



In the first half of 2018, the Trillium shareholder advocacy team achieved a number of important gains. We successfully withdrew 21 of our shareholder proposals after obtaining environmental and social policy commitments from those companies. Our shareholder proposals that went to a vote were supported by an average of 34% of voters, and 2 of the proposals received majority votes. With the support and assistance of our clients, we are able to catalyze change in corporate behavior that we believe benefits investors, society, and the environment.

ENVIRONMENT

Climate Change

The imperative for companies to further efforts to address climate change has never been greater. One particular strategy we used this year to hold companies accountable was asking them to set science-based greenhouse gas (GHG) reduction targets. Corporate science-based targets ensure that a company's goals are aligned with global efforts to limit temperature rise to 2°C.

We are pleased to report that we have had successful dialogue with **Minerals Technologies** whereby the company initiated a formal review of its greatest environmental impacts, and we expect the company to set GHG reduction targets as one outcome of this process. Our proposals at **Illinois Tool Works** and **J.B. Hunt** received 24.6% and 21.4% supporting votes, respectively. These outcomes send strong signals to each company that working to meet the objectives of the Paris Climate Agreement is a sign of corporate responsibility investors are looking for.

In addition, we joined a new investor initiative called Climate Action 100+. The goal of this initiative is to ensure the largest corporate GHG emitters are taking additional action to rein in their emissions. While we are not invested in the vast majority of these companies, we are supportive of this effort and will be participating where appropriate.

We also continued our climate engagement at **Verizon Communications**. Together with **Amalgamated Bank**, we co-filed a resolution asking the company to report on the feasibility of achieving net-zero emissions. Unfortunately, Verizon challenged our proposal and the SEC approved the company's request to omit the proposal from its proxy. Similarly, our shareholder proposal at **EOG Resources** asking the company to set a

greenhouse gas reduction target was excluded by the SEC. These two decisions were part of a record number of climate change related proposals excluded by the SEC. In the face of these decisions, shareholders are organizing to press the SEC to stop blocking climate change proposals. Trillium has taken a leading role in that

effort, having met with leadership at the SEC and U.S. Congressional offices to make our case.

Trillium continued to urge Ohio lawmakers to uphold current clean energy standards. House Bill 114 would weaken Ohio's renewable portfolio standards and energy efficiency policies. In February, we published an op-ed in Crain's Cleveland Business discussing the economic opportunity presented by maintaining clean energy standards. In April and June, we also spoke with California legislators to urge support of Senate Bill 100, which will move the state to 100% clean energy.

"During the last five years, Trillium filed 19 board diversity shareholder proposals at companies lacking commitments to diversity inclusive of gender, race, and ethnicity in their corporate governance documents. All 19 companies agreed to amend their diversity language and 16 companies (84%) appointed a woman director."

Finally, we joined our friends at the Sierra Club Foundation in signing its investor statement urging oil and gas companies, and the banks that fund them, not to initiate any oil and gas development in the Arctic National Wildlife Refuge.

Sustainability Reporting

Corporate disclosure of environmental, social, and governance (ESG) policies, practices, and performance is a vital piece of information for investors as we seek to ensure companies are adequately managing their ESG impacts.

During the 2018 season, we filed shareholder resolutions with six companies asking for ESG or sustainability reports. We're pleased to announce that we were able to withdraw four of the proposals based on company commitments to publish their first reports in 2018 or 2019.

Alkermes has already followed through and published a meaningful and useful sustainability report. At **Tesla**, we were able to withdraw our shareholder proposal in March following a productive and on-going dialogue. **Cambrex Corporation** and **A.O. Smith** have also committed to reporting and have begun work on the process.

The two remaining proposals, filed at The **Middleby Corporation** and **Acuity Brands**, were voted on by shareholders at each company's annual meeting. These proposals received votes of 57.2% and 49.8%, respectively. These majority and near majority votes are very hard-to-ignore indicators that shareholders want disclosure of each company's ESG performance.

Agriculture

Continuing our long-term effort to reduce the use of harmful pesticides and specific chemicals like neonicotinoids ("neonics"), we were pleased to successfully withdraw our shareholder proposal, co-filed with Clean Yield Asset Management, regarding this issue at **Tractor Supply** in February. The company agreed to publish detailed disclosure of its product review process in its 2017 Stewardship Report and committed to direct all suppliers to phase out the use of neonics by 2019 to the extent suitable alternatives are available. In disclosing neonics in its product assortment (0.0001% of total 2016 sales), Tractor Supply became the first retailer to map its supply chain risk to pesticides linked to pollinator declines.

Recognizing that action to better protect pollinators from the prolific use of neonicotinoids ("neonics") has stalled

at the federal level, several states and municipalities have introduced or passed bills to stem the use of this bee toxic pesticide. Neonics are not only a key culprit in bee die-offs, but are also shown to have negative impacts on public health. In May, Trillium along with our partners at Green Century Capital Management and Boston Health Advocates met with the senior staff of Massachusetts House Chairman Jeffrey Sanchez to convey investor support for Bill H.4041, An Act to Protect Massachusetts Pollinators. The bill will reduce pesticide use, thereby protecting public health and pollinators and mitigating business risk. If passed, Massachusetts will join Connecticut, Maryland, Minnesota, and several cities taking important steps to safeguard local businesses, communities, and ecosystems.

Trillium was also delighted to join the efforts of the Business Benchmark on Farm Animal Welfare by signing onto its letter to 100 companies urging them to meaningfully address farm animal welfare standards within their own operations and in their supply chains.

Toxic Chemicals

In March, during a Trillium-organized investor call for members of US SIF The Forum for Sustainable and Responsible Investment, **Ecolab** announced it is participating in the Chemical Footprint Project and will be using the Project's 2018 third party verification survey, a tool to help companies track progress toward safer alternatives. This follows a series of dialogues we organized with management in 2017 to discuss growing investor and customer demand for meaningful chemicals management data. In taking this step, Ecolab strengthens its commitment to continuously improve the management of chemical risk and opportunity in its products and supply chain. Also this spring, we continued constructive dialogues with **Target** and **Nike** on addressing the gaps in reporting their progress toward safer chemicals.

SOCIAL

Workplace Diversity

Trillium continues to engage financial services and technology companies on workplace diversity and issues including pay equity, discrimination/harassment/abuse, and productivity.

Of the ten proposals Trillium filed last fall seeking workplace composition data and recruitment, education,

and retention program transparency, six were successfully withdrawn — **Cigna**, **PNC Financial Services**, **Stifel Financial**, **KeyCorp**, **CVS Health**, and **Bookings Holdings**. After two years of engagement we successfully withdrew our proposal at **PNC Financial Services** in February after the company agreed to publish its first workforce diversity chart, which provides annual workforce data based on gender, race/ethnicity, and several job categories. In May, **Stifel Financial** also agreed to publish its first Diversity and Inclusion Report with workforce data across gender, race, and ethnicity for its total workforce and three job categories. The company also set a new policy to track diversity in its company-wide internship programs.

Adding to this momentum, **KeyCorp** published its employee diversity data for its 19,000 employees in March. This spring, **CVS Health** and **Cigna** also made commitments to expand their workforce reporting, allowing investors to evaluate how these companies are seeking out diverse workforces.

Three of our workforce diversity proposals went to a vote: **First Republic Bank** (28.7%), **Starbucks** (34.7%), and **Travelers** (36.3%). With consistently strong support we will continue to urge these companies to take additional steps to strengthen their commitment to diversity and inclusion in the workplace and to disclose EEO-1 data. The Starbucks proposal was voted on before Starbucks employees in Philadelphia called police to wrongfully remove two African American men from a Starbucks store. That episode demonstrated the ongoing concern about implicit bias at Starbucks and that the company needs to do more to address diversity and inclusion. Our concerns were recently re-enforced by a report from the NAACP Legal Defense and Educational Fund and Demos which argues that Starbucks needs to revamp how it hires, trains and promotes staff.

We reported in December 2017 that our proposal at **Palo Alto Networks** received a record-setting majority (50.9%) vote, and the company agreed in April to our proposal's request by publishing on its website full EEO-1 employment data for U.S. employees on its website, disclosing global workforce composition characteristics, as well as strategic partnerships directed at broadening the pathways into tech and cybersecurity jobs.

Finally, we engaged **Nike, Inc.** in May after reports of sexual harassment, workplace culture issues and the

subsequent departure of multiple top-level employees. This led us to file a shareholder proposal asking the company to introduce a culture or diversity goal into the performance measures of senior executives. We withdrew the proposal in June with a commitment from the board's compensation committee to review the feasibility of this goal. We will continue to engage Nike as this issue evolves.

NFL Protests

Trillium was alarmed at the new policy adopted by the National Football League (NFL) requiring players to stand for the national anthem. We believe this racially charged policy, an attempt to silence a peaceful protest by players who were speaking up about racial injustice, raises a number of concerns. As such, in June we reached out in June to NFL sponsors and supporters, such as **Nike, Inc.**, **Visa**, and **Disney**, asking them to address how the NFL's policy is consistent with the diversity, equity, and inclusion values they regularly assert in public.

Reproductive Health Coverage

We continued our efforts to support women's health by joining the U.S. Women's Chamber of Commerce and 15 other businesses in submitting an amicus brief to the 9th Circuit Court of Appeals. This brief urged the court to uphold the Affordable Care Act's provisions requiring employers to provide comprehensive sexual and reproductive health coverage to their employees. The amicus brief explains how access to contraception and reproductive health care provides women greater control over their lives, education, and careers. The businesses involved also communicated to the court that we believe strong women's health policies are not only good for women, but also provide significant benefits to our businesses and the economy.

Indigenous Peoples

In January, the New York State Common Retirement Fund withdrew its shareholder proposal at **Marathon Petroleum Corporation**, which Trillium co-filed on behalf of the Oneida Tribe of Indians of Wisconsin, asking the company to re-examine its human rights policies and practices. Given the company's financial stake in the controversial Dakota Access Pipeline, which is opposed by the Standing Rock Sioux Tribe, Marathon's approach to Indigenous People's Rights requires greater scrutiny. The

company committed to new disclosures regarding policies on Indigenous People's Rights.

Firearms

In the wake of the February 2018 shooting at Stoneman Douglas High School in Parkland, Florida, Trillium took a number of steps to address this issue. We contacted **KeyCorp, Fifth Third, East West Bank, MasterCard, Bank of America, Umpqua Holdings, and Webster Financial Services** and urged them to limit the sales of assault-style weapons and bump stocks, and the sale of guns to people under 21 years of age. We also published an op-ed in the *San Francisco Chronicle* explaining that Trillium has never invested in gun companies because as a matter of values, we and our clients do not want to profit from a product that, when functioning as intended, kills people. In addition, these companies are under the constant risk of regulation and political pressure. For example, the National Rifle Association exerts its own control over both the regulators and the companies, which makes it difficult for CEOs to engage in long-term planning for their business's success. In March, Trillium portfolio manager Liz Levy appeared on *Matter of Fact with Soledad O'Brien* to discuss Trillium's approach to not investing in guns and contributing to efforts to put pressure on the assault weapon's industry. Also in March, we joined 142 institutional investors organized by the Interfaith Center on Corporate Responsibility, and collectively representing US\$ 634BN in assets, to strongly urge gun manufacturers, retailers, and distributors, as well as companies with financial ties to these industries, to review their operations, supply chains, and policies and take meaningful action on this significant public safety concern.

GOVERNANCE

Board Diversity

While increased attention on diversity has resulted in several wins and the majority of companies in the S&P 500 now have one woman on their board, fewer new board seats in 2016 went to women than in the prior year, and only 25% of boards have two women directors. Over the past five years, following substantive dialogue and/or after filing a shareholder proposal, 21 companies have strengthened their corporate governance documents with clear commitments to diversity and 18 of Trillium's portfolio companies have added gender diversity to their

boards. Within thirteen months of our engagement, 78% of these companies appointed a woman director.

Most recently, our proposals filed at **Sealed Air Corporation** and **Ansys, Inc.** (each with one woman director) were successfully withdrawn after each company agreed to strengthen their corporate governance documents and proxy statements with respect to diversity. Sealed Air enhanced its disclosures concerning its policy of inclusiveness whereby diversity of age, gender, international background, race, ethnicity, and specialized experience are considered in each director search. Ansys similarly improved disclosures committing to actively seek diverse candidates. Additionally, Ansys's lead independent director committed to publicly report on the board nominee search process in the company's its 2018 proxy statement including expanding diversity, bringing additional women to the Board, and doing so in 2018.

We withdrew our proposal asking **Alphabet** to address the lack of diversity at the company's highest level of governance when, in May, one month before the annual meeting, the company called to inform us that Sundar Pichai (Google's CEO and an India native) would be joining the Executive Committee of the Board. While pleased with this step, we shared our concern that subsequent to filing our proposal the number of women on the entire board had shrunk. We asked the company to consider strengthening its governance practices by adopting language known as the "Rooney rule" so at least one candidate in the talent pool from which board nominees are chosen is diverse by gender, race, and/or ethnicity. The company has not revised its governance documents, but at Alphabet's annual meeting John Hennessy, the recently appointed chairman of Alphabet's board, said that the company is committed to considering minority candidates for every new board position. We took that public commitment as a positive response to our request and an acceptance that good governance and long-term shareholder value creation calls for an institutionalized commitment to diversity.

Technology

We were delighted that **Facebook** made a number of important governance changes in June that we had recommended in a shareholder proposal which we had filed with the company in October. The shareholder proposal, filed on behalf of the Park Foundation, recommended that one way the company could address

the negative social impacts of its business was to explicitly task a board committee with the responsibility of overseeing these risks and create a Risk Oversight Committee. In late May, at the company's annual meeting of shareholders, the proposal received the support of 45% of non-insider shares — a strong indication of support. That vote combined with some productive dialogue with company leadership, was followed by major revisions in the company's Audit Committee charter. The Board changed the Audit Committee into the Audit and Risk Oversight Committee and made the independent directors on the committee responsible for overseeing how the company impacts privacy rights and how Facebook's "services can be used to facilitate harm or undermine public safety or the public interest." How these responsibilities are implemented will be important to follow, but this engagement has been very successful at persuading Facebook directors to articulate, in a legally binding way, their responsibilities to oversee these social impacts of the company.

On a related issue, we filed a shareholder proposal at the end of June asking the Facebook board to make

the chairperson role independent. In the proposal, we point out that we believe the lack of an independent board chair has contributed to Facebook missing, or mishandling, a number of severe controversies, increasing risk exposure and costs to shareholders. Examples from past years include:

- Russian meddling in U.S. elections
- Sharing personal data of 87 million users with Cambridge Analytica
- Data sharing with device manufacturers, including Huawei, that is flagged by U.S. Intelligence as a national security threat
- Proliferating fake news
- Propagating violence in Myanmar, India, and South Sudan
- Depression and other mental health issues, including stress and addiction
- Allowing advertisers to exclude black, Hispanic, and other "ethnic affinities" from seeing ads.

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