

## Kohl's Case Study

### Continuous Improvement on Human Rights in the Supply Chain

Kohl's, one of America's largest retailers, operates well over 1000 stores across every state in the continental US and has a large and growing digital business. Milwaukee based, it is one of the few Fortune 500 companies to be led by a female CEO and CFO. It has a loyal customer base of 65M shoppers, looking for clothes and housewares at affordable prices. Regular partnerships with brands and designers keep the product offering fresh and fun. Still, retail has had a hard year, with COVID-19 shuttering stores across the country and creating constraints on reopening. Rockefeller Asset Management (RAM) invested during the period of market lows, as we had confidence in Kohl's management team and the company's resilience. While COVID-19 has strained the company's performance, we see the company as a long-term ESG improver.

#### ROCKEFELLER ASSET MANAGEMENT PHILOSOPHY ON ESG

At RAM, we believe that rigorous, ESG-integrated analysis coupled with deep shareholder engagement can deliver strong long-term results for our clients. We also believe that companies working to improve their ESG performance will see stronger financial performance over time. Shareholder engagement is a core part of our investment process - evaluated before purchasing a stock and employed throughout the holding period. Our engagement approach strengthens our investment process by identifying material ESG issues and constructively engaging with companies to create long-term shareholder value and catalyze positive ESG improvement. We are particularly interested in companies that have the potential to become future ESG leaders, because this is associated with valuation premiums. As investors, we contribute to accelerating firms' trajectory towards leadership on ESG, which enables us to capture those premiums while generating positive outcomes.



Source: Kohl's

#### INITIAL CONVERSATIONS ON KOHL'S MATERIAL ISSUES IN THE CONTEXT OF COVID-19

Upon investing, we promptly began engaging with the company to understand the impact of COVID-19 on its operations and gain clarity on the other ESG risks and opportunities flagged during our initial review. The company has had to delicately maneuver its way through the crisis, while staying focused on its customers and long-term performance. For example, mandatory store closures forced Kohl's to furlough employees. As the company continues to navigate the crisis, it has more recently had to lay off workers. The company appears to have done its best to maintain employee benefits during the furlough and CEO, Michelle Gass, did not take a salary.

Beyond COVID-19, we see Kohl's top three material ESG issues as customers relations, labor relations and the supply chain. We had questions about each of these issues and sought further clarity from the company on how they were being handled. Our conversations with the team gave us comfort on how these issues were being handled by and large. For purposes of this case study, we will delve deeper into the supply chain improvements around monitoring in the next section, but we were impressed with Kohl's supply chain responsibility disclosures and its 2025 target to include all private label suppliers in the HIGG Index, an initiative

designed to monitor and enhance environmental performance in the supply chain. Additionally, we were pleased to see sustainability oversight at the board level, including ESG factors qualitatively incorporated into performance targets, and we recognized an openness to our recommendations related to waste, recycling, and circular economy opportunities the company could consider to build on their existing efforts.

## DEEPER DIALOGUE ON CONTINUOUS IMPROVEMENT IN SUPPLY CHAIN LABOR MONITORING

Like many companies that source from China, Kohl's has grappled with the intractable challenge of occasional, and often well disguised, breaches of its supply chain labor standards. In order to tackle this, Kohl's joined Joint AAFA/NRF/RILA/USFIA Forced Labor Working Group, where it is partnering with like-minded apparel firms to address labor violations. But even their collaborative efforts have struggled to fully eradicate labor violations. Within Kohl's, these matters are overseen by Steve Thomas, Chief Risk and Compliance Officer, who has led the company's cross functional committee that oversees responsible sourcing. In conversations with the Rockefeller ESG team, he appears to be genuinely committed to ensuring strong labor protections in the supply chain.

At Rockefeller, our ESG team benefits from deep expertise across a wide range of ESG issues including general ESG reporting, climate-related disclosures, carbon accounting, sustainability strategy development, and supply chain labor issues, amongst others. One of our areas of expertise includes social compliance auditing that is carried out by third party

auditors and designed to identify labor violations in apparel facilities.

In our conversations with Steve Thomas, we discussed sophisticated supply chain monitoring strategies that can be deployed to address some of the more difficult to manage labor violations and introduced him to a third-party audit firm that specializes in these strategies. Steve quickly accepted the introduction, and as we understand, has carried conversations forward with this firm, and the Joint AAFA/NRF/RILA/USFIA Forced Labor Working Group, to continue tackling labor violations.

**"Rockefeller's engagement with Kohl's is much appreciated. We value their opinion and involvement. Kohl's prides itself on active partnerships to make us strong and healthy, and the Rockefeller relationship is no different. We look forward to their continued input and partnership."**

Steve Thomas, Chief Risk and Compliance Officer

"Rockefeller's engagement with Kohl's is much appreciated. We value their opinion and involvement. Kohl's prides itself on active partnerships to make us strong and healthy, and the Rockefeller relationship is no different. We look forward to their continued input and partnership." - Steve Thomas, Chief Risk and Compliance Officer.

## NEXT STEPS

### CONTINUOUS IMPROVEMENT

We intend to continue engaging with Kohl's on ESG across its operations. ESG leadership requires continuous improvement and we see potential future leadership opportunities for Kohl's in labor management in its own operations as well as in its supply chain.



**Mia Overall**  
ESG Engagement Lead



**Casey Clark, CFA**  
Global Head of ESG Investments

## SUSTAINABLE DEVELOPMENT GOALS

### Engagement Target:

Enhanced monitoring of unauthorized subcontracting in the supply chain



**Goal 8**  
Decent Work & Economic Growth



**Goal 12**  
Responsible Consumption & Production



rockco.com

Prepared by Rockefeller Asset Management and provided for informational purposes only. The information and opinions herein should not be construed as a recommendation to buy or sell any securities, to adopt any particular investment strategy, or to constitute accounting, tax, investment or legal advice. The views expressed are those of Rockefeller Asset Management's investment professionals as of a particular point in time and are subject to change without notice. The views of Rockefeller Asset Management's investment professionals may differ from or conflict with those of other divisions in Rockefeller Capital Management. The information herein does not constitute an offer to sell or a solicitation of an offer to buy interests in any Rockefeller Capital Management investment vehicle or product or service. Certain examples are intended to demonstrate aspects of Rockefeller Capital Management's engagement process with companies. Rockefeller Capital Management may take different approaches with other companies and there is no guarantee that any engagement effort will be successful. A complete list of company engagements is available upon request. Although the information and opinions presented herein have been obtained from, or are based on, sources believed to be accurate and reliable, they have not been verified. Forward-looking statements, including those presented here, are inherently uncertain, as future events may differ materially from those contemplated or projected, and past performance is not a guarantee of future performance. No investment strategy can guarantee a profit or avoidance of loss. Although the information provided is carefully reviewed, Rockefeller Capital Management is not responsible for any direct or incidental loss resulting from applying any of the information provided. This material may not be reproduced or distributed without Rockefeller Capital Management's prior written consent.

Rockefeller Capital Management is the marketing name of Rockefeller Capital Management L.P. and its affiliates. Investment advisory, asset management and fiduciary activities are performed by the following affiliates of Rockefeller Capital Management: Rockefeller & Co. LLC, Rockefeller Trust Company, N.A. and The Rockefeller Trust Company (Delaware), as the case may be. Rockefeller Asset Management is a division of Rockefeller & Co. LLC. and the "Firm" for purposes of the Global Investment Performance Standards ("GIPS®"). Rockefeller Asset Management has been independently verified for the period January 1, 2006 through December 31, 2019. Effective January 1, 2018, the Firm was redefined to include the management of fixed income strategies for periods dating back to January 1, 2012. A complete list and description of the firm's composite and / or presentation that adheres to the GIPS® standards is available upon request.

Rockefeller Financial LLC is a broker-dealer and investment adviser dually registered with the U.S. Securities and Exchange Commission (SEC). Member Financial Industry Regulatory Authority (FINRA); Securities Investor Protection Corporation (SIPC). The registrations and memberships above in no way imply that the SEC has endorsed the entities, products or services discussed herein. Additional information is available upon request.

Products and services may be provided by various affiliates of Rockefeller Capital Management.

© 2020 Rockefeller Capital Management. All rights reserved. Does not apply to sourced material.