



Trillium Asset Management 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 finances and shareholders. They also can be 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 opportunities to address these impacts.

And we believe that as investors we have the responsibility to raise these opportunities with the companies we invest in. Therefore, Trillium and our clients have used the tools of shareholder engagement for over three decades to move companies to adopt more sustainable business practices. That is what shareholder engagement is — exercising the rights and powers afforded to a shareholder to affect positive change in corporate behavior.

But what exactly are these rights and powers? What are the tools that shareholders have?

Generally speaking, investors have four different sets of tools to use when engaging companies: the proxy process; dialogue; public policy; and assertive action. For more detailed information, we recommend reading the Croatan Institute's November 2014 paper *The Impact of Equity Engagement: Evaluating the Impact of Shareholder Engagement in Public Equity Investing*<sup>1</sup> which describes these tools in more detail.

## THE PROXY PROCESS

A shareholder resolution (also called a shareholder proposal) is the crucial component of the proxy process. A shareholder resolution is a suggestion, i.e. a proposal, to a company's board and management to do something. A shareholder proposal could 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 hold at least \$2,000 worth of shares, to have held those shares for at least one year and to hold them until the company's annual meeting. The company, however, does have the opportunity to ask the US Securities and Exchange Commission to exclude the shareholder proposal from its proxy statement based on one or more of 13 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. In 2015 Trillium co-filed a shareholder proposal at eBay on the issue of board diversity. When we filed our proposal, eBay had just one woman on its board and had no stated policy that it made diversity a priority in nominating people to its board. Just months after our proposal was filed, eBay increased the number of women on its board and revised its Guidelines to state, "When searching for new directors, the Board should actively seek out highly qualified women and individuals from minority groups to include in the pool from which Board nominees are chosen."

In another example, Trillium co-filed a shareholder proposal regarding coffee crop sustainability with J.M. Smucker in 2012. That proposal ultimately received 30% of shareholders' votes at the company's annual meeting — a resounding message from investors representing billions of dollars of Smucker's stock. Oxfam, well known for its work with farmers and coffee communities, also rallied its members to support the proposal and in the process added a public relations element to the issue.

The company, however, continued to refuse to have a meaningful conversation or do anything publicly to improve its coffee sourcing, so it was necessary to file the shareholder proposal again in 2013. With the prospect of yet another embarrassing vote looming, the company announced just before its annual meeting that it had developed a sustainable coffee sourcing plan that it would implement over the next three years. It promised to source 10% of its retail sales as certified sustainable by 2016 and to be active contributors and partners with three non-governmental organizations working on coffee and farmer sustainability. Trillium has already begun to prepare the next round of dialogue with the company, illustrating how the work of shareholder engagement is never complete.

## Trillium's Approach to Shareholder Engagement

---

Trillium's proposals have persuaded oil and gas companies to disclose their political and lobbying spending; retail companies to set renewable energy or greenhouse gas emission targets; and companies across sectors to adopt inclusive non-discrimination policies — just to name a few.

### DIALOGUE

---

As important as (*and often coinciding with*) the proxy process is the less visible role of engaging directly with company executives about how the company can improve its environmental and social performance or policies. This can range from one-on-one conversations to multi-stakeholder meetings and can last from a few weeks to several years.

Trillium has been in a one-on-one and multi-stakeholder dialogue with executives at General Mills for years. Issues discussed include water use, dairy sourcing, greenhouse gas emissions in the supply chain, pesticide use, palm oil and corporate governance. Even without filing a shareholder proposal, the company implemented a plan to address water scarcity in its supply chain and committed to other environmental stewardship improvements.

Similarly, Trillium has been part of an investor group that meets with Apple executives twice a year to discuss human rights and labor issues in the company's supply chain.

### POLICY

---

In order to have well-functioning markets and to ensure that market failures that 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 that consider environmental and social factors as integral to business and financial prosperity.

It is for that reason that Trillium, and many other firms, submitted a comment letter to the U.S. Securities and Exchange Commission in favor of the Pay-Ratio rule which will compel companies to disclose the median annual total

compensation of all employees, excluding the CEO; the annual total compensation of the CEO; and the ratio of the two figures. Income inequality represents not only an important issue for the individuals and families at the bottom of the pay scale that need to make ends meet, but is a threat to overall economic stability and prosperity that impacts everyone.

Additionally, Trillium and other concerned investors regularly submit opinion pieces to newspapers in order to stimulate conversations around public policy issues.

### ASSERTIVE ACTION

---

The final, and perhaps least used, corporate engagement tool is assertive action. Generally speaking, assertive action includes taking legal action through lawsuits or becoming involved in public campaigns, such as a divestment or public press campaign. It may also involve seeking a seat on a company board of directors.

One clear example of this approach was a so-called "books and records request" that was filed by the New York State Comptroller in 2013 against Qualcomm. The lawsuit argued that Qualcomm refused to disclose its political contributions even though investors had requested the information. Raising concerns about the impact of corporate contributions on Qualcomm's business and being made in the wake of *Citizens United*, the tactic proved effective. Within months, Qualcomm agreed to the Comptroller's demands and went so far as far as to say "that increased transparency for election-related activities by corporations is very beneficial."

### CONCLUSION

---

The scope and breath of shareholder advocacy and engagement can be enormous. Over the past thirty years we have seen shareholder advocacy grow more sophisticated, multifaceted and an essential element of a sustainable and responsible approach to investing. While it does not provide a silver bullet and has its limitations, shareholder advocacy is important and often plays a pivotal role in catalyzing change in corporate social and environmental policies and practices.

1. [http://croataninstitute.org/documents/IE2\\_Report.pdf](http://croataninstitute.org/documents/IE2_Report.pdf)

**IMPORTANT DISCLOSURE.** The views expressed are those of the authors and Trillium Asset Management, LLC as of the date referenced and are subject to change at any time based on market or other conditions. These views are not intended to be a forecast of future events or a guarantee of future results. These views may not be relied upon as investment advice. 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. To the extent specific securities are mentioned, they have been selected by the authors on an objective basis to illustrate views expressed in the commentary and do not represent all of the securities purchased, sold or recommended for advisory clients. The information contained herein has been prepared from sources believed reliable but is not guaranteed by us as to its timeliness or accuracy, and is not a complete summary or statement of all available data. This piece is for informational purposes and should not be construed as a research report.



Delivering Sustainable Investments Since 1982<sup>SM</sup>