

LEADING RETAILERS SUPPORT WORKERS ON THE FRONT LINES DURING THE PANDEMIC

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Our definition of ESG leadership is constantly evolving as new sustainability concerns emerge. The pandemic period has raised many new questions about how leading companies, particularly retail stores, could best navigate the new challenges. From Target to Starbucks, management has had to work diligently to protect employees and customers, balance fluctuating demand, and manage supply chain disruptions. The best companies, we believe, used this period to improve benefits for employees while also demonstrating their commitment to customers.

There were three primary phases in the pandemic that retail companies faced, with different paths depending on the business mix: initial lockdown, early reopening, and vaccination.

Initial Lockdown

In early March 2020, as cases spread across the US, management teams worked to understand the impact of the pandemic on their particular business. Brick and mortar stores struggled with determining if they could stay open, where they could stay open, and in what form they could stay open. For many retailers, this period meant shutting down nearly all stores and furloughing employees. Stores with deeper pockets and forward-thinking management kept employees on staff even if they were not in stores in order to help promote morale and loyalty, provide a financial backstop for employees, and bring them back sooner.

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Early Reopening

After the initial lockdown stores looked to reopen, often with capacity limitations and enhanced PPE, including plastic screens at cash registers to help protect employees. Some reopened with different, safer service models, for example only offering delivery, drive-thru, or curbside pickup options. Retailers with China exposure learned from the earlier phase of reopening there. For example, both Nike and Starbucks developed playbooks based on their China experience to help inform how and when to reopen stores in the US.

Some stores deemed “essential” stayed open throughout the lockdowns and saw incredibly high sales growth, particularly with food, paper goods, office equipment, games, housewares, pet supplies, and garden equipment. Companies with greater online exposure greatly benefitted, while those who were late to the digital game worked to catch-up.

While new challenges will constantly emerge, this commitment to leadership will continue to help distinguish the best companies with the best management teams.



Vaccine Optimism

With the vaccine period, stores started to look more like normal, but many struggled to attract and train new employees as they worked to “hire-up” again. Stores provided incentives to employees to encourage vaccination, with one-time bonuses, paid time-off to get shots, or free transportation. Certain stores also worked to help with vaccination efforts in the local community.

While the last year has created many hardships for many communities, we believe that management teams that stood by employees during the pandemic helped create goodwill and loyalty from their employee base, as well as sending a strong message to their customers. While new challenges will constantly emerge, this commitment to leadership will continue

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Here are a few examples of how core Trillium holdings demonstrated leadership in this trying period.

Target: As an essential business, Target stores remained open during the pandemic. Target provided employees with multiple financial bonuses for working on the front lines, with over \$200 million in special pay incentives. The company offered access to free health care through virtual doctor visits for all US employees. Target also provided a 30-day paid leave for high-risk employees, as well as free backup care options for all employees. This is on top of the company’s move to a \$15 starting wage for all employees, 25% higher than the industry average. Target’s online sales set records as the store adapted to the increased demand from customers for core items, from housewares to food. As vaccination efforts started, Target provided up to four hours of pay (two hours per dose) to store employees, as well as free Lyft rides to get to and from appointments.

Tractor Supply: Rural retail store chain Tractor Supply stayed open during the pandemic. The company offered two weeks of paid sick leave to employees affected by Covid-19. The company offered a \$2/hour bonus last Spring for hourly employees, added other appreciation bonuses for its employees, and adopted permanent wage increases. Tractor Supply provided 100% of Covid-19 medical treatment, along with covering all telehealth visits. Once vaccinations became available, the store provided a one-time payment of \$50 and paid time-off for employees to get the vaccine and provided on-site vaccinations at its eight distribution centers and store support center.

Lululemon: Despite needing to close its stores during the worst of the pandemic, Lululemon made the decision to continue to pay employees whether or not they worked. The senior leadership team reduced salaries by 20% and the board renounced its cash retainer, paying these funds towards a new “We Stand Together Fund” to support employees with Covid related hardships. The company also created a \$2 million “Ambassador Relief Fund” to help cover the operating costs for athletic studios owned by their brand ambassadors.

Starbucks: At the beginning of the pandemic Starbucks drew some criticism from employees who felt pressured to work in stores despite the health risk. Starbucks quickly responded to the concern head-on, confirming that employees did not have to

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work if they did not feel comfortable and by expanding healthcare benefits. The company quickly pivoted to pick-up only stores and worked to increase the throughput of drive-thru lanes. Starbucks offered up to 14 days catastrophe pay for employees with symptoms, who are high risk, or who needed to care for loved ones, with the option to extend the help longer. They also expanded access to mental healthcare and childcare during the period. Employees who chose to work were given an extra \$3/hour. Starbucks also contributed \$10 million to fund a “Starbucks Global Partner Emergency Relief Program” for employees heavily impacted by Covid-19.

While these retailers all demonstrated leading practices during the pandemic, going forward they will need to continue to excel in order to attract and retain employees as the economy recovers. We believe the standard they set during the pandemic will help set them apart as employers of choice during the reopening. As the landscape shifts, we believe it will be important for these companies to demonstrate continued progress on evolving ESG issues of focus, including promoting racial equity, supporting free and fair elections, and further extending wage hikes and benefits for hourly employees. Management teams that excelled during the pandemic should help lead the way from here.

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