

Trillium's Approach to Shareholder Engagement

Trillium Asset Management, LLC (Trillium) and our clients know that every company, no matter how sustainable, still has environmental and social impacts. Sometimes those impacts are material to the company's financial health while other times they are more closely related to the wellbeing of ecosystems, communities, consumers, employees, or other stakeholders. In every situation, however, we believe it is each company's responsibility to embrace the myriad of opportunities it has to address these impacts.

We also believe that as investors and fiduciaries to our clients, we have the responsibility to bring these opportunities and challenges to the companies we invest in. Therefore, Trillium and our clients have used the tools of shareholder engagement for almost four decades to help move companies to adopt more sustainable business practices. That is what shareholder engagement is at Trillium – exercising the rights and powers we have as shareholders to support and create positive change in corporate environmental, social, and governance (“ESG”) policies, practices, performance, and impacts.

But what exactly are these rights and powers? What are the tools that shareholders have? What is Trillium's approach to using those tools?

Generally speaking, Trillium has a number of different sets of tools to use when engaging companies: proxy voting, shareholder proposals, dialogue, and public policy. After discussing our prioritization process, we summarize each tool below and our approaches for using them and escalating our engagements. We conclude with a discussion of Trillium's approach to collaboration.

Prioritization Process

The starting point for any engagement is the decision that it is a priority for Trillium. Trillium's advocacy team goes through an annual priority setting process which begins

as the annual meeting season in the U.S. draws to a close in June of each year. The advocacy team works closely with its Trillium colleagues in research, investments, ESG research, private client services, and management to harness their insights and knowledge to help identify issue areas and portfolio companies to prioritize. We also engage with network and civil society partners to understand the ESG landscape and opportunities. The Advocacy team also conducts its own research and analysis based on decades of experience to identify the priority topics and companies for the engagement plan. This process is not a linear one, but rather an iterative and organic process which seeks to maximize our focus on companies and issue areas based on the following five factors: (1) ESG materiality for the company, (2) environmental or social impact potential, (3) strategy and firm wide exposure to the company, (4) opportunities and pathways for success, and (5) Trillium's position on various ESG topics. While it is not necessary for all five factors to be present to prioritize an engagement, we often see the highest levels of success when they are all present. Trillium also has a history of innovation as we identify early emerging issues where Trillium can add value and be a thought leader.

Shareholder Proposals

A shareholder proposal (also called a shareholder resolution) is a crucial tool to engage companies on ESG topics. A shareholder resolution is a suggestion, i.e. a proposal, to a company's board and management to take a particular action. A shareholder proposal can ask a company to set a greenhouse gas emission target, establish a policy not to discriminate based on sexual orientation or gender identity, disclose all political and lobbying spending, or bring gender and racial diversity to the board of directors. Even though it is “merely” a suggestion, shareholder proposals can create a powerful public platform for challenging and improving a set of corporate policies or practices.

In order to qualify to submit a shareholder proposal, which appears on a company's annual proxy statement (hence the term “Proxy Process”), a shareholder must meet time and dollar thresholds for that specific company and to hold those shares through the company's annual meeting. The company, however, does have the opportunity to

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ask the US Securities and Exchange Commission to exclude the shareholder proposal from its proxy statement based on one or more of thirteen reasons.

However, once a proposal secures its place on the company's proxy statement, it will be voted on by all shareholders at the company's annual meeting that year; thus the proxy process is something that all shareholders are active in -- whether they know it or not. How an investor votes (or doesn't) on the proposals presented in a proxy statement can have a real impact on the direction of a company.

Some shareholder proposals never go to a vote because their merits are clear, or become clear after a dialogue. In these cases, the proposal is adopted by the company prior to its annual meeting and the shareholder can withdraw the shareholder resolution. On other occasions, the proposal will need to go to a vote at the company annual meeting. We see these votes as important information gathering opportunities for the company and investors. That information often leads companies to change their position and make a change or related commitment to change consistent with the proposal. Trillium's history of shareholder engagement is filled with many examples of these scenarios which we share on our website.

While some investors see shareholder proposals as a last resort escalation, Trillium understands that shareholder proposals can be a much more versatile and nuanced tool for engagement. While there are times when we file a proposal as a way to escalate our position after an unsuccessful attempt at a dialogue, there are times when filing a proposal before a dialogue has occurred is appropriate. There are also occasions when shareholder proposals go unopposed by corporate board and management and all parties understand it to be an opportunity to "take the temperature" of shareholders.

Proxy Voting

Trillium is a thoughtful and engaged proxy voter. While engagement for many firms begins and ends with proxy voting only, this is an important building block for our overall approach. In conjunction with our proxy advisor service, we develop and annually update our proxy voting guidelines. They are designed with the best interests of our clients in mind and often lead to votes that may be in direct opposition to company management recommendations. They thus serve to inform management and boards of portfolio companies of our view on a wide range of ESG issues. In

addition, regular review and updating of our guidelines allows for thought leadership; an opportunity for Trillium to pioneer new approaches to proxy voting on subjects such as director elections and executive pay packages. We make our votes, current and historic, public and searchable. At times, we will communicate our votes in a more active and directed way with companies and the public.

Dialogue

A less visible tool for engaging a company is dialogue. Through one-on-one conversations with senior leadership, multi-stakeholder meetings, short-lived engagements, and multi-year journeys, we engage directly with company executives and directors about how the company can improve its ESG performance or policies. This form of advocacy can often coincide with the proxy process.

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Dialogues can be excellent ways to address a multitude of topics and to surface points of agreement and disagreement. They can even lead to commitments and policies that were not even anticipated at the beginning. Ideally, those conversations will lead to agreement without the need to deploy the other tools of shareholder advocacy such as a shareholder proposal.

Finally, through those conversations we often strive to reinforce and support the company's existing sustainability and social justice programs, particularly when the company

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is experiencing cross pressures that push the company to retreat from past ESG progress.

Policy

In order to have well-functioning markets that support economic growth and development and to ensure that market failures which have negative social and environmental costs are addressed, we need effective public policy at the state, federal and international levels. Investors have an important role to play in that public policy process – particularly investors who consider environmental and social factors as integral to business and financial prosperity. It is for that reason that Trillium regularly submits comment letters to state and federal regulators and lawmakers.

Trillium also regularly publishes guest columns in major media outlets in order to stimulate conversations around public policy issues related to ESG matters. In this role as a thought leader, Trillium can catalyze progress in public policy, raise lawmaker awareness, and encourage other investors to act.

Collaboration

Working with other investors or civil society organizations is an important aspect to Trillium's approach to advocacy. Trillium will lead, co-lead, and actively support collaborative letter writing, public statements, shareholder proposals, and investor statements to advance ESG initiatives at company, sector, or economy-wide levels. However, at times collaboration is a poor fit, or unnecessary for a particular engagement (for example, when investor expectations on an ESG topic area are well established, or quick action is required). But when the resources and time that collaborative engagements require clearly are beneficial, Trillium has a long history of leadership.

Trillium also values the enormously important role of organizations designed to convene investors and promote collaborative action. We have helped create many such organizations, such as member association US SIF and environmental coalition Ceres, and are supporters of many others. While some organizations are small and topic-specific, and others are large multi-issue institutions, they all play important roles in Trillium's work.

Finally, Trillium is a strong supporter of like-minded asset managers leading collaborative efforts which we can join. The number of important ESG topics is far too large for any one investment firm, no matter how big, to effectively engage on alone. As such, Trillium is eager to sign onto other investor efforts and initiatives.

Conclusion

Trillium's advocacy program, the resources we devote to it, and our commitment to our clients and their goals are central who we are. At Trillium, we consider it fundamental to our mission and our fiduciary responsibility to engage with the companies that we hold on behalf of our clients and policymakers to press for positive change on ESG topics or opportunities that we believe will help improve ESG policies, performance, or impact. This work is focused on our commitment to advance humankind towards a global sustainable economy, a just society, and a better world. Our clients play a valuable role in helping us to harness their power as shareholders by way of their relationships with us and our shared vision. Through this partnership we can continue to help push companies to tackle some of the most pressing ESG issues facing our planet.

¹ <https://www.sec.gov/divisions/corpfin/rule-14a-8.pdf>

² Trillium is a financial supporter of both organizations, and is represented on the US SIF board.

