduction and waste recycling)

The bond was well received by the market being 7.9 times oversubscribed and, as a result, tightly priced at a coupon of 1.125%.

Eligible Sustainable Project Categories	Eligibility Criteria	Example Sustainability Projects	Example Metrics	Relevant SDGs
Green Buildings	Expenditures relating to properties certified to LEED 'Platinum' or 'Gold' or BREEAM 'Outstanding' or 'Excellent' level.	Procurement and fit-out of energy efficient properties eg: Shanghai IAPM and Beijing Seasons Place stores achieved LEED Gold certification Energy efficient refurbishment of stores	Energy consumption savings (in MWh) % Energy consumption reductions Greenhouse gas emissions avoided, tCO_2e	
Environmentally sustainable management of living natural resources and land use	Expenditures related to procurement of BCI-certified material	BCI[14] Cotton Sourcing products supporting more sustainably-grown cotton through the Better Cotton Initiative	% of certified materials sourced[15]	
pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/ emission-efficient waste to energy);	Expenditures relating to the proportion of recycled material in packaging materials	Sourcing of reusable, recyclable and Forest Stewardship Council (FSC) certified packaging materials Sourcing of 100% recycled polyester for brand and care labels		

Source: Extract from the Burberry Sustainability Bond Framework, p.13

Extract references:
14 BCI - Better Cotton Initiative: www.bettercotton.org
15 Note: this is not strictly to be considered as an impact metric, rather a proxy measurement for a combination of anticipated positive environmental and social impacts.

CONCLUSION

Investors are demanding more from companies around their sustainability performance and disclosure and assessing the credibility of company commitments. This overview has set out some examples of how one company is taking advantage of greater investor interest in ESG topics and making sure they are communicating effectively with investors about their sustainability commitments. For more information and practical examples, see the A4S Essential Guide to Enhancing Investor Engagement.

GET IN TOUCH OR FIND OUT MORE

@PrincesA4S

The Prince's Accounting for Sustainability Project (A4S)

ThePrincesA4S

info@a4s.org

www.accountingforsustainability.org

More from the A4S Essential Guide Series:

www.accountingforsustainability.org/guides