Information for Current Men’s Warehouse Shareholders Regarding Trillium’s 2013 Shareholder Proposal

May 2013

On behalf of our clients, Trillium Asset Management filed a 2013 shareholder resolution with Men’s Wearhouse (NYSE: MW) which asks the Company’s Board of Directors to:

“issue an annual sustainability report describing The Men’s Wearhouse’s short- and long-term responses to ESG-related issues. The report should include, where feasible, objective statistical indicators and goals relating to each issue, be prepared at a reasonable cost, omitting proprietary information and be made available by December 15, 2013”.

The resolution appears on page 27 of the Company’s 2013 proxy materials and is opposed by management.

Rationale for a vote in Favor:

1.) Since Men’s Wearhouse is one of the largest specialty retailers of men’s apparel in the US and parent company to various subsidiaries in the US and abroad, and sources product primarily from China, Indonesia and India- regions with historically weak human rights and labor rights laws – the company should provide an assessment of human rights and labor rights risks in its supply chain.

2.) Since Men’s Wearhouse operates more than 1,200 stores; is the largest dry cleaner of garments in the US, according to the company, and collects and distributes most product from one distribution center in close proximity to the Gulf Coast (Houston, TX) – the company should provide information concerning environmental oversight procedures and sustainability goals; and metrics relevant to environmental risks and opportunities.

3.) Current reporting is inadequate. The company recently posted information to a “Corporate Responsibility” section of its website which describes a number of initiatives and a description of its Equal Employment Opportunity Policy. The company however appears to not report goals or meaningful metrics related to initiatives and policies, nor relevant oversight procedures.

4.) Sector peers of similar size and smaller are publishing sustainability reports and disclosing policies, objective indicators and goals related to social, economic and environmental sustainability, thereby indicating that the challenge to implement the proposal’s request appear to be surmountable.

Since MW is one of the largest specialty retailers of men’s apparel in the US and parent company to various subsidiaries in the US and abroad, and sources product primarily from China, Indonesia
and India—regions with historically weak human rights and labor rights laws—the company should provide an assessment of human rights and labor rights risks in its supply chain.

Globalization and the outsourcing of U.S. manufacturing to developing countries over the past two decades has simultaneously been praised as an opportunity to provide jobs to millions of poorer populations and derided as an exploitative “race to the bottom” by companies interested only in cheap labor.1 With most production currently outsourced, the remoteness of production locales and large number of factories make it difficult for researchers to obtain accurate data on factory working conditions. Investment firms that screen their portfolio holdings on social and environmental issues require comparable data to be able to evaluate a company’s treatment of workers in its supply chain.

According to MW’s 2011 10-K, “During 2011, approximately 80% of our direct sourced merchandise was sourced in Asia (72% from China, Indonesia and India) while 10% was sourced in Mexico and 10% was sourced in Europe and other regions. All of our foreign purchases are negotiated and paid for in U.S. dollars, except purchases from Italy which are negotiated and paid for in Euros. All direct sourcing vendors are expected to adhere to our compliance program. To oversee compliance, we have a direct sourcing compliance department and we also use the services of an outside audit company to conduct frequent vendor audits.”

The Company appears to have a sourcing program that addresses labor, wage, hour, and safety laws but it is unclear to investors how this program is administered across its 900 vendor supply chain. Management should disclose to investors how supply chain oversight mechanisms operate, whether compliance performance is tied to staff compensation, the scope of supply chain audit findings and remediation actions planned, if needed. The presence of a clear vendor code of conduct helps investors differentiate between companies that publicly acknowledge their accountability to responsible sourcing and those that do not.

We believe MW needs to disclose the scope of its program, effectiveness of its policies and its goals and challenges so that investors may have sufficient information to evaluate the risks in the company’s apparel supply chain. Additionally, investors need to make a reasoned assessment of overall performance and that can only be done if balance between achievements and challenges is provided in the report.

Since MW operates more than 1,200 stores; is the largest dry cleaner of garments in the US, according to the company, and collects and distributes most product from one distribution center in close proximity to the Gulf Coast (Houston, TX) – the company should provide information concerning environmental oversight procedures and sustainability goals; and metrics relevant to environmental risks and opportunities.

The company shared draft information on sustainability with the proponents indicating that energy use data was being captured at the corporate level and this information would be used to determine “how to achieve more environmentally friendly results.” 2

Disclosing baseline energy use data, which the company appears to have, can put it in a better position to build a credible story and track record for achieving more environmentally friendly results. However, in follow up conversations with the company the proponents understood Men’s Wearhouse as not appearing to have plans to disclose data, goals, or metrics relevant to the
company’s overall ESG strategies. We believe the company’s “trust us’ approach materially weakens its reporting. Without adequate measures investors are not able to assess environmental risks and opportunities in neither its operations or those in its supply chain.

Investors have come to expect companies to report quantitatively on ESG metrics and track year-over-year progress. The Governance & Accountability Institute (G&A Institute) states that 53 percent of the 500 companies indexed by Standard & Poor’s issued sustainability reports in 2011 with 167 of those companies issuing GRI sustainability reports. Further, the interest in carbon risk disclosure is evidenced by the more than 722 institutional investors representing USD 87 trillion in assets who are signatories of the Carbon Disclosure Project (CDP).

Additionally, as extreme weather events may become more frequent and intense, companies will need to make robust physical risk disclosure to investors. The Men’s Wearhouse acknowledges catastrophic and weather related risk in its 2011 10-K by stating, “Events, such as disruptions in operations due to fire or other catastrophic events, employee matters or shipping problems, may result in delays in the delivery of merchandise to our stores. For example, given our proximity to the Texas gulf coast, it is possible that a hurricane or tropical storm could cause damage to the distribution center, result in extended power outages or flood roadways into and around the distribution center, any of which would disrupt or delay deliveries to the distribution center and to our stores.”

Men’s Wearhouse is highly dependent on the smooth operation of its one central distribution center in Houston, TX. Investors are increasingly demanding disclosure related to the physical impacts of climate change risk, therefore MW should disclose to investors if and how it is making business decisions related to climate change, such as developing property specific action plans.

**Current reporting is inadequate. The company recently posted information to a “Corporate Responsibility” section of its website which describes a number of initiatives and a description of its Equal Employment Opportunity Policy. The company, however, does not appear to report goals or meaningful metrics related to initiatives and policies, nor relevant oversight procedures.**

Two months after filing the proposal, MW produced information related to sustainability for the proponents to review. The proponents reviewed the draft and provided two pages of company examples MW could use for reporting guidance, in addition to the framework provided by the Global Reporting Initiative (GRI). MW responded with modest revisions but did not consider our request to establish a meaningful goal around one key ESG issue. Without metrics or description of results, investors cannot assess MW’s progress toward delivering on its commitment and philosophy. Lacking relevant performance goals and metrics the report for all intents and purposes is at risk of being labeled as “greenwashing.”

Revisions to the draft information on sustainability included a discussion of the company’s offering of domestic partner benefits within its Equal Employment Opportunity Policy. We applaud the company for these disclosures; however meaningful disclosures of MW’s efforts to hire, retain and promote diversity is critically important to investors assessing retailers and noticeably absent from MW’s reporting.

At a minimum we are asking the company to subscribe to the GRI principles, voluntarily incorporate some of the indicators into their reporting and pursue a dialogue to address long-term issues of
sustainability. A sustainability report allows companies to have a transparent dialogue with their stakeholders; provides evidence that the organization is performing in a sustainable manner with clear indicators to measure that performance.

In contrast, Men’s Wearhouse and its Board state in their opposition statement that “the Company’s proxy statement, other filings, news releases and our website already provide a comprehensive, wide-ranging and transparent report on our environmental social and governance business practices.” Essentially the company, in our view, is satisfied with incomplete reporting and has closed the door to further dialogue on these issues.

**Sector peers of similar size and smaller are publishing sustainability reports and disclosing policies, objective indicators, and goals related to social, economic and environmental sustainability, thereby demonstrating that challenges to implementing the proposal’s request appear to be surmountable.**

This shareholder proposal comes in the midst of the mainstreaming of sustainability reporting by companies large and small, and evidence that tracking sustainability is related to good financial performance. ³

Two of Men’s Wearhouse’s close competitors (Moss Brothers and Joseph A. Banks) are privately held and do not publish sustainability reports. However, sector peers Abercrombie & Fitch and JCPenney, similar in size, each publish comprehensive sustainability reports.

**Abercrombie & Fitch (ANF)** (Market Capitalization of $4.0 billion) devotes five pages of its report to social sustainability and international human and labor rights. For example, ANF discloses the status from ‘acceptable’ to ‘high risk’ of all active audited factories; discloses the reason for the ‘high risk finding’ during the audits (missing age documents to incidents of harassment/abuse, for example.) ANF discloses supplier remediation strategies in detail.

ANF publicly reports energy reduction targets for both gas and electrical use by 40% and 25%, respectively from a disclosed 2008 baseline. Transparency around ANF’s investments in equipment upgrades and partnerships with energy experts provides investors with information necessary to assess its commitment to its goals.

**JCPenney (JCP)** (Market Capitalization of $3.3 billion) publicly commits to energy reduction targets. JCPenney operates approximately 1100 retail stores compared to MW’s 1200 retail stores. JCPenney hired a Vice President of Corporate Social Responsibility who announced a 2010 goal to reduce facility energy consumption by 20% per gross square foot by 2015 by continuing to invest in energy efficiency improvements and implementing daily energy-saving practices. JCPenney set a target to reduce paper usage. While doing so it has been transparent about the challenges it faces in the form of shortages of post-consumer waste paper and its work to encourage paper manufacturers to identify ways to increase supply.

*Companies smaller than MW and outside its industry sector that publish comprehensive sustainability reports:*
Annie’s, Inc. (BNNY) (Market Capitalization of $650 million) published its second Sustainability Report in 2012. It offers clear detail of its commitment to support organic farming practices, and metrics which bring transparency to its understanding and progress toward reducing its carbon footprint.

Minerals Technologies (MTX) (Market Capitalization of $1.4 billion) published its third Sustainability report in 2010. MTX uses GRI indicators to the extent possible to guide its sustainability assessments. The report outlines the limitations in data gathering, but supplies time series data (with 2006 as baseline) whenever possible in its water and energy use, and emissions, effluents and waste.

**Conclusion**

This shareholder proposal comes in the midst of the mainstreaming of sustainability reporting by companies large and small and evidence that managing ESG factors may help a company better identify risks and opportunities, and enhance long term shareholder value. G&A Institute states that 53 percent of the 500 companies indexed by Standard & Poor’s issued sustainability reports in 2011 with 167 of those companies issuing GRI sustainability reports. Further, the interest in carbon risk disclosure is evidenced by the more than 722 institutional investors representing over $87 trillion (USD) in assets who are signatories of CDP.

Men’s Wearhouse is a leading merchandiser for the corporate and retail apparel markets, operating a central distribution center near the gulf coast, and with more than 1000 stores in the U.S. and U.K each averaging 3,000 to 9,700 square feet. Climate risks, human rights and labor rights risks could have a meaningful impact on the company’s operations. Absent disclosures regarding policies and practices aimed at addressing ESG impacts of MW’s operations, investors are limited in their ability to understand related business risks and opportunities within its operations and its supply chain.

Proponents suggested to the company that it commit to develop and expand reporting over time. However, Men’s Wearhouse appears to believe that its reporting is sufficient having directed the proponents to the company’s proxy statement, other public filings, news releases and the proposed language to be added to the company website as a “comprehensive, wide-ranging and transparent report on our environmental, social and governance business practices.”

Sector peers noted above have published sustainability reports inclusive of useful assessments of ESG risks and opportunities, thereby providing an important indicator that the challenges to implement the request of this proposal appear not to be burdensome. Men’s Wearhouse states in its opposition statement that the benefits to shareholders and investors of such reporting does not “justify its cost.” The company’s reluctance to provide a meaningful assessment of its ESG risks and opportunities presents potentially serious risks to long-term shareholder value. Accordingly, we strongly recommend a vote FOR this proposal.

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9 December 2005. [http://www.globalpolicy.org/component/content/article/162/27955.html](http://www.globalpolicy.org/component/content/article/162/27955.html);

http://www.menswearhouse.com/webapp/wcs/stores/servlet/ContentAttachmentView?contentName=MW4ABT_sustainability.html&catalogId=12004&top=&parent_category_rn=&categoryId=&langId=-1&storeId=12751

http://sloanreview.mit.edu/reports/sustainability-innovation/
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http://www.menswearhouse.com/webapp/wcs/stores/servlet/ContentAttachmentView?contentName=MW4ABT_sustainability.html&catalogId=12004&top=&parent_category_rn=&categoryId=&langId=-1&storeId=12751