

# THE FIGHT FOR RACIAL EQUITY

The work continues.



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## A multifaceted approach to a systemic issue

The Black Lives Matter movement is igniting corporate America to examine diversity, equity, inclusion, and systemic racism both within their “four walls” and externally, as they realize that their actions affect more than just their employees. In this piece, we explore what Trillium can do and has done as an investment firm, an employer, and an advocate for change.

## Building a Culture of Equity and Inclusion

Trillium Asset Management has believed since our founding that diversity, inclusive of gender and race, is essential, and a critical attribute of a well-functioning organization. As a firm, we strive to achieve diversity at all levels and seek to invest in companies that are doing the same.

We acknowledge that while we seek to dismantle the structures that support white supremacy, we must first acknowledge our position in it. The investor class, which we are part of, has been and continues to be beneficiaries of systemic racism. If we are to play a part in the dismantling of these structures, we must understand the historical context of these systems of oppression in order to recognize how they operate, our place within them, and the levers for change. As impact investors, we have the ability and responsibility to drive change within our own organization, as well as within the broader investment community, the companies we invest in, and the public policy arena.

The task of aligning our actions with our aspirational value of racial equality both within our firm and throughout broader society will never be over. Elsewhere, we have outlined the goals and commitments we have set out for ourselves. In this paper, we explore Trillium's rich history of shareholder advocacy on issues related to racism and inequality and explore the roles that impact investors can play in this battle moving forward. In particular, we frame our work in three areas: fighting to strengthen the democratic process, overhauling the criminal justice system, and investing in communities of color.

### Trillium Advocacy for Racial Equality

Trillium's approach to sustainable investing has always been to recognize the intersectionality of environmental, social and governance concerns. The topic of racial equality, and the struggles for racial justice that events in 2020 have brought forward into the national conversation, can be thought of as a series of related issues that can't really be untangled—the impact of historic redlining practices on the current wealth inequality gap, the impact of mass incarceration on Black families and the concurrent pressure on Black female employees, the racial disparities in access to quality healthcare, treatment for chronic conditions, mental health services, and maternal and infant mortality. It is clear that these issues cannot be combated in a vacuum – we cannot advocate to solve one issue without consideration of the others. Many of these interwoven threads are issues that Trillium has been pressing companies on throughout our 40-year history. The lens of 2020 provides a moment for reflection on our past work, and its intersectionality, making clear that we must look at this issue in a holistic way in order to truly make an impact.

### Diversity & Inclusion

The critical importance of diversity and inclusion transparency and performance has long been recognized by Trillium and other investors. While there is a business argument in support of this, the events of recent years have helped amplify questions and deeper discussion about how we treat women, racial, and ethnic minorities in our communities, workplaces, schools, and other public places. These events show us that no industry is immune to the consequences of workplace inequality and underlined the need for changes in how companies measure and achieve diversity outcomes.

So while many of America's corporations have programs to address

diversity and inclusion, and to recruit and retain women and racial/ethnic minorities for managerial and leadership positions, significant work is required. Are these programs achieving their desired outcomes? Are investors and other stakeholders receiving sufficient information about these programs to assess whether a company is meeting inclusion and diversity goals and mitigating workplace risks, including the legal and financial risks resulting from allegations of discrimination?

Trillium began workforce diversity work believing that it is a mistake to assume companies are building effective programs to attract and retain diverse talent if substantive data is not disclosed to support the rhetoric. Standardized data can inform company-wide strategies to build effective Diversity and Inclusion programs and allow for peer benchmarking. The best standardized diversity report in the U.S. is a company's Employment Information Report, or EEO-1 Report. All companies with more than 100 employees are required to file this report – which tabulates racial and gender metrics against nine job categories – with the U.S. Equal Employment Opportunity Commission.

Going back to the mid-90s, Trillium has filed numerous EEO-1 disclosure proposals on behalf of our clients, beginning with Atlantic Richfield in 1994. Over the decades, these engagements were very successful reaching agreements on EEO-1 disclosure at some of the largest U.S. companies including American Express, IBM, Merck, Hewlett Packard, and Intel.

More recently, in 2015-2020, Trillium filed 36 shareholder proposals asking companies to disclose their EEO-1 reports and provide descriptions of any diversity and inclusion policies and practices. In 2017, our proposal at Palo Alto Networks received a majority vote of 50.9%. Following that vote, the company agreed to disclose workforce diversity data and report global workforce measures and strategic partnerships directed at broadening the pathways into tech and cybersecurity jobs for diverse candidates.

The Palo Alto vote was the first majority vote ever for a proposal of this kind and marked a significant increase in shareholder support for workforce diversity data. Since we launched this more recent effort, we are pleased to have reached agreements with 16 companies that committed to release workforce diversity data on an annual basis. For example, in early 2020, Travelers Companies began disclosing EEO-1 data after a majority vote and nearly four years of engagement. We have had similar successful engagements with Adobe, Starbucks, CVS Health, Hanesbrands, and Visa.

Diversity at the executive leadership level is also critically important. It is this group that is the bridge to the CEO role. It is this group that has direct responsibility for a company's workforce, operations, and finance. The individuals in this group can serve as important role models and representatives for women and underrepresented minorities to look to. Yet, the number of women and people of color in leadership roles at public companies remains remarkably low. To further address the lack of diversity in senior roles we believe the Boards and senior leadership must set clear policies to attract, retain, and promote women and other underrepresented groups throughout the entire organization. We have brought this perspective to dozens of companies over the last few years and have worked successfully to get companies like Alphabet, Newell, Tractor Supply, and many others to make and successfully implement diversity commitments for their top executives and board members.



Whether it is workforce diversity, executive leadership diversity, or board diversity, diversity is a bottom-line issue affecting competitiveness and financial performance. It is also a vitally important social issue. How companies demonstrate their commitments to diversity have real world impacts on how underrepresented minorities are treated in society. These are human rights matters that have financial implications. We believe diversity at every level should be a top priority of every company's efforts to deliver long-term value to its shareholders and all stakeholders.

### Chemicals and Environmental Justice

The negative health effects on individuals, families, and communities from environmental chemical exposures – particularly for people of color – appear to be dramatically underestimated and can also have important economic costs. According to peer reviewed research<sup>1</sup>, the cost of disease burdens associated with hazardous chemical exposure exceeds 10% of annual global gross domestic product or \$11 trillion. This research has demonstrated that the factories producing chemicals used in common consumer products are generally located in communities of color. Therefore, if the manufacturers and retailers of these products find healthier materials and reduce the use of harmful chemicals it will likely have an impact upstream and reduce air and water pollution afflicting the most exposed in this country. Looking even deeper into the marketplace, we see an impact on vulnerable communities around the world. Many of these products, which include endocrine disrupting and brain harming chemicals, are sold in lower income and minority communities.

In an effort to combat this issue, Trillium has engaged retailers and manufacturing companies for years to persuade them to take basic steps such as measuring and understanding their chemical footprint. For example, at TJX Companies, our proposal on this topic achieved a groundbreaking 45% vote at the company's June 2020 annual meeting. Progress was also seen at Stryker Corporation, where we successfully withdrew our shareholder proposal when the company committed to assess opportunities to incorporate healthier materials metrics into executive compensation. Finally, at Costco, after engaging with the company in January 2020 concerning its strategic plan for managing chemicals of concern, it agreed to further enhance its processes by partnering with the University of Massachusetts Lowell Center for Sustainable Production.

Trillium filed a proposal at Marathon Petroleum in 2019 that focused on how the company's air pollution and health and safety practices impact the communities in which it operates. For example, at the company's Detroit refinery, its emissions have been of significant concern for local communities of color. Our proposal asked the company to link its executive compensation packages to these matters and the proposal received a 7.8% vote at its April 2020 annual meeting. While that vote was low, we have found that it can take investors some time to fully understand these kinds of proposals. With the renewed focus and emphasis on systemic racism we believe the company will be more responsive to community concerns and health needs in the future. And at Trillium, we will continue to work on environmental justice concerns when we identify them in portfolio companies.

### Native American Rights

Trillium has a long history of making investments that benefit Native American and Indigenous People, as well as helping to bring the

concerns of Indigenous People to corporate decision-makers.

Our corporate engagement has included confronting Honeywell about polluting sacred lands and facilitating dialogue between the Lummi and Swinomish tribes in Washington State, as well as Goldman Sachs over the company's role in financing a coal terminal opposed by the tribes because it interfered with their fishing grounds. That last engagement resulted in Goldman sending a strong message of no-confidence by entirely divesting from the project.

Trillium has been honored to serve as a leader alongside the Oneida Nation of Wisconsin and First Peoples Worldwide in successfully advocating for the Washington Football Team to drop its racist name and logo. Over the last 11 years, through shareholder proposals, meetings, and many other efforts at FedEx, Bank of America, Pepsi, and Nike, a group of investors co-led by Trillium relentlessly pressed these brand name partners of the team to use their power to end the racist name and symbols of the team. This culminated in June 2020, in the midst of the Black Lives Matter protests, when over \$600 billion in investors led by Trillium, Oneida Trust, First Peoples Worldwide, and other investors delivered letters to those team sponsors urging them to follow through on their pro-Black Lives Matter statements and apply those principles for racial justice to their relationships with the team. Within days, the four companies called on the team to change its name. Soon after, the team announced it would "undergo a thorough review of the team's name" and then shortly thereafter finally relented by permanently retiring the name and logo.

A final example of our advocacy work in this area concerns the proposed Pebble Mine in Bristol Bay Alaska. Bristol Bay Alaska is the home of thousands of Alaska Natives (Eskimo, Aleut, and Athabaskan) whose ancestors have lived in the region for millennia. Central to the rich culture they have developed over thousands of years are salmon - the revered and renewable resource that has been harvested sustainably for generations. The icy waters of the bay yield roughly half of the global harvest of wild sockeye salmon. An estimated 40 million salmon return to the rivers of Bristol Bay every year and are essential to their subsistence fishing tradition and are also responsible for millions of dollars of income and thousands of jobs. Beginning in 2011, Trillium worked to bring together investors representing over \$170 billion in assets to submit comments to the U.S. EPA expressing concern about Pebble Mine, a colossal open pit mine proposed for Bristol Bay. Our work continued as we engaged consumer brands that sold Bristol Bay salmon and contributed to mining giants Anglo American and Rio Tinto withdrawing from the project in 2013 and 2014. We continue to be outspoken, publishing op-eds and speaking with investors, and will not stop until the mining companies relent.

### Economic Justice

In December 2019, Trillium filed a shareholder proposal at TJX Companies requesting that the Executive Compensation Committee of the Board of Directors take into consideration the pay grades and/or salary ranges of all classifications of its employees when setting target amounts for CEO compensation. The company paid its CEO in 2019 a total of \$18,822,770. In contrast, the median employee received \$11,791 in total compensation. At the company annual meeting in June, we concluded our presentation of the proposal, which received 9% support, by pointing out:

The coronavirus pandemic and the Movement for Black Lives has revealed many concerning aspects of business as usual in the U.S.

<sup>1</sup> Grandjean and Bellanger. "Calculation of the disease burden associated with environmental chemical exposures: application of toxicological information in health economic estimation", *Environmental Health*, (2017) 16:123



One of them is the precarious economic conditions that many working Americans live under every day. Another is the brittleness of businesses that for too long have prioritized efficiency and costs at the expense of long-term resiliency that living wages and strong benefits may engender. As working Americans return to the workplace, many will be spending more time with more people. Some will take on the risk that comes with more human contact with the support of meaningful leave policies and a living wage. Some will not. This is an opportunity for TJX to show investors, its customers, its impacted communities, and its employees (78% of whom are women and 57% of whom are persons of color) that it will give these issues the attention they deserve.

## The Path Forward

Over the course of the first half of 2020, Trillium had a number of successful engagements with portfolio companies on many of these subjects, as described. In light of the current movement, it has become even more evident that we can and must do more to promote anti-racism, beyond using our traditional tool of shareholder advocacy. The challenge of dismantling systemic racism is clearly a multi-faceted one, with roles for many different players. As we reflected on our history, the levers and tools we as investors have, and the stated goals and desires of the racial justice activist community, we have decided to focus our work in three particular areas where we believe we will be able to contribute and amplify others' voices: fighting to strengthen the democratic process, overhauling the criminal justice system, and investing in communities of color

### Strengthening the Democratic Process

"Ours is not a struggle of one day, one week, or one year. Ours is not a struggle of one judicial appointment or presidential term. Ours is a struggle of a lifetime, or maybe even many lifetimes, and each one of us in every generation must do our part."

- John Lewis, *Across That Bridge: A Vision for Change and the Future of America*

Trillium believes that a strong democracy is linked to a strong economy. We understand that a system that disenfranchises voters, that seeks to limit their ability to make their voices heard, and that amplifies the priorities of powerful individuals and corporations through political spending and lobbying, is a corruption of our core democratic principles. As investors and advocates, we seek to promote public and corporate policies that support broad civic engagement and more equitable representation of the interest of U.S. citizens and residents.

Internally, our work prioritizes education on civic engagement and providing adequate paid time off for voting to our employees. In 2020 we updated our time-off policy to provide additional time off for voting and to volunteer as a poll worker. These internal efforts are informed by the work of our advocacy team, as they have encouraged companies to adopt similar policies. In July 2020, we published a paper entitled "Corporate Support for Employee Civic Engagement", where we detailed this work, including a scorecard of twenty companies. Through these recent efforts, the team led Bank of America, Apple, and PNC Financial to provide their employees with hours of paid time off to vote.

Active and broad participation by citizens in the democratic process must also be supported by a legislative framework that ensures that

their interests are being represented by elected officials. We believe that political spending, exacerbated by the Supreme Court decision in *Citizens United v. FEC*, has distorted the influence of corporations, creating a pay-to-play political system that is bad for our economy and innovation. We also understand that this concentration of economic and political power is an underpinning of structural racism. Trillium has been a long-time supporter of organizations seeking to strengthen the democratic process, including participation in the National Business Network for American Promise, an organization that seeks to overturn *Citizens United* through the passage of a constitutional amendment. Trillium also has a long history of engagement with companies on disclosure of political spending seeking to shine light on the sources of capital for industry lobbying groups and political action committees.

### Overhauling the Criminal Justice System

"What has changed since the collapse of Jim Crow has less to do with the basic structure of our society than with the language we use to justify it. In the era of colorblindness, it is no longer socially permissible to use race, explicitly, as a justification for discrimination, exclusion, and social contempt. So we don't. Rather than rely on race, we use our criminal justice system to label people of color "criminals" and then engage in all the practices we supposedly left behind."

- Michelle Alexander, *The New Jim Crow: Mass Incarceration in the Age of Colorblindness*

As noted above, our areas of focus in this work have been informed by black-led organizations that are leading the movement on the ground. We want to ensure that our efforts are in support of and amplifying their identified priorities. Within their Vision for Black Lives 2020 Policy Platform, the Movement for Black Lives (M4BL), an ecosystem of over 170 black-led organizations, has called for a focus on their first of 6 policy platforms, End the War on Black People. While we as investors may have limited means to promote substantive changes to the criminal justice system in the United States, given its priority within the movement, we felt it was important to make this core to our work.

As investors, we continue to exclude investment in private prisons and detention centers and seek to include investments in business models that aim to disrupt the exploitative business models tied to the current criminal justice system. We do not invest in gun or weapons manufacturers, including those that have profited from the militarization of law enforcement. Additionally, we seek out data from third party sources, primarily non-profit organizations, to identify companies that have material economic interest in the prison system, including those with major facilities contracts and those that utilize prison labor.

While this data is often limited, we include this in our analysis where available.

In our advocacy and public policy work, we support organizers in advocating for divestment of public investment pools from private prisons and detention centers, as well as encouraging banks to discontinue lending to these institutions. In February 2019, Trillium joined a community of divestment, reinvestment, and socially responsible investment representatives to call on Boston city councilors to divest municipal pension funds and cash reserves from

environmentally and socially destructive industries such as prisons, immigrant detention centers, and fossil fuels. This joint initiative involved sharing Trillium's approach to sustainable and responsible investing and citing ESG integration into the investment process which may produce positive financial outcomes in the long term.

### Investing in Communities of Color

The wealth gap in the U.S. reflects the multi-century head start afforded to white citizens and the continued underinvestment in BIPOC (Black, Indigenous and People of Color) communities, and businesses. The lack of diversity within the senior ranks of corporate America, and other centers of power and influence, is a reflection of biases (conscious and unconscious) that support white supremacy. As colleagues, investors, and advocates, we believe that it is here that we are best positioned to support significant change, both within and outside our organization.

As an organization, we are committed to being more thoughtful in our hiring practices and more actively recruit people of color. Equally important, we commit to fostering a culture of inclusion and belonging for all employees to retain and promote a positive, collaborative work environment. This work is continuous. Trillium created a standing working group to support the development and monitoring of policies and procedures to codify this work, with employee representation across titles and teams. Our initial framework includes publicly disclosing organization demographics, conducting wage gap analysis (including gender, ethnicity, disability and sexual orientation) and setting concrete goals for closing those gaps, if any. This group has also organized firm-wide workshops on diversity and creating inclusive workplaces – and is spearheading the engagement of outside consultants to ensure that we are using best practices in this work. The establishment of policies and public disclosure of demographic data and wage gap analysis are important tools in ensuring that we 'walk the walk' internally while we simultaneously fight for change globally.

In the public equity space, Trillium is undertaking a thorough review of how our analysis incorporates a racial justice lens, committing to make necessary changes to adequately and consistently consider racial and ethnic elements. This work is being done by a multi-disciplinary, internal working group comprised of investment, advocacy, and private client professionals that has a mission to "assess, enhance, and formalize" our consideration of racial and ethnic diversity into the investment process, as well as inform other Trillium efforts, including our Advocacy strategies. We seek to reinforce our investment process so that more

intentionally and demonstrably aligns with our firm-wide promotion of ethnic, racial and gender diversity, and equality as part of our unwavering commitment to creating impact on behalf of our clients.

In the private markets, Trillium has a long history of supporting our clients in making equity and debt investments with a specific focus on inclusive economic growth and shared prosperity, both in the U.S. and around the globe. Providing access to capital for BIPOC and low-income communities has always been a meaningful part of this work. In response to this moment, we are looking for opportunities to both expand these partnerships and amplify their work.

As detailed extensively at the start of this report, our industry-leading commitment to shareholder engagement, and our long history of advocating for corporate leadership on a variety of issues that impact BIPOC communities, give us a strong position for expanding this work and focusing on the intersection of these important issues across environmental, social, and governance frameworks.

### Investing for a Better World

This summer we saw companies across sectors and industries make public statements in support of activists across the globe begging for basic human rights. Black Lives Matter. It is in this moment that we need to take these statements of solidarity and move them into action. We know that impact investors alone will not solve systemic racism. But we also know as beneficiary of these structures, we have an opportunity and responsibility to help dismantle white supremacy and structural racism from the inside. We are committed to this work, and to sharing our progress with our partners and investors.

## About Trillium Asset Management

Trillium Asset Management offers investment strategies and services that advance humankind towards a global sustainable economy, a just society, and a better world. For nearly 40 years, the firm has been at the forefront of ESG thought leadership and draws from decades of experience focused exclusively on responsible investing. Trillium uses a holistic, fully integrated fundamental investment process to uncover compelling long-term investment opportunities. Devoted to aligning stakeholders' values and objectives, Trillium combines impactful investment solutions with active ownership. The firm delivers equity, fixed income, and alternative investments to institutions, intermediaries, high net worth individuals, and other charitable and non-profit organizations with the goal to provide positive impact, long-term value, and 'social dividends'.

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