



During the second half of 2016 Trillium filed shareholder proposals with over two dozen companies, asking them to adopt more sustainable business practices and improve sustainability related disclosures. We engaged with companies in new areas of advocacy and participated in many successful dialogues. Through a combination of shareholder advocacy tools (i.e. shareholder proposals, dialogue, and policy), Trillium and our clients are working to influence change in corporate behavior that we believe benefits investors, society, and the environment.

## ENVIRONMENTAL

### Toxic Chemicals & Chemical Footprinting

"Companies that put out products that have proven to harm the consumer ultimately will face liability, which will harm the company and the shareholders," said Trillium CEO, Matthew Patsky in *Bloomberg News* this past November. In December 2014, Trillium became an early signatory of the Chemical Footprint Project (CFP) after observing the impact of toxic chemicals on health and the environment as well as a knowledge gap around corporate strategies to invest in safer chemicals. Similar to the Carbon Disclosure Project (CDP), the CFP is an online tool that allows companies to proactively measure and manage their use of chemicals, fostering transparency and comparability across sectors. In late November, after our research and advocacy teams engaged in productive dialogue with **CVS Health Corporation** asking the company to promote safer chemicals, the company became the first national pharmacy chain to endorse the CFP.

We also began leading investor dialogues with **The Procter & Gamble Company, Deckers Outdoor Corporation, Newell Brands Inc., Costco Wholesale Corporation, Target Corporation,** and **Apple Inc.**, asking each company to account for its efforts to mitigate chemical risks and to shift strategies to identify new opportunities for healthier, more sustainable products.

### Renewable Energy & Greenhouse Gas Emission Targets

In recent years, **Bank of America Corporation** has supported clean energy investments, committing \$125 billion to financing low-carbon business and other sustainable initiatives by 2025. However, we are concerned that the company continues to be a significant financier of controversial fossil fuel projects and infrastructure. In November, we filed a shareholder proposal at Bank of America asking the company to reduce its credit exposure to so-called "extreme" fossil fuel production activities

(particularly noting recent criticism the company received for its involvement in financing the construction of the DAPL pipeline), such as ultra-deepwater oil drilling, liquefied natural gas export facilities, and Canadian tar sands oil extraction.

Methane, the primary component of natural gas, is a greenhouse gas (GHG) with over 80 times the climate impact of carbon dioxide over a 20-year period. Leaking methane is not only leaking saleable product, but it is also releasing into the atmosphere a super charged climate pollutant. For these reasons, we re-filed a shareholder proposal with **EOG Resources** in November asking the company to adopt company-wide goals for reducing methane emissions. As in past years, we have been able to withdraw the proposal as the company steadily improves its disclosures. After a series of meetings with the company, EOG Resources has agreed to disclose its methane emissions as a percentage of total production. This critically important disclosure will allow investors and stakeholders to understand the company's methane footprint. It is our intention that these disclosures will help incentivize EOG Resources to reduce its emissions as quickly as possible.

The Paris Agreement, adopted in December 2015, set a target of limiting the increase in global average temperature to below 2 degrees Celsius. Trillium is encouraging companies we invest in to help achieve this through greater transparency, greater GHG emissions reductions, and renewable energy goals. In August, **Oracle Corporation** set a goal to source renewable energy for 33% of its operations by 2020, following our shareholder proposal filed in 2015. Also in August, our shareholder proposal at The **J. M. Smucker Company** received a 28% vote asking the company to issue a report on how it can improve its adoption of renewable energy. This represents a significant increase from a 21% vote in 2015. **Hologic, Inc.** made an announcement similar to Oracle this October when it announced its goal to reduce scope 1 and 2 emissions by 10% by 2020 following the company's commitment in 2015 to publish greenhouse gas reduction targets.

*continued >>*

*\*In addition to engaging with approved companies on our buy list, Trillium also conducts advocacy on selected companies (identified with an "\*\*") that 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.*

This fall, we filed similar shareholder proposals at **Tractor Supply Company**, **Verizon Communications Inc.**, **Minerals Technologies Inc.**, and **United Parcel Service, Inc.**, urging the companies to adopt company-wide renewable energy targets and strengthen climate change commitments.

## Animal Welfare

Emerging research indicates that non-animal based and sustainable proteins can greatly benefit the environment and human health. In September, Trillium joined a coalition of investors representing over \$1 trillion of assets under management to sign a letter to **Costco**, **Unilever PLC**, **General Mills, Inc.**, **Whole Foods Market, Inc.**, and other companies highlighting the material risks posed by industrial animal production and urging each to disclose their corporate policies related to animal welfare.

## Food Waste

Approximately 40% of food produced in the U.S. is wasted, often ending up in landfills and having significant environmental consequences. As the latest addition to our work on sustainable agriculture, we are continuing to urge companies to manage food waste responsibly. Last spring, we filed the first shareholder proposal at **Whole Foods**, calling for transparency around the company's food waste management efforts. After 28% of Whole Foods Market shareholders voted in favor, the company agreed to issue a report addressing company-wide plans to reduce and manage its food waste. Although we were pleased by Whole Foods' commitments, the company has yet to report on its efforts. In response, we re-filed our shareholder resolution in September asking the company to issue a report on this issue. We filed a similar shareholder resolution at **Costco** in August and engaged in constructive dialogue asking the company to report on company-wide food waste management. We successfully withdrew the resolution after the company committed to discussing food waste in its upcoming CSR Report. Lastly, we engaged in on-going dialogues with **Target** and **Panera Bread Company** concerning their food waste management practices.

## SOCIAL

### LGBT Inclusion & Non-Discrimination

According to the Human Rights Campaign Foundation's 2016 survey, 75% of Fortune 500 companies prohibit discrimination based on sexual orientation and gender identity or expression, a historic high. Over the past six months we have urged several companies we invest in to adopt similar protections for their LGBT employees.

In August, **J.B. Hunt Transport Services, Inc.** updated its non-discrimination policies to cover gender identity for its 20,000 employees after our shareholder proposal received a

54% majority vote. **Webster Financial Corporation** (3,400 employees) and **Palo Alto Networks, Inc.** (4,000 employees) also updated their non-discrimination policies to cover sexual orientation and gender identity following agreements from both companies to institutionalize commitments to board diversity inclusive of gender, race, and national origin. We have filed similar proposals and/or reached out to **Tractor Supply**, **Acuity Brands, Inc.**, **Five Prime Therapeutics, Inc.**, **Ansys, Inc.**, **Deckers**, **Dentsply Sirona Inc.**, **EOG Resources**, **Quanta Services, Inc.**, **Sonoco Products Co.**, and **Verisk Analytics, Inc.** asking each company to make their policies fully inclusive of LGBT employees. We recently withdrew our proposal at Verisk following the company's commitment to revising its Code of Business Conduct and Ethics to include discrimination protections based on sexual orientation and gender identity.

In November, we filed a shareholder proposal at **BlackRock, Inc.\*** asking the company to issue a report discussing its proxy voting on workplace LGBT non-discrimination policy shareholder resolutions. Despite strong internal policies and programs, BlackRock has voted against all LGBT non-discrimination proposals over the last four years. This practice calls into question BlackRock's commitment to being a company that seeks to engage companies on material social issues.

At the state level, Trillium, the New York City Comptroller, Croatan Institute, and investors representing over \$2 trillion in assets under management, released a statement in September calling on North Carolina to repeal its state-sanctioned transgender discrimination law, House Bill 2, most commonly referred to as the "bathroom bill". The statement made an impact, gaining significant national and statewide media attention and forcing then-Governor McCrory to issue a public response.

Internationally, Trillium has been leading efforts to persuade Singapore's government to decriminalize same-sex relations between men, which is currently punishable by two years in prison. In September, we met with members of the Singaporean government to argue that this legislation, carried over from British colonial rule, inhibits economic growth and is a human rights violation. In November, following our visit, we partnered with Clean Yield Asset Management and led a group of approximately 20 global investors to encourage a dozen companies with operations in Singapore to sponsor Pink Dot SG, the annual LGBT pride event in Singapore.

### Human Capital Management

Research indicates that a diverse and inclusive workforce with strong family-friendly policies is good for business. Employees are paying more attention to these issues and expect companies to take a proactive approach to fostering an inclusive workplace. For this reason, we began engaging with a large slate of financial services and technology

companies, including **PNC Financial Services Group Inc.**, **Fifth Third Bancorp**, **Aflac Incorporated**, **T. Rowe Price Group Inc.**, **The Travelers Companies, Inc.**, **Chubb Limited**, **Jones Lang LaSalle Incorporated**, **First Republic Bank**, and **Citrix Systems, Inc.**, on this issue. In November, after Trillium filed a shareholder proposal and engaged in constructive dialogue, **Visa Inc.** committed to publishing EEO-1 data (an annual workforce diversity disclosure required by the government) and disclosing strategies to drive diversity and inclusion, including talent and pipeline initiatives.

## Privacy & Freedom of Expression

Continuing our work on privacy and freedom of expression at major telecom companies, Trillium filed a shareholder proposal at **Verizon** in November asking the company to publicly report on its progress toward implementing privacy, freedom of expression, and data security commitments to customers. This is of particular concern given Verizon's proposed acquisition of **Yahoo! Inc.\***, which has recently been impacted by disclosures of large-scale data breaches and accusations of inappropriate cooperation with intelligence agencies.

## Income Inequality

We believe the disparity between income, wealth, and opportunity in the U.S. will continue to be a major concern in society and we therefore believe that companies should begin to support minimum wage reform as one important way to address inequality. This fall, we re-filed our pioneering shareholder proposals at **Chipotle Mexican Grill, Inc.**, **The TJX Companies, Inc.**, and **The Home Depot, Inc.** The proposals argue that a rising minimum wage is good for workers, with research suggesting an increase could have a small stimulative effect on the economy. We also co-filed a shareholder proposal at **CVS Health** with our colleagues at Zevin Asset Management and asked the company to adopt and publish principles on minimum wage reform.

## GOVERNANCE

### Product Safety

Safety and quality of products are two major concerns in the medical device manufacturing industry. When both are compromised, the human impacts can be devastating. As a result, the U.S. Food and Drug Administration (FDA) and its international counterparts are increasingly prioritizing comprehensive supplier training for quality assurance by manufacturers and pharmaceutical companies. This pressure comes as many health care companies are experiencing increasing competition and cost pressures. In this environment, we believe that boards of directors should provide stronger oversight of corporate management to ensure that safety and quality are prioritized. For that reason, Trillium filed shareholder proposals in November focused

on board oversight of quality and safety at **Zimmer Biomet Holdings, Inc.** and **Merck & Co., Inc.**, two companies where these pressures are particularly high.

### Board Diversity

Numerous studies have documented that greater board and management diversity results in improved corporate governance, competitiveness, and financial performance. In October 2016, after two consecutive years of filing board diversity shareholder proposals at **Discovery Communications, Inc.** alongside several investor partners and receiving shareholder votes exceeding 20% (excluding stock owned by its majority insider shareholder), the company appointed Sarah Swain, co-CEO of C-Span, as the first woman to join its board of directors. While we are concerned that the Board continues to lack racial diversity, we are pleased the company recognizes diversity as good for business and took an important step to foster diversity at the board level. In October, **Palo Alto Networks** appointed Mary Pat McCarthy of KPMG to its board as the first woman director, one year after we successfully withdrew our board diversity shareholder proposal at the company. Finally, **Wabtec Corp.**, a company in the industrial sector, appointed Linda Hart, VP and Treasurer at Medtronic Inc. to its board in July 2016. After constructive dialogue with management and co-filing a shareholder proposal with the Pennsylvania Treasurer during the fall of 2013, we successfully withdrew our proposal in March 2014 after Wabtec agreed to amend its Corporate Governance Principles and Nominating and Corporate Governance Committee Charter.

With women holding just 16.3% of board directorships of S&P 1500 companies, less than a percentage point above 2014 levels, we will continue to engage companies on this issue. In December, **Dentsply Sirona, Inc.**, a global dental equipment supplier which lacks gender diversity on its board became the 15<sup>th</sup> company to receive a board diversity proposal from Trillium.

### Dakota Access Pipeline

For 34 years, Trillium has advocated for the protection of Indigenous Peoples' rights. We have worked with Native American leaders to bring their concerns to corporate decision-makers, pressing major corporations to take action on policies and practices that demonstrate a pattern of exploitative behavior towards Indigenous communities. During November, CEO Matt Patsky traveled to Bismarck, North Dakota alongside several leaders from the investment community to stand in solidarity with the Standing Rock Sioux Tribe and against the construction of the Dakota Access Pipeline (DAPL). We were concerned about the lack of proper environmental assessment, community review, and prior consent of the pipeline's construction as well as the inhumane treatment of peaceful Indigenous protestors by highly militarized law enforcement.

Trillium continues to advocate for the rights of Indigenous People worldwide. We are actively engaging with a number of companies that have been implicated in this human rights controversy. In November, we co-filed a shareholder proposal at the energy company, **Marathon Petroleum Corporation** which holds a minority stake in DAPL, alongside As You Sow, United Church Funds, and The Oneida Tribe of Indians of Wisconsin, with the New York State Common Retirement Fund as lead filer. The proposal asked the company to provide greater disclosure of due diligence processes regarding Indigenous rights and to identify whether it had a way to exit the DAPL project. We plan to continue our engagement with Marathon Petroleum and other companies and press them to adopt policies that will help prevent negative impacts on Indigenous communities.

## PUBLIC POLICY

Post-election, the Advocacy team is scrutinizing the policy landscape to look for the most strategic and effective efforts to continue our work to improve the environmental and social performance of companies and public policy. Pre-election, however, we were pleased with a number of important developments.

Working with our colleagues at Ceres and the Investor Network on Climate Risk (INCR) has resulted in many successes in public policy. In August, we joined Ceres, **BYD Company Limited, Genentech, Inc.\***, and **Novozymes A/S** in Sacramento, California to explain to legislators why we supported Senate Bill 32 (SB 32) legislation requiring the state to reduce greenhouse gas emissions to 40% below 1990 levels by 2030, which passed soon thereafter. In addition, we published an op-ed in the *Sacramento Bee* to express our support for legislation and policy that promotes

investment in clean energy. We believe Trillium's public support was influential and contributed to one of the most important climate legislation victories in many years.

We also met with the Federal Office of Management and Budget in a meeting organized by Ceres to support new trucking fuel standards adopted by the Obama Administration in August. In October, we joined a letter organized by Paris-based asset manager Mirova, urging a cessation of Arctic oil drilling, which was delivered to the Arctic Council, **Eni SpA\***, **Exxon Mobil Corporation\***, **Royal Dutch Shell Plc\***, **BP plc\***, **Repsol Oil & Gas Canada Inc.\***, and **Statoil Exploration Co.\***, and **Total S.A.\***.

And in November, we joined more than 365 businesses and companies in a statement organized by Ceres to President-elect Trump, Congress, and global leaders reaffirming our support for the Paris Climate Agreement and a low-carbon economy in the United States.

After years of quiet but persistent effort on our part alongside our friends at US SIF and Domini, we are delighted that the Department of Labor (DOL) issued Interpretive Bulletin 2016-1 on Shareholder Rights, recognizing the importance of proxy voting and fiduciaries engaging portfolio companies on environmental, social, and governance (ESG) matters. Specifically, the DOL emphasized that shareholder engagement on "the nature of long-term business plans including plans on climate change preparedness and sustainability," "diversity," and "policies and practices to address environmental or social factors that have an impact on shareholder value" are consistent with fiduciary duties. This is an important structural and legal development that should encourage "mainstream" investors to support shareholder proposals on ESG issues and to encourage their portfolio companies to improve their ESG performance.

*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. The securities mentioned 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. A complete list of companies that are on Trillium's 'Buy List' is available on request. 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>