



When considering investments in publicly traded food and beverage companies, a major focus for Trillium is on companies participating in the natural and organic space. Not only are these companies leaders in the health and wellness trend, their approach to raw material sourcing (agricultural commodities) is inherently more sustainable. We have also gravitated toward traditional food companies that are addressing the impacts of climate change in their raw material supply chain. With greater consumer awareness of the purity of food (no additives or GMOs), growing expectation with regard to the transparency of how and where our food is grown, as well as the environmental and social impacts of food production, these companies also benefit from strong relationships with their supplier base and a deeper knowledge of how ingredients travel from farm to fork.

While most food companies have programs to improve the water efficiency of their direct operations, there is limited attention to water usage at the raw-material level. Unlike other sectors that withdraw more water than they consume, agriculture consumes most of the water that they withdraw. As a result, agriculture participates in increasing water scarcity globally and is, by far, the sector that is and will be the most affected by water stress going forward. Negative impacts will include higher prices, operational disruptions and potentially, a scarce supply of key ingredients.

Companies are being asked to disclose human and labor rights standards and to track performance in their agricultural supply chain. This is critical because, in developing countries, three out of four people depend on agriculture for their livelihoods. Companies that fail to address shoppers' and other key stakeholders expectations on responsible procurement and production of food face the risk of consumer backlash and loss of their competitive advantage.

Given the tremendous environmental impact that agricultural and food companies have, food system advocacy has been a mainstay of Trillium's shareholder activism for decades.

Agriculture contributes to, and is directly impacted by, climate change through deforestation and the use of fossil fuels to fertilize and harvest. As socially responsible investors, we are also concerned with human rights, animal welfare, and strengthening sustainable agricultural supply chains.

The availability of agricultural commodities in large quantities at an affordable price is threatened by resource depletion and land degradation with the lack of traceability — a significant obstacle to sustainable sourcing.

Below are some highlights of Trillium's corporate engagement in the area of agricultural and food systems:

ANIMAL WELFARE

More than 20 years ago, Trillium was the first

investment firm to file a shareholder proposal on the issue of farm animal welfare. Working with Animal Rights International, we helped persuade McDonald's* to adopt a first-ever policy regarding the humane treatment of farm animals.

In 2006, responding to documented evidence of animal abuse at pharmaceutical companies' animal research subcontractors, we participated in a campaign urging drug companies to extend their animal welfare policies to all subcontracted laboratories. We filed a proposal urging Eli Lilly* to take steps to improve its animal welfare standards and extend its policies to all subcontracted animal research facilities. In 2009, we successfully withdrew a sustainability reporting resolution at Darden Restaurants in exchange for an agreement to disclose seafood sustainability initiatives as well as animal welfare policies and practices in its supply chain.

COFFEE

Trillium's 2012 and 2013 shareholder proposal at J.M. Smucker on the sustainability of its coffee supply chain led the company to commit to certified coffee purchases representing 10% of its total retail purchases by 2016. Smucker's also agreed to partner with experts on agronomy training, organizational development, and climate change

Trillium's Approach to Investing in Publicly Traded Agriculture and Food Companies

adaptation strategies to improve farming conditions, yields, and small-scale coffee-farming family incomes.

FISHERIES

Following Trillium and Green Century Capital Management's engagement with Costco, the company updated its seafood sustainability policy in 2013. Costco also announced that it has depleted all inventories of "red list" species, and is moving closer to requiring all its farmed salmon suppliers to adhere to the Salmon Aquaculture Dialogue standards: a set of standards developed by a multi-stakeholder group of non-governmental organizations, academics, and representatives from indigenous communities.

For a number of years, Trillium has engaged policymakers to protect the wild salmon runs of Bristol Bay Alaska. These runs — the largest sockeye salmon runs in the world — are threatened by Pebble Mine, the proposed large-scale mining project. Our advocacy at the EPA and the White House has contributed to the significant advancement of strong protections for this priceless resource.

GENETICALLY MODIFIED ORGANISMS

For more than a decade, shareholder advocates and consumers have played a key role in the nationwide campaign to label GMO food. In 2002, Trillium became the first investment firm to file a shareholder proposal on this issue with Whole Foods Market. After engaging in several dialogues and filing a second shareholder proposal with the company in 2005, Whole Foods agreed to label all store-brand products. In May 2014, Whole Foods took a further step in an-

nouncing that it will require GMO labels on all products sold in its stores by 2018.

LAND GRABS

As the demand for sugar cane increases, there is concern over large-scale land grabs in developing countries that evict traditional farmers through coercion or fraud. Trillium and Oxfam engaged PepsiCo by filing a shareholder proposal on this issue. Subsequent to a dialogue with management, the company adopted a zero-tolerance policy for illegal land acquisitions in its supply chain. PepsiCo has committed to adhere to the principle of Free Prior and Informed Consent across its operations, including suppliers, and will disclose the top three countries and suppliers of its cane sugar, palm oil, and soy. In exchange for these commitments, we withdrew our shareholder proposal.

PALM OIL

Palm oil, which is used in hundreds of products and foods, is a significant source of greenhouse gas emissions due to the conversion of swamp forests into palm tree plantations. Our shareholder proposal at Yum Brands*, asking it to address its use of palm oil, received a noteworthy 37% in 2012. Following a dialogue and securing firm commitments regarding its move away from unsustainable palm oil, we successfully withdrew the proposal.

In our ongoing engagement with companies concerning responsible sourcing of key raw commodities, we met with J.M. Smucker and General Mills to discuss policies it can adopt to ensure its purchases of palm oil are coming from responsible sources, including a no-deforestation

commitment to mitigate company reputational risk. We are pleased that, following our engagement with General Mills, the company substantially strengthened its palm oil commitments.

PESTICIDES/BEEES

Honeybees are the most economically important pollinators in our food supply chain, but are in double-digit decline. Working with investor partners at the Sustainability Group, we engaged 19 companies on this issue and have met with others to discuss the steps their managements are taking to mitigate the risks of bee-toxic pesticides (known as neonicotinoids) to pollinator dependent fruits and vegetables in its supply chain. We also met with Home Depot and Lowe's to discuss how each is managing the risks of these chemicals that are also found in insecticides and plants sold in its garden stores. We will continue to engage companies on this issue. To date, Whole Foods has taken a leadership position within the food industry to both educate consumers and take discernible steps to reduce bees' exposure to harmful pesticides.

SUSTAINABILITY REPORTING

Investors increasingly find that sustainability reporting allows companies to gain strategic value from existing sustainability efforts and identify emerging ESG risks and opportunities. Sustainability reporting with meaningful information and metrics also allows investors to understand a company's progress relative to its goals. In keeping with this philosophy, we filed a shareholder proposal at Panera Bread and Chipotle Mexican Grill asking each company to issue an annual sustainability report.

*In addition to engaging with our core portfolio companies, Trillium also conducts advocacy on selected companies (identified with an "**") that are not in our core portfolios but are held as legacy positions in client portfolios. These are companies that may not meet our minimum social and environmental criteria, but that we still seek to improve. The information provided in this material should not be considered a recommendation to buy or sell any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable.