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TRILLIUM'S APPROACH TO PRIVACY ISSUES

BY JONAS KRON, ESQ., TRILLIUM'S DIRECTOR OF SHAREHOLDER ADVOCACY

Privacy and data security have quickly become one of the most critical business and social issues of our time. Trust is critical for any business, but especially for companies that routinely gather massive amounts of personal data concerning and affecting the lives of hundreds of millions of people in the U.S. and around the world.

If people, companies, and governments mistrust how companies handle sensitive information, it may cause them to take their business elsewhere—or to curtail their online spending, negatively impacting the economy. In addition, when people lose trust in their communication networks, they're less likely to speak out on critical social issues.

A healthy democracy is a critical engine of economic growth. The willingness of consumers and businesses to take full advantage of the Internet influences economic growth as well as social policy. This is particularly true as the knowledge economy and the benefits of an Internet-connected business, political, and social life increases. Additionally, fundamental to democracy is the freedom of thought, self-determination, and broad civic participation. When citizens feel constrained by government and corporate overreach into their private activities and decisions, these fears and the accompanying feelings of disempowerment can impede the full and healthy functioning of our democracy.

How companies use and protect customer information can have financial consequences. Companies in possession of personally identifiable information are prime targets for criminals that exploit the data they steal from companies. For example, investors can only speculate about what Target's enormous 2013 security breach will eventually cost the company. Companies are also subject to financial risk when they are associated with government surveillance. We know that IBM, Microsoft, and other companies are incurring costs to establish data

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MATT PATSKY, CFA, CEO

When I meet folks who are exploring how to align their investments with their values, the perception of "shareholder advocacy" is often that it is an antagonistic relationship between shareowners and company management. Historically, that is a fair assessment and even today some companies try to convince the Securities and Exchange Commission to omit shareholder proposals from concerned investors. It is also true that some companies dig in their heels on an issue for years, contrary to their own best interest. ExxonMobil's ongoing 15 year refusal to update their non-discrimination policy to protect LGBT employees, stubbornly remaining an outlier in their industry, is an example of this behavior.

Over the past decade, however, we have seen a shift in company managements' view of shareholder engagement. Remember, as shareholders we want the companies we own to do well—increasing in both value and share price. There is a growing awareness, even in long-established companies, that we

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ONEIDA TRUST: AN INVESTMENT PORTFOLIO WITH A VOICE

BY SUSAN WHITE, TRUST DIRECTOR
ONEIDA TRUST COMMITTEE OF THE ONEIDA TRIBE OF INDIANS OF WISCONSIN

Did you know that Native Americans were the last group of people allowed to vote in the United States? Even though we fought on behalf of the colonists during the Revolutionary War, it wasn't until 1924 that Congress granted citizenship to all Native Americans born in the U.S. Even then, it wasn't until 1957 that all eligible Native Americans were allowed to vote, as the right to vote was governed by state law.

Having our voices heard is, in many ways, better than money.

As a citizen of the Oneida Tribe of Indians of Wisconsin, I am proud of our historic and cultural traditions. Our Oneida Elders made sure that the generations that followed would have opportunities that they themselves never had. They never relinquished our legal status or sovereignty. Today in the U.S., tribal governments have a unique status, similar to that of the states. This legal status is the very foundation on which we were able to pull ourselves out of a stagnant and poor economic plight.

Our Elders also implemented sound financial practices, including the creation of a trust, even when our Tribe had very little. When we settled a large land claim in 1967 for a Treaty violation in 1831, the Tribe received a small settlement—but it was a beginning. The Elders designed the trust to become sustainable and perpetual.

> As investors, we have the opportunity to engage with multinational corporations about the positive changes they can make on environmental, social, and governance issues, which we believe increase shareholder value.

The Tribe's key economic development strategy is gaming. We know that this is different from many sustainable and responsible investors and that our elder's vision and strategy now gives us a voice—as shareholders. Our investment portfolio has a mission. As we invest and grow our trust funds, we can now participate in a way that can make a positive change in our world, for our brothers and sisters in Indian Country and our neighbors, as well.

We have been involved in several shareholder discussions to help educate corporations about the harm they, sometimes unknowingly, commit. Take the Crazy Horse name, for example. For the American Indian community, Crazy Horse is not just a legendary warrior. He is also considered a great teacher, spiritual leader, and role model. His descendants are, understandably, very protective of the name. Several corporations have, without authorization, used his name and likeness to sell their brand. Hornell Brewing Company, brewers of Crazy Horse Malt Liquor, and Liz Claiborne have both used his name without the family consent, which the family vehemently objected to. For years, the companies refused calls to change the name of their products, despite protests from Native Americans. They have since discontinued the use of the name. However, not all corporation engagements are contentious. Soon after our initial dialogue, BP changed the name of its Crazy Horse oil field, out of respect to his descendants.

More recently, we have been working to raise awareness about the name of the Washington, D.C., NFL team. The team's name is a racial slur with long-standing hateful and offensive connotations. The Trust recently co-filed a shareholder proposal with FedEx Corporation (NYSE:FDX), which owns the naming rights to the team's stadium, asking the company to "respond to reputational damage from its association with the Washington, D.C., NFL franchise team" and its name controversy. FedEx won approval from the Securities and Exchange Commission to omit the resolution from its 2014 proxy, but this issue is not going away.

Today, some tribes have achieved a measure of political and economic influence. As a people, we have a long way to go to achieve economic parity and human rights equality with the rest of America. That is what we, and our many allies in the SRI industry, are working toward.

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centers overseas in an effort to increase the security and confidentiality of their services, as well as to boost customer confidence. Other companies, including Cisco and Verizon, have reportedly lost contracts and business over their connections with U.S. surveillance programs.

While it is the responsibility of our government to protect us, this responsibility must be carried out with the greatest amount of transparency and accountability possible. When it comes to intelligence gathering on hostile individuals, organizations, and other countries, the government must be extremely careful to respect privacy and freedom of expression and to subject those activities to meaningful and overlapping accountability mechanisms. The long and ongoing history of these types of abuses that harm minorities and dissidents provide ample evidence that these protections are needed.

> Trillium will continue to work toward greater transparency reporting on privacy, while also highlighting the much broader need for companies of all types to embrace privacy rights that are beneficial to their business and our economy and democracy.

There is evidence that reports of government surveillance may already be hurting the U.S. economy. The Information Technology and Innovation Foundation *has estimated* that disclosures regarding surveillance programs may cost the cloud computing industry from $21 to $35 billion in business over the next three years if foreign customers decide the risks of storing data with a U.S. company outweigh the benefits.

Companies must use and protect personal information in a way that respects and serves people's rights and dignity. Many Internet companies want to do the same thing that the intelligence services do—understand the thoughts, feelings, and desires of as many people as possible. While the government is doing so with the goal of providing security, companies are doing it to sell goods and services. While this commercial activity can be both socially and economically beneficial, we are concerned that these new tools will be used in a predatory or exploitative manner and without the proper respect for individual civil rights.

It is with this landscape in mind that, on behalf of our clients, Trillium has engaged companies and policymakers in the following areas:

GOVERNANCE — APPLE

In December 2012, in response to Trillium's shareholder proposal regarding privacy issues, Apple Inc. (NASDAQ: AAPL) updated its Board's Audit and Finance Committee charter to include responsibility regarding regulatory, legislative, and reputational privacy risks that confront the company. Trillium's proposal, which highlighted the business and social privacy risk and impacts that come with handling personal information, sought more clarity regarding Board oversight of these issues. We believe these improvements to Apple's governance structure will help the company protect the privacy of its customers and will be beneficial to its business.

HUMAN RIGHTS — GLOBAL NETWORK INITIATIVE (GNI)

Recognizing the important role of multi-stakeholder organizations that can promote corporate respect for human rights to privacy and freedom of expression, Trillium joined the Global Network Initiative. With the goal of protecting and advancing the rights to privacy and freedom of expression, GNI members help each other navigate these complexities and obligations by providing them with expert guidance, shared learning, and policy engagement while ensuring accountability and transparency in the interest of global citizens.

SURVEILLANCE TRANSPARENCY — AT&T, VERIZON* & COMCAST*

After initially taking a hard line against Trillium's 2013 shareholder proposal, Verizon Communications (NYSE: VZ) agreed to publish a transparency report on government surveillance. A day after Verizon made its announcement AT&T announced a similar plan allowing the New York State Common Retirement Fund and Trillium to withdraw an identical shareholder proposal. These announcements were followed by a successful engagement with Comcast (NASDAQ:CMCSA), which resulted in that company also conceding that transparency reporting was required. Publication of transparency reports such as these represents

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INCREASING ENERGY DEMAND HIGHLIGHTS INVESTMENT OPPORTUNITIES FOR EFFICIENCY AND RENEWABLE

BY ELIZABETH R. LEVY, CFA AND BRIANNA MURPHY

One of the significant drivers of recent economic growth has been a surge in domestic energy production, leading to a revival in manufacturing of both products and materials.

Low natural gas prices are leading to a resurgence of the chemicals industry in the U.S., predominantly on the Gulf Coast of Louisiana and Texas. Methanex, a Canadian chemicals firm, is physically relocating two methanol factories from Chile to the U.S. in order to take advantage of low gas prices, despite estimated costs of $1 billion to move the plants[1]. As domestic manufacturing picks up, Nancy Lazar, an economist at Cornerstone Macro, has been only half-jokingly referring to the U.S. Midwest as her favorite "emerging market."[2] The June report of the Architectural Billings Index, a widely used indicator of construction to come, indicated solid expansionary territory in all sectors: residential, commercial/industrial, and institutional.[3]

All of this new activity means new energy demand. The U.S. Department of Energy's Energy Information Agency's (EIA) 2014 Annual Energy Outlook projects an increase in electricity consumption of 29% between 2013 and 2040[4], which they describe as "modest" growth. At the same time, new EPA rules proposed this year aim to reduce greenhouse gas (GHG) emissions by 30%, meaning, happily, that new energy supply is unlikely to be met by coal and that some coal electricity is likely to come off line.

Buried in the EIA assessment is another future, where GHG emissions in 2040 are 22% lower relative to their base scenario, representing only a 7% growth from 2013. While renewable energy is part of the solution, old-fashioned efficiency decreases alone projected energy growth by 20% over the same time frame. This scenario, called the Low Electricity Demand Case[5], assumes that all equipment purchases are state-of-the-art efficiency.

After all, reducing GHG emissions isn't the only reason that consumers and businesses might want to reduce energy use. In the EIA's reference case in their 2013 Annual Energy Assessment, retail electricity prices are projected to climb 13% in constant dollars between 2012 and 2040, a cost that is avoidable by increasing efficiency[6]. With that in mind, many companies that sell machines and equipment to consumer and other companies, even those that can be considered traditional, are aligning their products around energy efficiency.

While admittedly just a thought experiment, the EIA's scenarios do point out a basic truth: With the expansion of economic activity—a good thing—is the coming expansion of energy use, no matter how dedicated to efficiency companies are. And so, while companies and investors are focused on reducing demand for energy through efficiency, they are also focused on supporting the growth of the right kind of energy.

> A report by the Carbon Disclosure Project (CDP) found that four out of five companies earn a higher return on their carbon reduction investments than on their overall corporate capital expenditures. Nearly half, 43%, of the companies in the Fortune 500 have set targets to either reduce GHG emissions, increase energy efficiency, or increase renewable energy. The EPA is also contributing to the renewable energy investment through the proposed carbon pollution reduction rules. The proposal includes three building blocks, one of which is dedicated to expanding renewable generating capacity.

Some companies are already proactively incorporating renewable energy into their climate change and business strategies. Technological improvements and large-scale projects are contributing to the continued decline of renewable energy prices, making them increasingly competitive with traditional energy. There are three main options for renewable power: onsite generation, renewable energy certificates (RECs) or credits, which separate the renewable attribute from the power attribute to allow end users to essentially turn any power into renewable power, and Power Purchase Agreements (PPAs), which are long-term commitments to purchase renewable energy from a specific facility **at an equal to or less than market rate.** PPAs are generally considered to be the most effective and impactful renewable energy investments that a company can make.

Large-scale renewable projects often require the commitment of a large customer before they can even be constructed. These long-term agreements with wind and solar farms give the project developer access to financing so they can build new renewable energy projects. Therefore, when companies make these commitments they aren't just benefitting through fixed, predictable energy prices, they are also driving the growth of the renewable energy industry. There are still many challenges to making renewable energy accessible and affordable everywhere, but the reality is that renewable energy is a key part of a company's forward thinking climate change strategy. Renewable energy is essential for companies that continue to grow but want to maintain low emissions profiles in the long term.

Companies in the technology sector have demonstrated the feasibility of sourcing renewable energy and incorporating it into their long-term climate strategies. For example, technology companies like Microsoft and Google, whose emissions primarily come from data centers, have made long-term commitments to source 100% of the energy needed to run their companies from renewables. One way they are achieving these goals is through PPAs, which provide stable energy prices while also reducing their emissions profiles. This allows Microsoft and Google to lock in on long-term prices, reducing their exposure to volatile fuel prices. By partnering with wind and solar farms, these companies are able to power their carbon intensive data centers with clean energy.

In addition to realizing savings, these investments should help grow wind and solar markets and make them more scalable. Notably, Google has invested more than $1 billion in large-scale wind and solar projects. These companies

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THESE LONG-ESTABLISHED COMPANIES ARE USING EFFICIENCY AS A TOOL TO PROMOTE GROWTH

Johnson Controls (NYSE – JCI): Founded in 1885, JCI has several businesses related to efficiency. On the building side, Johnson Controls' energy-management service businesses have saved clients over $10 billion over the last 15 years by optimizing energy usage in a wide range of settings, including schools, hospitals, airports, stadiums, government facilities, public housing, and office towers. Johnson Controls combines technologies such as efficient lighting and windows, efficient variable-speed motors on heating and cooling equipment, occupancy sensors, building management integration, and data collection and analysis. In its battery division, Johnson Controls' Absorbent Glass Mat and Enhanced Flooded batteries are a key enabling technology of "start-stop" hybrid cars, which deliver fuel efficiency at a much lower cost than full hybrids.

Emerson Electric Company (NYSE – EMR): Founded in 1890, EMR—a diversified industrials company—offers compressors that enable high-efficiency heating and cooling equipment for residential, commercial, and industrial settings. They also offer data-center optimization products to reduce the energy demand of data centers.

Eaton (NYSE – ETN): Founded in 1919, ETN provides an array of energy-management services. In addition to backbone components of the electric grid, Eaton also sells efficient lighting systems, and 35% of its lighting systems are now LED. In addition, their vehicles division combines engine technologies than can improve engine efficiency from 2 to 19% each in a range of vehicle types from passenger cars to agricultural vehicles to medium-duty trucks.

Borg Warner (NYSE – BWA): Founded in 1928, BWA is a global company that produces automotive components. Borg Warner is a leader in improving fuel economy, as their turbo chargers allow for big bursts of power for smaller engines, leading to an up-to-30% improvement in fuel economy.

J.B. Hunt (NASDAQ – JBHT): Founded in 1961, JBHT began as a freight trucking company and went on to become the pioneer of intermodal transportation. Intermodal moves utilize both rail, for the long part of freight's move, and trucking, for the shorter moves to and from the train. This relieves highway congestion and can save over 200 gallons of diesel fuel and two tons of GHG emissions per shipment converted .

Pentair (NYSE – PNR): Founded in 1966, PNR offers a wide array of water and fluid management technologies. Over the last decade, they have become the global leader in equipment for swimming pools by focusing on energy efficiency in products such as pool pumps, filters, heaters, and lights. For example, technologies such as variable-speed motors allow residential pool owners to reduce by up to 90% the energy used to run their pool pumps.

[1] *http://www.jbhunt.com/files/Sustainable_Innovations.pdf*

Increasing Energy Demand, continued from page 5

realize their ability to reduce their carbon footprint and positively impact the renewable energy market in a financially sustainable way.

In an economy where companies are under pressure to do more with less, Trillium is interested in those that are demonstrating leadership in energy efficiency and clean energy use. The U.S. faces significant economic risks from the impacts of climate change, necessitating the need for companies to reduce their overall GHG emissions. Companies that are identifying and mitigating climate risk are better positioned to be successful as we move into a resource-constrained, low-carbon economy.

Last year Trillium engaged with several companies on setting GHG emissions reduction targets as part of our climate risk management priority. Our dialogues led to commitments to set carbon emissions reduction goals. We successfully withdrew resolutions at several companies including Church & Dwight, Lowe's, and Valmont Industries. These companies are now taking meaningful steps toward measuring and mitigating their greenhouse gas emissions.

Looking ahead, we see opportunities to engage with companies that could benefit from a renewable energy procurement strategy. This year, we plan to file several shareholder proposals asking companies to set renewable energy investment goals as a part of their climate strategy. By using the examples of leaders successfully procuring renewable energy, we believe we can press other companies to take similar actions. By filing these proposals, we hope to persuade companies to incorporate renewable energy into their emissions reduction strategy allowing them to realize savings and generate greater shareholder value.

[1] *http://texas.construction.com/texas_construction_projects/2014/0414-methanex8217s-geismar-plant-reassembly-takes-shape.asp*
[2] *http://www.cornerstonemacro.com/u-s-consumer-confidence-is-close-to-making-an-upside-breakout/?backurl=http%3A%2F%2Fwww.cornerstonemacro.com%2Fwp-content%2Fuploads%2F2014%2F05%2F20140521_ECO_Rasmussen.pdf*
[3] *http://info.aia.org/aiarchitect/2014/0725/images/ABI-June_2014-FINAL.jpg*
[4] *http://www.eia.gov/todayinenergy/detail.cfm?id=17131*
[5] *http://www.eia.gov/forecasts/aeo/section_issues.cfm#elec_demand*
[6] *http://www.eia.gov/forecasts/aeo/pdf/0383(2014).pdf*

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exist in a rapidly changing and resource-constrained economy and that companies willing to adapt are better positioned to grow and thrive.

If you visit the "Shareholder Proposal" page on our website, you will notice that proposals that we file or co-file are often successfully withdrawn following discussions with companies. Proposals regarding the disclosure of political and lobbying spending, which were controversial and antagonistic a few years ago, are now routinely withdrawn after a company commits to a meaningful change. The same goes for recent proposals filed on board and executive diversity.

Enormous challenges remain. More than three decades after our firm was founded, climate change remains the defining investment issue of our generation. During the 2014 shareholder season, concerned investors—including Trillium—filed 142 climate-related shareholder proposals with 118 companies. We are asking companies to adopt and report on company-wide goals for reducing greenhouse gas emissions. Individual successes, however, may not be enough when compared to the devastating consequence of inaction. Unfortunately, I suspect that we will have to continue pressing companies, and lawmakers, to take action on climate change for decades to come.

HAIN CELESTIAL RESPONDS TO SHAREHOLDER CONCERNS REGARDING PESTICIDE RISK IN ITS SUPPLY CHAIN

Hain's announces response with commitment to disclose information on its pesticide use policies and practices; Trillium and Calvert withdraw shareholder proposal in recognition of Hain's positive "first steps."

Calvert Investments shareholders and Trillium Asset Management are pleased to announce the withdrawal of its 2014 shareholder proposal at Hain Celestial (NASDAQ: HAIN) which calls for disclosures by the company about pesticide-related risks in its supply chain.

The withdrawal recognizes initiatives that will be disclosed in its next Corporate Sustainability Report, which is scheduled to be published by December 31, 2014. Hain Celestial has committed to disclose:

» Its approach to reducing synthetic pesticides through a commitment to organic and sustainable agriculture (e.g., the percentage of Hain Celestial's SKUs that are organic, the annual certification process, supplier code of conduct, efforts to migrate non-USDA certified products to certified USDA organic status, and use of organic ingredients in non-certified products.)

» Its approach to testing products for pesticide residues, including use of third party experts to assist in developing and regularly evaluating processes to help meet or exceed industry best practice.

» Efforts throughout the supply chain to reduce the toxicity and amounts of pesticides used.

"Numerous studies have defined pesticide exposure as a growing public health concern. Pesticides impose a heavy burden on farmworkers, adjacent communities, and the environment." said Trillium's Vice President, Susan Baker. "We commend Hain for taking important first steps to lessen these burdens and mitigate potential risks in its supply chain."

Ellen Kennedy, Manager, Environment and Climate Change at Calvert Investments said, "U.S. organic food sales grew to $28 billion in 2012, up 11 percent over 2011. This growth indicates strong consumer interest and demand for reduced pesticide use. Action by Hain to reduce the use of toxic pesticides in its supply chain will help position the company to serve this growing market."

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a watershed moment in the effort to curb excessive government surveillance and have provided civil society organizations with important policy information. These reports are preliminary steps in a long-term effort to press AT&T, Verizon, Comcast, and other companies to be genuine guardians of privacy.

REPORTING ON RISK AND SECURITY — SEC PANEL ON CYBER-SECURITY

Appearing by invitation at an SEC panel on cyber-security, Trillium encouraged the commissioners to take a number of important steps toward requiring meaningful disclosure of the risks related to collecting personal data, security efforts, and consumer protections. We highlighted the risks generated by business practices and models that use personal information and discussed why companies need to be forthright about the risks they create.

Trillium will continue to work toward greater transparency reporting on privacy—while also highlighting the much broader need for companies of all types to embrace privacy rights that are beneficial to their business, our economy, and democracy.

** 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.*

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