**Investment Thesis**
Accelerating the adoption of green standards across the apparel industry supply chain by financing innovation and implementation of sustainable practices in textile and clothing manufacturing businesses. Ultimately leading to higher accessibility to sustainable clothing for the average consumer.

**The Challenge**
Since the mid-2000s, the fast fashion industry has been growing at an incredible rate. This rise in production has negatively impacted the environment. The fast fashion industry is the second largest consumer of water in the world. As a result, it dries up water resources and pollutes streams and rivers.

Fashion production is responsible for about 10% of global carbon emissions and it contributes large amounts of waste. 85% of textiles go landfills each year and 60% of materials are made from plastics (i.e. polyester, acrylic, nylon), which add significant amounts of microplastics to the ocean when washed.

As consumers become more aware of these issues, they are increasingly seeking out clothing that is made in a more responsible and sustainable manner. A study conducted by Deloitte found that 49% of US millennials consider sustainability and ethics before a purchase.

As companies strive to reduce their environmental impact, many are investing in more sustainable and environmentally-friendly supply chains. This may involve using more sustainable materials, reducing waste and emissions, and improving working conditions in factories.

**Innovative Solution**
The Sustainable Runway Fund is a Special Purpose Vehicle funded by impact investors. The purpose of the fund is to invest throughout the supply chain of companies involved in the fast fashion industry who are aiming to transition to sustainable processes and materials to help them deliver environmentally friendly clothing. These sustainable assets make more resilient investments over 15 years. The pilot will begin with investing in increasing manufacturing capabilities for Ioncell (located in Finland), a technology that turns used textiles, pulp, or even old newspapers into new textile fibers sustainably and without harmful chemicals. The fund will also provide green bonds to clothing manufacturers located in Vietnam tied to specific KPIs that will help guarantee more sustainable short and long-term changes. Supply and demand contracts will be negotiated across the supply chain to secure the usage of Ioncell in the manufacturing process of new clothes, and encourage the implementation of more sustainable processes within manufacturing clothes to reduce water consumption, pollution, and waste. In this way impact investors and financial institutions can be confident about

**Target Geography: Vietnam**
The project will run as a pilot in Vietnam because Clothing Manufacturing is a core pillar of their modern economy. The country is the 4th largest clothing manufacturer in the world. Vietnam is the second largest garment exporter in the world, supplying 6.4% of the world’s apparel exports.

- Their main export market is the USA, amounting to almost 16 billion U.S. dollars. The industry employs around 12% of the industrial workforce and nearly 5% of the country’s total labor force, contributing 16% of the total GDP.
- Vietnam has numerous multilateral free trade agreements, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Vietnam-EU FTA (EVFTA), and Regional Comprehensive Economic Partnership (RCEP) (latter two signed in 2020).
- Vietnam is highly dependent on imports of raw materials such as cotton, fiber, yarn, textiles, and garments for clothing production as domestic supply has not been sufficient in recent years.
- Size of addressable market: Exported $39 billion in clothing, 3 million people employed

**Fund Diagram**

**Key Details**
- **Fund size:**
  - 100M USD, 15 years
- **Investment Criteria**
  - **Environmental impact:** The investment should support the company's efforts to reduce its environmental impact through initiatives such as reducing waste, emissions, and water usage, and using more sustainable materials.
  - **Financial performance:** The company's financial performance should be strong, with a proven track record of profitability and growth to ensure that it is able to meet its financial obligations and repay the green bond or loan over the life of the investment.
  - **Corporate governance:** The company's corporate governance practices should be evaluated to ensure that they align with the principles of sustainability and environmental responsibility.
  - **Transparency:** The company should be transparent in its reporting of environmental and sustainability metrics, and should provide regular updates on its progress in reducing its environmental impact.

- **Asset class**
  - Green loans & loans + Equity warrant
- **Capital structure**
  - Private Equity and Special Purpose Vehicle

**Why Ioncell?**
Ioncell is an environmental friendly alternative to the water-intensive cotton production, and the process will revolutionize the recycling of textile waste as waste cotton can get a new life as high-quality fibers. Alternative to cotton, viscose and polyester.

- Ioncell is the strongest cellulosic fiber in the world
  - 100% from textile waste, 2X stronger than original virgin fibers
  - 100% recyclable and biodegradable
  - No land use, minimal water use, no harmful chemicals
  - 50% less CO2 emissions vs. conventional fibers like cotton

Funding is needed to provide proof of concept for closed-loop production process using textile waste as raw material.
Industry, innovation and infrastructure: The fund will invest in accelerating the development of innovative materials, such as Lyocell.
- Metric: tons of material created and sold

Responsible consumption and production: The fund will incentivize sustainable and efficient supply chain management throughout the entire process
- Metric: Cubic feet of water used, kWh of electricity consumed

Climate action: By investing in sustainable materials and practices, the fund will reduce CO2 emissions, mitigate landfill waste, and promote energy efficiency.
- Metric: Tons of CO2 reduced, tons of waste generated

Assumptions
- Supply contracts brokerage fee 50kUSD every 5 years.
- Financing brokerage fee loan on Lyocell 0.10%.
- 30M USD for Ioncell loans interest rate 8% with 47% equity ownership after year 4 with mandatory buyback on year 10.
- 70M USD for Green Loans on clothing manufacturers 9% rate with 50 bps increase if fail to comply KPIs.
- Program becomes profitable on the eleventh year.
- Due diligence and salary for one dedicated analyst 56.6kUSD with US. inflation rate for following years.
- Tax rate of 25%

Returns and cash flows
- Blended Expected return of 14% (Net)
- Time Horizon
  - 15 years

Financial Model

Fees and incentives
- 0.1% origination fees

Target investor pool(s)
- Impact investors, international financial institutions, socially responsible investors, and Apparel Brands

Returns and cash flows
- Blended Expected return of 14% (Net)

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Cumulative Cash Flow MUSD

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<th>Year</th>
<th>Cash Flow</th>
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Key Potential Partners

Clothing Manufacturers (Associations)
- HPPA
- HEPHOS DET VIETNAM
- MIAN VIETNAM
- Vietnam Textile & Apparel Association
- VIETNAM TEXTILE CORPORATION
- Vietnam National Textile and Garment Group

Clothing Manufacturers
- Patagonia
- UNIQLO
- The North Face
- H&M
- Mui
- JCREW
- Calvin Klein

Investment Firms (ESG Divisions)
- BlackRock
- Morgan Stanley
- Goldman Sachs
- M&G

Environmental & Social Impact Thesis

The pilot project the fund would target would focus on IONCELL, fabricated in Finland, in conjunction with Vietnam clothing manufacturers.

After its first round, the fund could expand into investing in other innovative manufacturing technologies or techniques, supply chain efficiency mechanisms, or additional sustainable materials. Moreover, the fund could expand its green bonds to other clothing manufacturing countries in Southeast Asia, like Bangladesh, Cambodia, and Thailand.

Green Loans: Structure & KPIs

SRF Green Projects include:
- Renewable energy - including production, transmission, etc.
- Energy efficiency – refurbished buildings, energy storage, heating, smart grids
- Pollution prevention and control – including waste-water treatment, reduction of air emissions, greenhouse gas control, waste prevention and recycling

SRF Green Bonds are subject to the incorporation of Ioncell to 10% of apparel manufacturing and KPIs are tied to loan premiums of 50bps during annual checks

Core KPIs
- Scope 1, 2 and 3 GHG emissions (intensity and absolute) (tCO2, kgCO2e/t or # of products)
- Proportion of renewable energy consumption vs. total energy consumption
- Volume of fresh water withdrawn/consumed
- Proportion of reused/recovered water
- Weight of waste to landfill

Secondary KPIs
- Proportion of raw materials third-party certified to an environmental and/or social sustainability standard
- % of reduction on weight of packaging
- % PCR plastic used in all plastic packaging of consumer goods
- Purification and treatment of used water
- Quantity of pollutants (and/or annual average concentrations) in water discharged to water

Risks & Mitigations

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