

REINHART'S
SUSTAINABILITY
JOURNEY: **TRANS-
FORMING IMPLICIT
KNOWLEDGE INTO
MEASURABLE
TARGETS**

REINHART¹⁷⁸⁸

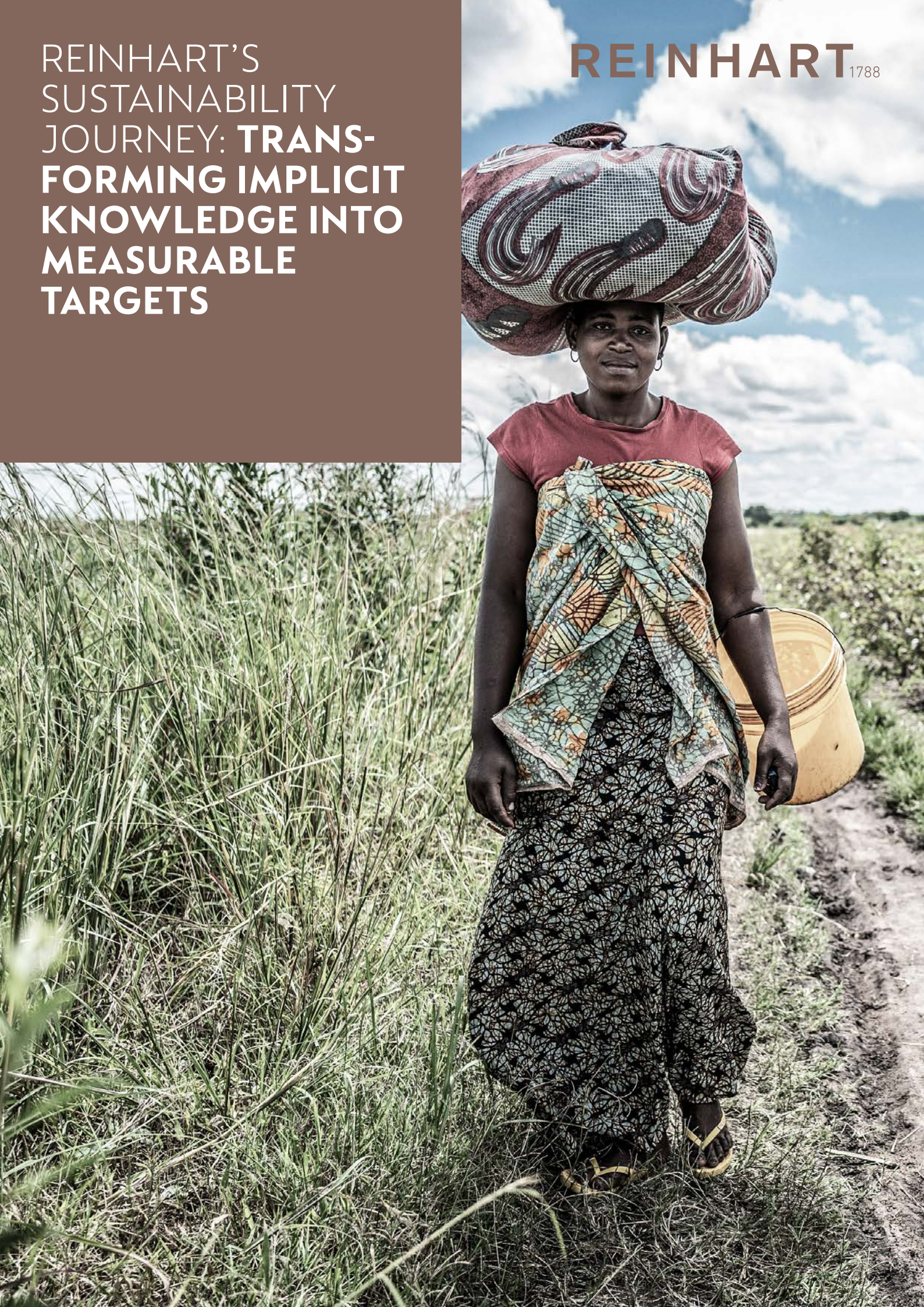




Figure 1: Mechanized cotton picking under the Better Cotton Initiative (BCI)

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STARTING WITH A LONG HISTORY MARKED BY **SUSTAINABILITY MILESTONES**

For 232-year-old cotton merchant Paul Reinhart AG, development and communication of its sustainability objectives and efforts is an ongoing journey. In the last year, Reinhart started the extensive work of translating the rich and varied experience of implicit knowledge into measurable targets. Stimulated by increasing requests for sustainability performance and transparency from various global partners, Reinhart invested a significant effort to build a robust management and disclosure process, beginning with preparing to qualify for sustainability-linked loans.

Starting with a long history marked by sustainability milestones

Founded in 1788, Paul Reinhart AG (Reinhart) is now in its 8th generation as a family company. Reinhart is headquartered in Winterthur, Switzerland, and has subsidiaries in Australia, China, Egypt, Greece, India, Ivory Coast, United Arab Emirates and the United States, with minority ownership of cotton gins in Burkina Faso, Ivory Coast, Tanzania, Zambia and Zimbabwe.

Reinhart maintains long-term relationships with its suppliers and had already started sourcing and marketing organic cotton at the end of the last century in collaboration with civil society organizations. Today, the company is one of the world's largest merchants of organic and fair-trade cotton and a significant pioneer and player in the global sustainable cotton market.

In 2012, Reinhart began partnering with Cotton made in Africa (CmiA), an internationally recognized standard and certification label for sustainable African cotton, and the Aid by Trade Foundation. In the same year, the company joined the Textile Exchange, a nonprofit that supports textile companies seeking greater sustainability.

Reinhart joined the Better Cotton Initiative (BCI) in 2013 that was initially founded by large retailers and non-governmental organizations. It has become the largest sustainable cotton initiative targeting the entire cotton value chain. Lately, Reinhart was a founding member of the African Cotton Foundation, a nonprofit dedicated to creating an economically, environmentally and socially sustainable cotton sector.

FINANCE PRESENTED AN OPPORTUNITY

Reinhart offers organic and fairtrade cotton to the market since 2004 and supports cooperatives through pre-financing during the harvest and providing market information.

Finance presented an opportunity

Cotton merchants secure the timely payment to suppliers before shipment and accept the terms of customers who want to pay only once goods are shipped against documents. Bridging this gap on large volumes of agricultural commodities requires substantial bank credits. The banks therefore ensure that the business is in accordance with their concrete sustainability compliance requirements.

As stakeholder expectations regarding sustainability continue to expand, there is an emerging surge in interest and awareness from the financial sector especially. Through sustainability-linked loans (SLLs), borrowers are given an incentive to formulate sustainability targets and report on progress.

When Reinhart decided to review its sustainability efforts for compliance with an SLL in 2019, company leadership knew that its existing profile positioned it well to qualify. But it also recognized the special opportunity for a much larger expansion of its sustainability management and reporting process and hired global management consulting firm Sustainserve to help guide and facilitate.



Figure 2: Hand-picked cotton harvest under the Cotton made in Africa (CmiA) Initiative

A structured materiality assessment helps companies understand which economic, environmental and social issues are most relevant for company stakeholders, impacts and the issues that drive long-term value creation. It forms the foundation for a sustainable business strategy, reveals which KPIs to track and facilitates alignment with reporting standards.

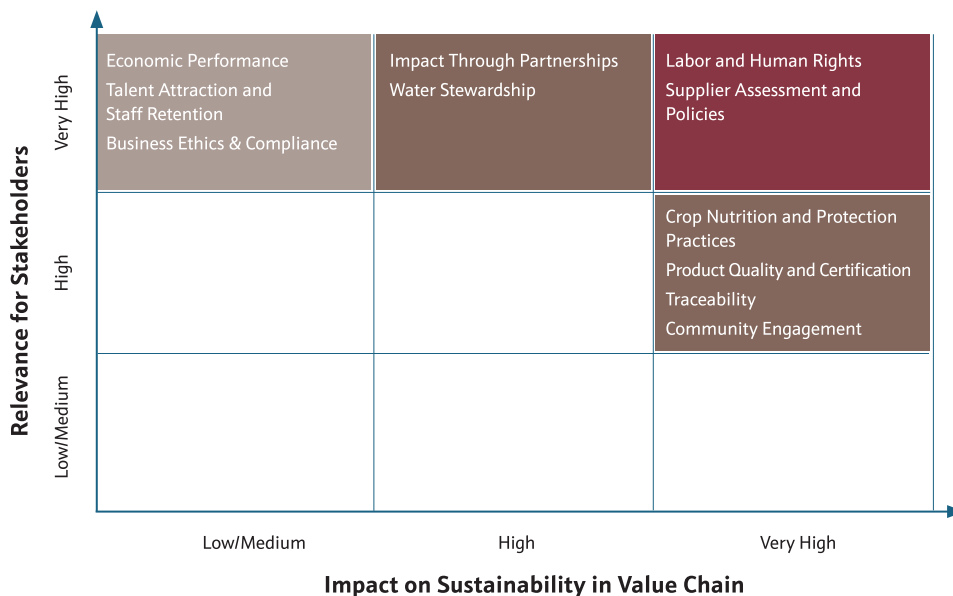


Figure 3: Two-dimensional materiality matrix with 11 material topics covering very high relevance for stakeholder decision-making (top row) and very high actual or potential impact on sustainability in the

value chain (far right column). The third dimension on long-term business success was addressed during the workshop and is considered in Reinhart's strategy development but is not shown here.

MINING IMPLICIT KNOWLEDGE WITH A MATERIALITY ASSESSMENT



Figure 4: Industrial staple yarn spinning

Mining implicit knowledge with a materiality assessment

Reinhart's collaboration with Sustainerv began with a structured materiality assessment to identify the economic, environmental and social issues most relevant to Reinhart's stakeholders and business. Reinhart decided to use the framework provided by the GRI (formerly Global Reporting Initiative) for the assessment, to focus the company's sustainability management and disclosure on the issues where the company can make the biggest difference.

The materiality assessment was accomplished through guided workshops with Sustainerv, with the goal of valorizing the implicit knowledge of Reinhart managers on what is most important to the company's business, where Reinhart has the most significant impact and what its stakeholders most often inquire about. Reinhart also conducted a stakeholder engagement workshop with the Swiss Federal Department of Foreign Affairs and the Institute for Human Rights and Business to address the material topics with highest relevance, namely "Labor and Human Rights" and "Supplier As-

essment and Policies."

The materiality assessment involved three basic steps:

- 1. Identifying all potentially material topics, followed by categorizing and condensing into a short list
- 2. Prioritizing, assessing and evaluating short list topics along three dimensions: Relevance for Reinhart's long-term business success, relevance for stakeholder decision-making and behavior as well as impact on sustainability along the value chain
- 3. Visualizing and validating the results regarding plausibility, using a matrix (left)



ACHIEVING AN SLL BY SETTING MEASURABLE TARGETS

Figure 5: Industrial staple yarn spinning

Following the materiality assessment, Sustainerv helped Reinhart produce a series of documents, including an updated internal Code of Conduct, a Supplier Code of Conduct and a Corporate Responsibility Handbook. Management and Board of Directors of Reinhart discussed those documents and approved them fully.

Achieving an SLL by setting measurable targets

After working with Sustainerv, Reinhart used its newly crafted suite of materials to develop Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs) to establish and track sustainability improvement for Reinhart's banking partners regarding SLLs. Reinhart drafted these KPIs and SPTs based on the Sustainability Linked Loan Principles (SLLP) published by the Loan Market Association that specify that "the SPTs should be ambitious and meaningful to the borrower's business and should be tied to a sustainability improvement in relation to a predetermined performance target benchmark". In Reinhart's case a premium is awarded based on the fulfillment of these goals, which indicate expected performance on the roll-out of and training on the updated Code of Conduct; the implementation of the Supplier Code of Conduct; the proportion of certified cotton traded; and levels of support for education initiatives of local communities in Sub-Saharan Africa. Reinhart asked Sustainerv, which had not been involved in the KPI and SPT determination and did thus not have any conflict of interest, to

review and independently verify the KPIs and SPTs and confirm their appropriateness (ambitious and within scope) for the purpose of target setting under the SLLP. To evaluate the SPTs, Sustainerv compared Reinhart's proposals for the SLL KPIs with corresponding metrics and targets included in the Sustainability Accounting Standards Board (SASB) Agricultural Products standard and publicly communicated by selected peers and competitors. The evaluation also concluded that the KPI's and SPT's proposed by Reinhart align well with the topics that the materiality assessment found to be of the highest relevance for the company's impacts on sustainable development.

The structured approach outlined above helped Reinhart to achieve an SLL with clear sustainability targets over the next four years (2020-2023). The targets will be audited independently every year starting at the end of 2020. Reinhart will continue receive SLL approval as long as it meets the SPTs as outlined in its SLL documentation.

Reinhart's material topics with highest impact potential on sustainability	KPI 1 Roll-out and Training Code of Conduct	KPI 2 Supplier Code of Conduct	KPI 3 Certified Cotton BCI / CmiA / Organic and/or Fairtrade	KPI 4 Education of Local Communities
Labor and Human Rights	✓	✓		
Supplier Assessment and Policies		✓		
Crop Nutrition and Protection Practices		✓	✓	
Product Quality and Certification			✓	
Traceability			✓	
Community Engagement				✓

Figure 6: A good match between material topics with highest actual or potential impact on sustainability in value chain (see right-hand side in figure 4) and the four KPIs was ensured.

Reaping multiple harvests from one investment

Reinhart's work in the last year has made it easier to structure its comprehensive corporate responsibility approach and performance and to credibly respond to various stakeholder requests for transparency, including application for and successful closing of an SLL agreement with a consortium of international banks. Engaging for comprehensive non-financial sustainability reporting turns out to be just one of many valuable outcomes of the process:

- The company's 150 global employees share a common understanding about what corporate responsibility means for Reinhart, due to training on the new Corporate Responsibility Handbook and the updated internal Code of Conduct.
- Reinhart introduced suppliers to its sustainability expectations as outlined in the Supplier Code of Conduct.
- Reinhart formed an internal Human Rights Due Diligence working group based on input from a high-level expert panel, including recommendations from the United Nations Office of the High Commissioner for Human Rights.
- Reinhart is prepared to meet fully the standards of corporate responsibility reporting, as required by the Parliamentary counter proposal to the Responsible Business Initiative (RBI).

REAPING **MULTIPLE
HARVESTS** FROM
ONE INVESTMENT

BEGINNING A NEW CHAPTER

- Reinhart is equipped to provide on-demand sustainability disclosure to business partners.
- The creation of Reinhart Sustainable Impact enables a strategic direction that centers around full compliance with lenders, stakeholder engagement and long-term investments in the value chain.
- Reinhart has the tools and process to begin issuing formal sustainability reports, the first of which is expected to be published in 2021. Reinhart also will deliver dynamic reporting throughout the year on the four audited KPIs and further selected material topics.

Beginning a new chapter

For Reinhart, the decision to work toward a better reporting mechanism has led to stronger and more widespread sustainability targets. In the course of laying the groundwork for SLLs, Reinhart leveraged its significant investment to improve the company's sustainability profile with multiple deliverables.

Within one year, this focused sustainability initiative has enhanced Reinhart's culture of responsible business practices with structured and well-defined modern sustainability objectives and related capabilities. This is not the end but rather the start of a new chapter of Reinhart's ambitious journey toward enhanced sustainability including effective disclosure to and dialogue with its stakeholders

"The collaboration with Sustainerv advanced our transformation of implicit sustainability knowledge into measurable targets faster than we expected and helped us to even achieve a Sustainability-Linked Loan. The next challenge in our sustainability journey is to enlarge the commitment for measurable targets with all global operations of the Reinhart group." Jürg Reinhart, CEO, Paul Reinhart AG



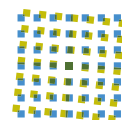
Figure 7: Growing cotton helps to support food security on smallholder farms.

About Sustainerv

Sustainerv is a global management consulting firm with broad expertise and 20 years of experience with integrating sustainability into companies' long-term strategies, everyday operations and communications. With offices in Switzerland, Germany and the United States, Sustainerv works toward a future where sustainable value creation is the norm.

The Sustainerv team offers holistic advice and support to deliver actionable results and inspire meaningful change that benefits businesses, the environment and society. Services cover all aspects of sustainable corporate value creation from materiality assessments, sustainable strategy development, and greenhouse gas accounting to human rights due diligence, stakeholder engagement, and sustainability and integrated reporting.

www.sustainerv.com



sustainerv
Inspiring Meaningful Change

REINHART CORPORATE RESPONSIBILITY

Reinhart Corporate Responsibility

Reinhart has been a key player in the agricultural commodities business for over 230 years. The company's role in the market is to deliver lint cotton supplied by ginner to yarn spinners. Fulfilling the very beginning of a global value chain that touches all main markets. The end products, such as our favorite pair of jeans, a nice dress or the bedcover that warms us during the night, are integral part of our lives. Cotton is close to us, every day.

Sustainability is embedded in the Reinhart culture. Perhaps due to our intimate relationship to cotton as a natural fiber. We discuss global weather conditions, such as hurricanes in the U.S. or the monsoon season in India, and how these events may affect the cotton crops and qualities in the field. We compare cotton against competing products, such as man-made polyester fibers, and we reflect on how a natural product remains competitive and the first choice for retailers and end consumers.

www.reinhart.ch

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