



CHIPOTLE MEXICAN GRILL NYSE: CMG

Chipotle Mexican Grill is a restaurant company that we believe has a good Environmental, Social, and Governance (ESG) profile due to their emphasis on high quality ingredients and focus on good labor management. As with any company dependent on agriculture, climate change threatens to seriously impact Chipotle's supply chain. In 2019, Chipotle was seemingly aware of the risk climate change posed to its agricultural supply chain, but it's only real target was to simply measure its full carbon footprint by 2025. Without clear commitments to reduce the carbon intensity or enhance the resiliency of its suppliers, Chipotle was apparently falling behind other peers that were more aggressively scaling climate-related ambitions. We were concerned Chipotle was not sufficiently focused on the climate-related risks and opportunities it was facing.

For food and beverage companies, their supply chain emissions are 5.9 times greater on average than their direct emissions. To us, this meant Chipotle was likely responsible for significant greenhouse gas (GHG) emissions through its agricultural supply chain; a scenario supported by the reality that agriculture is reportedly responsible for up to 24% of global GHG emissions. Paradoxically, changes in temperature and the hydrologic cycle are hitting the agriculture sector particularly hard. Chipotle has felt the effects of a changing climate first hand — it has actually had to raise prices or alter menu offerings in the recent past due to severe weather events that impacted crop availability.

In the hopes of addressing this topic with the Company, we joined Ceres and a small group of other investors in a dialogue with Chipotle in 2019. This small group dialogue spun out of a larger investor initiative backed by 90+ investors with over \$11 trillion in assets. Unfortunately, the Company showed little willingness to escalate its climate change policies and practices.

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So as a next step, we filed a shareholder proposal in the fall of 2019 asking the Company for “plans to reduce its total contribution to climate change and align its operations with the projected long-term constraints posed by climate change as set forth in the Paris Climate Agreement and 2018 IPCC Report.” Whether or not Chipotle chooses to set science-based targets, which we consider a best practice, we were looking to understand how the Company was intending to reduce its full contribution to climate change and reduce risk exposure to its already vulnerable supply chain.

Filing the shareholder proposal, which demonstrated why we thought Chipotle was a climate change laggard compared to rival companies, got the immediate attention of the CEO and changed the nature of the dialogue dramatically. It added an element of urgency to its response.

Our proposal sparked additional meaningful dialogue. Trillium was able to withdraw the proposal in the winter of 2020 after the Company committed to:

1. address its contribution to climate change consistent with the recommendations of the global climate science community;
2. to set emissions reduction targets for its full carbon footprint, including its agricultural suppliers, and
3. adopt new initiatives, as well as continue existing initiatives, to reduce the carbon intensity of its supply chain.

These commitments — which amount to a commitment to set science-based targets — will not be easy to live up to. But they are important and will lead to significant reductions in Chipotle's GHG footprint, commensurate with its responsibilities. We also believe, these actions will result in a more successful and prosperous company over the long-term — a company with a reduced risk exposure and strong ESG profile.