

NAADAM

THE WORLD'S FAIREST CASHMERE

SOCIAL AND ENVIRONMENTAL IMPACT REPORT
2020 - 2025 Framework

Report 1

TABLE OF CONTENTS

PAGE 2

NAADAM'S MISSION

PAGE 3

LETTER FROM THE FOUNDERS

PAGES 4 - 8

2020 - 2025 FRAMEWORK



MISSION

NAADAM goes straight to the source of the world's best cashmere, Mongolia's Gobi Desert, and works directly with herders to bring you high-quality, sustainable and unbelievably soft knitwear at prices that are fair for them – and for you.

LETTER FROM THE FOUNDERS

Six years ago, we started a company. We didn't know much (and in some ways, we still don't). But we knew that we wanted to share our story because we believed it represented a piece of the universality of the shared human experience. We could use our company to connect people and celebrate the things that made us similar, not different.

We decided to call our company "NAADAM", which translated from Mongolian to English means "Games." It is also the name of a nationwide Mongolian festival that celebrates the Mongolian culture and nomadic traditions that anchor the shared values of the country's people.

At its core, NAADAM is about people. It is a literal celebration of the cultures and the people we work with. Through NAADAM, people across the planet get the chance to connect with an idea and shared value system via products that thoughtfully marry our experience to theirs.

Over the past six years, NAADAM has become a bigger and better business than we ever dreamed. We have led our organizational development with intention and authenticity, consistently promoting and evangelizing our value system. The result is a business that spans the globe, distributes products via hundreds of national and international touchpoints and employs an ever-expanding group of likeminded and passionate people.

From the beginning, we have made an effort to invest both financial and business resources directly into programs that impact communities in the regions where we operate. Our primary focus has been on finding organic ways to create financial and environmental sustainability that are rooted in

local culture and driven by the needs and wisdom of our partners on the ground.

In recent years, we have recognized that we have the opportunity to start thinking more broadly about the impact we want to have. We saw that our systems and processes, while unique in their dedication to transparency and sustainability, were never meant to be proprietary. By sharing our perspective, approach and progress publicly, we have the opportunity to open an important dialogue around what it means to be a business that does well while doing good.

This is why we are excited to share our first annual Impact Report, which shares our commitments on people, planet and progress. In it, we explain the thinking behind each of our commitments and share some of the progress we've made so far. We'll also give you a sneak peak at what we have planned for the years ahead.

This is a new and exciting chapter, one that we feel has the opportunity to impact a generation of entrepreneurs and businesses that, like us, are eager to lead with values and cultural authenticity. We are committed to increasing existing investments in our mission to promote transparency, environmental sustainability and cultural preservation.

We invite you to learn more about our work and share ideas on what we can do better. Because a real commitment is a commitment to never being complacent and continually recognizing our larger responsibility to be a leader. That's the commitment we're making here.

Matthew Scanlan and Diederik Rijsemus
Founders, NAADAM



2020 - 2025 FRAMEWORK

Since NAADAM was founded in 2013, we've been committed to transparency, ethical practices, cultural preservation and environmental sustainability.

We've always wanted to find a better way to do things. We've been building our impact programs organically since 2013 but are excited to take the next step and formalize our social and environmental strategies. We plan to do all the same things – and more – but now have a framework with specific and measurable goals. Our first annual Social and Environmental Impact Report outlines our commitments on people, product, planet and progress.

2025 GOALS

Here's what we're working to achieve by 2025.

To decide what those goals should be, we engaged with our key internal and external stakeholders and conducted a 'materiality assessment' (sustainability-speak for prioritization) to explore and rank the issues most relevant to our business. We mapped these issues based on how important they are to our stakeholders, how connected they are to our company's business and how able we are to influence meaningful change.



PEOPLE

- Ensure living wages across our supply chain
- Hold primary suppliers accountable for social and environmental performance
- Meaningfully invest in Mongolian herder communities
- Support supplier and factory communities with responsible integration of new technology
- Make NAADAM a great place to work



PRODUCT

- Use traceable, renewable and recycled materials
- Promote ethical conditions for animals behind our raw materials
- Embrace circular design principles to create high-quality products that can be used as long as possible
- Embed social and environmental responsibility into each product from beginning to end



PLANET

- Go carbon neutral by reducing emissions, investing in sets and prioritizing renewable energy
- Reduce our packaging and switch to sustainable alternatives



PROGRESS

- Drive industry change by being open and honest along the way

PRIORITIES

WHAT WE'VE DONE

WHAT'S NEXT

People



- We pay herders above average and invest in their longterm livelihoods through the Gobi Revival Fund, a Mongolia-based non-profit. We've worked with this organization since 2015 to support more than 2,100 herding nomadic families to build resilience against issues like climate change, extreme weather, desertification and urbanization – while maintaining the utmost respect for their traditional way of life and offering the support that they tell us they need.
- We only work with suppliers who are committed to paying workers fairly and in line with the region's minimum wage standards. Our two main suppliers recently surveyed their employees' living expenses and made wage adjustments.
- About 90% of our 2019 product was made at two key suppliers in Chifeng who are audited against the Business Social Compliance Initiative framework, and we visit several times per year.
- All of our suppliers must have documented labor and environmental certifications verified through third-party audits – in addition to us visiting and ensuring facilities meet our standards.
- Our suppliers and subcontracts are held to a Code of Conduct based on International Labour Organization conventions. It includes zero-tolerance towards issues like child labor, forced labor and discrimination.
- Our spinning facility where our cashmere material is blended, dyed and spun uses the latest Italian machinery to make work more efficient and comfortable for the people running the machines.
- Clean drinking water is scarce in the Gobi Desert. We help maintain a well in Bayangovi that provides a clean and secure source of drinking water to over 700 families.
- We funded livestock insurance protecting herders against losses related to mortality, disease and drought for a dozen families and 700 goats. Every dollar spent on the program generated \$493 in value.
- In 2019, we opened a community park in Bayangovi with sitting areas and the only irrigated grass soccer field within 100 miles, as well as planted over 2,000 trees. The park provides a gathering place and tourism center for the local community.
- We offer strong healthcare coverage, a 401K retirement savings program, commuter benefits and a commitment to diversity and gender equality for our 40-person corporate office.

- In 2020, we'll kick off conversations with our Mongolian herders, development experts and non-governmental organizations (NGOs) to understand the income-related issues faced by nomadic communities in the Gobi Desert region and co-create solutions that our herders want and need.
- We'll align on living wage metrics for each location where we operate and collaborate with our partners to make sure everyone in our supply chain receives a living wage.
- We'll expand our network of suppliers who meet our social and environmental standards to have additional partners who can take on orders that our main suppliers can't comfortably absorb. We'll implement structured timelines so our suppliers have manageable order fulfillment times to mitigate longer-than-usual working hours.
- We'll increase production with suppliers who demonstrate consistent improvement and commitment to ethical and sustainable practices.
- We'll develop action plans to address key risks raised during third-party audits.
- We'll work closely with our suppliers to ensure new, environmentally-friendly technologies are integrated responsibly into the factories we use, including programs dedicated to reskill employees whose roles could be displaced.
- We'll work to scale successful programs through the Gobi Revival Fund and build important new ones.
- We'll continue to co-create projects to focus on based on what our partners in herder communities actively tell us they need. In 2020, we'll kick off a more robust project framework.
- We'll introduce applicant-tracking systems, annual company surveys, NYC-focused employee volunteer programs, culture enhancements and forward-thinking, flexible working arrangements for our corporate team.

PRIORITIES

WHAT WE'VE DONE

WHAT'S NEXT

Product



- Our business model was built on the idea of traceability – knowing where and who your materials come from is the only way to guarantee its social and environmental impact. We can trace every stage of the production process for our 100% cashmere products, which make up 75% of our volume.

- We've created a cashmere policy that is distributed to our partners. It covers our baseline expectations for the treatment of cashmere goats and is informed by the Farm Animal Welfare Committee's Five Freedoms, American Veterinary Care Association Standards, Royal Society for the Prevention of Cruelty to Animals and A Greener World.

- We've invested in veterinary care – including inoculation and disinfection – for more than 200,000 animals and provided sustainable breeding programs for healthier, happier goats. This care benefits 700 goat-owning herding families, who rely on healthy, resilient animals for their livelihoods.

- The herders we work with only hand comb goats and never shear, as shearing can scare or distress goats and is more likely to lead to skin injuries.

- In 2019, 100% of materials we used came from renewable or recycled sources. More than 99% were natural fibers – cashmere, wool, silk and cotton.

- In early 2020, we introduced an internal preferred purchasing policy that prioritizes the use of natural materials with environmentally-preferable characteristics, including industry standard certifications like Global Organic Textile Standard (GOTS), OEKO-TEX®, Responsible Wool Standard and Global Recycled Standard (GRS).

- We currently make high-quality clothing that's designed to last. We use long fibers for our cashmere, which results in stronger cashmere with minimal pilling. By buying quality pieces that last longer, consumers can go through fewer products and ultimately create less waste.

We donate returned and damaged product that we can't sell, instead of destroying it (which unfortunately is standard practice in the luxury industry). In 2019, we donated 100 pounds of clothing to Green Tree Textiles, a nonprofit organization that donates usable clothing to local NYC charities and non-usable materials to rag manufacturers.

- We'll begin exploring direct sourcing models for our blended and non-cashmere materials – for example, the farmers growing our cotton and those rearing silkworms for our silk. This goal is longer-term and will require building relationships with a diverse set of sourcing communities.

- We'll engage in the complex animal welfare dialogue centered around the cashmere industry and monitor how it impacts our specific supply chain.

- We'll increase our use of more sustainable materials, using our internal preferred purchasing policy to take a holistic view of a material's footprint.

- We'll explore sustainable certifications for cashmere. There is currently no industry-accepted certification program for sustainable cashmere. We'll align ourselves with the best approach - if we feel it goes far enough.

- We'll keep an eye on innovative plant-based options that might become available in the future. Think materials like leather made from cactus or fabrics made from algae.

- We'll rethink the way we make our clothes to integrate social and environmental responsibility from beginning to end. We'll start by formalizing a circular design and product development program, aligned with the best practices from Sustainable Apparel Coalition's Materials Sustainability Index and IDEO's Circular Design Guide.

- We'll explore using recycled materials in our products, including cashmere, without sacrificing long term environmental impact or quality. Our goal is to ultimately regenerate old NAADAM products into new ones.

PRIORITIES

WHAT WE'VE DONE

WHAT'S NEXT

Planet



- Greater demand for cashmere globally means more goats need to be fed, and overgrazing can lead to desertification. While recent government studies have shown the Bayangovi region where we source has been less impacted by desertification than other parts of the Gobi Desert¹, we're working to reduce any potential negative impacts from our production. Beginning in 2018, we fenced off an area the size of Manhattan in Bayangovi to protect against desertification. This area provides a protected food source for 10,000 goats during the spring season.
- Starting in 2020, we became a carbon-free freight shipper. Our freight forwarder, Flexport, calculated the footprint of our shipping operations in 2019 to 402 tons of CO2e. We offset these emissions via the Carbon Fund, a non-profit organization that helps companies with carbon offsetting and greenhouse gas reduction.
- We have a concentrated supply chain within a tight radius, which minimizes our transport-related emissions.
- Our primary suppliers have committed to using 20% clean energy to power their operations in 2020 using a mix of renewable sources including solar and wind. This is in alignment with China's commitment to reduce coal usage to under 58% of its energy mix by the end of the year.
- Our clothes are dyed in facilities that use a closed-loop water filtration system where wastewater is cleaned and treated on-site so that it can be used again. One of our primary suppliers is a Global Organic Textile Standard (GOTS) certified facility, which verifies that its dye process is free from hazardous chemicals and follows strict waste water treatment practices.
- In 2019, we shifted to more sustainable packaging solutions and minimized single-use plastic. Our inserts and hangtags are made from 100% pre-consumer Forest Stewardship Council-certified recycled paper. Our mailers and bags are made of 100% recycled plastic and uses non-toxic chemicals and Breakdown Plastic (BDP) technology to help plastic biodegrade to leave nothing but organic matter in a couple of years, a much faster rate than the standard 1,000 years with virgin plastics.

- In 2020, we'll conduct a greenhouse gas (GHG) inventory of the total emissions that occurred as a result of our manufacturing and operations over the last year and develop carbon reduction plans.
- We'll extend our offset purchase to cover all shipments from our warehouses to customers in 2020.
- We'll offset any emissions that cannot be reduced and choose offset projects that align with our major emission-causing activities. For example, if we find that overgrazing by our cashmere-producing goats are a key source of emissions, we'll seek offset projects that revitalize grasslands.
- We'll reduce our packaging to only what is absolutely necessary at each stage to use less.
- We'll keep exploring innovative and sustainable packaging alternatives to reduce our footprint.

Progress



- We've assessed the current stakeholder landscape and identified several initiatives that would enable us to meaningfully contribute to industry change. We plan to strengthen partnership with these organizations in the year ahead.
- We've shown our commitment to honesty and transparency by creating a series of videos on our supply chain and impact-related achievements.

- We'll plan to formally initiate the B Corp certification process.
- We'll annually publish our Social and Environmental Impact Report to communicate how we're tracking, which will contain more quantified data as we benchmark against the baseline that we have established in this report.



LET'S MAKE THIS A TWO-WAY STREET

We want to get you more involved in our impact – if you want to be!
What information do you want to know?
How can we do better?

Send us a note at support@naadam.co

REFERENCES

1. Densambu, B., S. Sainnemekh, B. Bestelmeyer, U. Budbaatar. 2018. *National report on the rangeland health of Mongolia: Second Assessment. Green Gold-Animal health project, SDC Mongolian National Federation of PUGs. Ulaanbaatar.*