



# Investing for a BETTER WORLD®

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## TRILLIUM'S APPROACH TO SHAREHOLDER ENGAGEMENT

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

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

## Thinking Capital<sup>SM</sup>

MATT PATSKY, CFA, CEO



About 20 years ago, during a meeting with the Chief Investment Officer of a large pension plan I listened as

he explained his organization's decision to simply use an "index" approach to investing because they were a "universal owner". Large institutional investors often use the rationale of their size as a reason for needing to be "universal owners". The argument is that they must "own the entire market" and therefore cannot take Environmental, Social and Governance issues into consideration while investing. While the concept is easy to understand, the notion that anyone would chose to invest this way still perplexes me.

All investment professionals, even those believing they must be "universal owners", have a fiduciary duty to act in the best interest of the beneficiaries. For institutional investors to summarily dismiss the option of carbon footprint measurement or fossil fuel divestment, without careful consideration, are abdicating the fiduciary responsibility for which they have been entrusted.

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# GODDARD COLLEGE: A STORY OF SUSTAINABILITY AND DIVESTMENT

BY CATHERINE LOWTHER, FACULTY IN THE SUSTAINABILITY PROGRAM & ROBERT KENNY, PRESIDENT



Goddard College is a small private college in Vermont founded in 1938 that seeks to provide an environment for students and faculty to build a democratic community featuring plenty of “plain living and hard thinking.” It was one of the first colleges to include adult learning in its charter, the first to develop a low-residency model for higher education, and the first to offer residential programs for single parents receiving public assistance. Goddard currently offers 14 low residency programs including a BA in Sustainability and an MA in Social Innovation and Sustainability, and sustainability is a priority in all campus activities. The college also offers a Sustainability Entrepreneur’s Grant to students starting businesses in the field of sustainability.

In 2007, Goddard’s president signed the American College and University Presidents’ Climate Commitment. We conducted a carbon inventory, created a climate action plan, and began working to reduce emissions with a goal of carbon neutrality by 2020. Since then, we have reduced the use of electricity by 40%, and we just signed a contract with groSolar to join a community solar system; and we have reduced the use of heating oil by 27%, and our application for a biomass heating system that will heat the whole campus with wood chips has been approved.

The college sources most of the food served in the cafeteria from the Goddard garden and local farms. On June 5, 2013 Goddard was one of ten colleges chosen to receive the National Climate Leadership Award from Second Nature, the parent organization of the American College and University Presidents’ Climate Commitment. Divestment from fossil fuels is a logical extension of these efforts.

In the fall of 2014, the Sustainability Committee presented a proposal to divest the college’s endowment from fossil fuel companies to the Board of Trustees. The proposal was not a reaction to student demonstrations or sit-ins. No

demonstrations were necessary as the college already supported the initiative based on its values. Our president is on the Sustainability Committee, and the Board was very much in favor of divesting.

In researching the divestment experiences of other colleges, we found that they had paid no transaction fees, and their endowments had performed as well as or better than the market since divestment. Moreover, investing in fossil fuel companies is increasingly being seen as a financial risk. New climate change regulations will make it expensive to continue burning carbon and may lead untapped oil, coal, and gas to become stranded assets.

Based on this research and on a desire to more closely align our investment portfolio with our school’s values, Goddard’s Board of Trustees voted to move our endowment funds into socially responsible, fossil fuel free investment accounts. On January

12, 2015, Goddard completed the divestment process, making it the third college in Vermont to complete its fossil fuel divestment, along with Sterling College and Green Mountain College.

Avram Patt, the president of the Board, says, “Divesting was an easy and natural decision for the Trustees. While it reflects our own beliefs as individuals, more importantly, it reflects the Goddard community: faculty, staff, students and alumni. There is a direct line from this action to the principles that have guided Goddard College from its earliest days.”

We are grateful to have the support of everyone in our community to divest our endowment and to continue to move ahead with sustainability initiatives. We believe that we need to take action in every possible way to preserve a livable planet for our students and graduates. To find out more about Goddard, see: <http://www.goddard.edu>. 

“The divestment from fossil fuel company investments is one action in Goddard College’s long history of taking ‘imaginative and responsible action in the world.’”

— ROBERT KENNY, PRESIDENT

## WHITE HOUSE CLEAN ENERGY INVESTMENT SUMMIT

Trillium was one of a handful of Registered Investment Advisors that were invited to participate in the recent White House Clean Energy Investment Summit, which was held in June.

During the Summit, Vice President Biden highlighted more than \$4 billion of commitments by major foundations, institutional investors, and other long-term investors to fund climate change solutions, including innovative technologies with breakthrough potential to reduce carbon pollution. These commitments surpass the Administration's initial Clean Energy Investment Initiative goal of catalyzing \$2 billion, first announced earlier this year.

In addition to the Vice President, the Summit included senior administration officials from the White House, the Department of Energy, and the Department of Defense; as well as investors, philanthropists and educators.

The White House also announced the creation of a Clean Energy Impact Investment Center, a clearinghouse for information on clean energy investment and research to be housed at the Energy Department. Earlier this year, President Obama issued an executive order that mandates a 40% cut in carbon dioxide emissions across government agencies. 

### **Thinking Capital<sup>SM</sup>**, continued from page 1

Lately, I have heard and read statements from “universal owners” who claim that they can’t even consider divestment from fossil fuels, as their portfolio must be invested in a way that reflects the entire investable universe. This view of fiduciary duty lacks recognition of how geopolitical and ESG concerns impact long term shareholder value and rejects that any of these concerns should be considered in the way portfolios are invested.

Trillium has recently joined other institutional investors, including many European pension funds, in signing the Montréal Carbon Pledge, which affirms our belief that as “institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that there are long-term investment risks associated with greenhouse gas emissions, climate change and carbon regulation”.

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## Jackson W. Robinson Joins Trillium



Jack Robinson has joined the firm as Vice Chair and Portfolio Manager. Mr. Robinson has over three decades of experience working in the field of sustainable and responsible investing (SRI), most recently at Brown Advisory.

“I have known Jack Robinson for over two decades. When we worked together at Winslow Management, I learned that his long-standing commitment to SRI is built on a foundation in fundamental research, quantitative techniques, and a deep understanding of climate solutions,” said Matthew W. Patsky, Trillium’s CEO. “Jack’s experience is the perfect complement to our existing team.”

In 1983, Robinson founded Winslow Management with the mission of providing green investment services to individual and institutional clients. Winslow began to focus exclusively on green investing in 1991. Under his leadership, the firm developed a unique growth investing style and became widely recognized as a leader in the green investing field. In March 2009, Winslow merged with Brown Advisory, where Robinson served as Partner, Portfolio Manager, and Head of Sustainability Strategies before joining Trillium.

“Trillium’s first-rate investment performance, combined with its reputation for moving companies toward more sustainable business practices — along with the opportunity to work with Matt Patsky again — made this an easy decision for me,” said Mr. Robinson. “As interest in SRI and fossil fuel free investing grows, Trillium is in an enviable position of being a pioneer in the industry. I am excited to have the opportunity to use my experience in sustainable investing to contribute to the firm’s continued growth.” 



## TRILLIUM LAUNCHES NEW SMALL / MID CAP SRI MUTUAL FUND

On August 31, 2015, Trillium's Small/Mid Cap Core strategy became available to institutional investors as a mutual fund (Ticker: TSMDX), adding to the Portfolio 21 Global Equity Fund (Retail Ticker: PORTX / Institutional Ticker: PORIX) that the firm acquired at the end of 2014.

### TRILLIUM SMALL / MID CAP FUND DETAILS

<b>Ticker:</b> TSMDX	<b>Benchmark:</b> S&P 1000	<b>Holdings:</b> 60-70	<b>Gross Expense Ratio:</b> 1.32%*	<b>Minimum Investment:</b> \$100,000
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\*Trillium Asset Management, as advisor, has contractually agreed to reduce our fees to 0.98% through July 29, 2017.

Since 1982, Trillium Asset Management has been integrating Environmental, Social, and Governance (ESG) factors into the investment process as a way to identify the companies that we believe are best positioned to deliver strong long-term performance. Historically, we have offered our investment products as separately managed accounts; typically to institutional and high net worth clients, who own individual securities outright. This has limited our ability to make our strategies more broadly available to clients and financial intermediaries.

By launching the Small / Mid Cap Core (SMID) Strategy as an institutional class mutual fund, we have made the SMID strategy accessible to more Sustainable and Responsible Investors (SRI). The fund has a minimum \$100,000 investment and Registered Investment Advisors may aggregate client accounts to meet the Fund's minimum investment.

"Given the increasing interest in impact and sustainable and responsible investing, it is critical for Trillium to offer our products in mutual fund form, to gain broader distribution and allow access to more types of investors", says Matt Patsky, Trillium's CEO. "Millennial investors have demonstrated strong

Trillium's investment process is focused on finding attractively priced companies with strong growth prospects. Our analysts conduct bottom-up fundamental analysis on the companies they cover; simultaneously reviewing both traditional financial metrics and ESG metrics that we believe can add value to the investment process.

interest in impact investing. As much of their investing done through retirement plans, it is important to provide investment products that meet their needs."

"I have been working on Trillium's SMID strategy for nearly 15 years and am excited that in August our firm made the strategy available in mutual fund form. A couple of years ago,

we asked advisors what investment products they needed for their clients — they told us that there is demand for a SMID mutual fund that includes a rigorous integrated review of financial and Environmental, Social, and Governance (ESG) factors", said Laura McGonagle, CFA, who has been involved in the management of the strategy since its 2001 inception.

The SMID strategy invests in small and mid-cap stocks that are well-diversified across economic sectors and meet Trillium's sustainability criteria. Trillium seeks to identify companies that are strategic leaders, based on business models that we believe have the ability to create consistent earnings growth. In addition, Trillium looks to identify companies with strong board and management qualities, as evidenced by transparent and conservative financial reporting, and better management of ESG risks.



## DISCLOSURES

Distributed by Quasar Distributors, LLC, Distributor

The Portfolio 21 Global Equity Fund and the Trillium Small / Mid Cap Fund are distributed by Quasar Distributors, LLC. Trillium Asset Management is the advisor to the Funds.

*The summary prospectus and statutory prospectus contain more complete information including risks, fees and expenses related to an ongoing investment in the Funds. Read carefully before you invest or send money. You may also obtain a hard copy of the statutory prospectus and/or summary prospectus by calling 866-209-1962.*

**Mutual fund investing involves risk. Principal loss is possible. The Funds invest in foreign securities which involve political, economic and currency risks, greater volatility and differences in accounting methods. These risks are greater for investments in emerging markets. The Funds may invest in smaller and medium sized companies, which involve additional risks such as limited liquidity and greater volatility. The environmental policy of the Funds could cause it to make or avoid investments that could result in the portfolio underperforming similar funds that do not have an environmental policy. There are no assurances that the Funds will achieve their objective and/or strategy. Diversification does not assure a profit or protect against a loss in a declining market**

**Earnings Growth is not a measure of the Fund's future performance.**

The Portfolio 21 Global Equity Fund and the Trillium Small / Mid Cap Fund are offered only to United States residents.

Current and future portfolio holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Opinions expressed as those of the Funds, are subject to change, are not guaranteed and should not be considered investment advice.

The S&P 1000 Index combines the S&P MidCap 400 and the S&P SmallCap 600 to form an investable benchmark for the mid- to small-cap segment of the U.S. equity market. An investment cannot be made directly in an index.

## Portfolio Management



### Laura L. McGonagle, CFA

Laura is a senior vice president, portfolio manager and research analyst, and leads our Small/Mid Cap Core strategy. She joined Trillium Asset Management in 2001. Prior to joining Trillium she was an equity research analyst at Adams, Harkness and Hill, a Boston-based investment bank that focuses on emerging growth companies. Laura's last position at Adams was as a sell-side equity analyst in the "Healthy Living" group. This group covered specialty consumer stocks which addressed the consumers' growing awareness of the impact of nutrition, environment and lifestyle choices on their well-being. Laura earned a B.A. in quantitative economics from Tufts University in 1992. She is a member of the Boston Security Analysts Society and the CFA Institute and is a Chartered Financial Analyst charterholder.



### Matthew W. Patsky, CFA

Matthew Patsky is a managing partner, CEO, and portfolio manager. He joined Trillium 2009, and has over three decades of experience in investment research and investment management.

Matt began his career at Lehman Brothers in 1984 as a technology analyst. In 1989, while covering emerging growth companies for Lehman, he began to incorporate environmental, social and governance factors into his research, becoming the first sell side analyst in the United States to publish on the topic of socially responsible investing in 1994. Prior to joining Trillium, Matt was at Winslow Management Company in Boston, where he served as director of research, chairman of the investment committee and portfolio manager for the Green Solutions Strategy and the Winslow Green Solutions Fund.

He is a Chartered Financial Analyst charterholder and a member of the CFA Institute. Matt holds a Bachelor of Science in Economics from Rensselaer Polytechnic Institute. 

## GLOBAL DIVEST-INVEST INITIATIVE IS SUCCESSFULLY ENGAGING INDIVIDUAL INVESTORS

Climate change is the defining investment issue of our generation. The Global Divest-Invest Initiative's campaign to reach individual investors currently counts over \$3.3 billion in fossil fuel-free assets pledged from over 2,000 individual investors. The initiative's goal is to reach \$10 billion in divestment pledges to marshal bold climate action at the Sustainable Innovation Forum, which takes place in Paris in December 2015.

In addition, over 200 institutions, including philanthropic health-care, educational, faith-based, non-governmental organizations, and local governments — totaling over \$50 billion in assets under management — have pledged to align their investments with their values and divest from fossil fuel companies. It is, arguably, becoming the fastest growing divestment movement in recent history.

The initiative is part of a larger divestment movement which is initially targeting the top 200 oil, gas, and coal companies, as identified by Fossil Free Indexes, for divestment. The rankings are based on each company's reported reserves, that is, how much carbon in the earth they own. These companies control the vast majority of carbon in the world that, if burned, will cause drastic climate shifts.

### THE DIVEST-INVEST INDIVIDUAL PLEDGE:

1. Make no new investments in the **top 200 oil, gas, and coal companies**.
2. Sell my existing assets tied to these oil, gas, and coal investments within 3-5 years.
3. Invest in a sustainable and equitable new energy economy.

To learn more about Global Divest-Invest Initiative's Individual Divestment Campaign visit:

[www.divestinvest.org/individual](http://www.divestinvest.org/individual).

### *Trillium's Approach to Shareholder Engagement*, continued from page 1

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 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

When Trillium and Calvert Investment Management originally approached J.M. Smucker (*owner of Folgers and one of the largest coffee buyers in the world*) to discuss coffee sustainability, the company did not welcome our efforts to engage them.

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. 

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**Thinking Capital<sup>SM</sup>**, continued from page 3

While Trillium has previously measured the carbon footprint of some of our investment strategies, by signing the Pledge we have made a commitment to measure the carbon footprint of all of our equity strategies. We are taking this additional step because it is important for us to understand, quantify and manage the carbon and climate change related impacts, risks and opportunities in our investments. Further, we have made a commitment to transparency of the data and we will disclose the carbon footprint of these investment strategies annually.

We recognize that a total divestment from fossil fuel may not be possible for all investors. Fiduciary duty, however, requires that institutional investors — of any size — consider the financial, social, environmental, and governance characteristics of investments and to ensure that those investments reflect the mission of the organization that owns them. 

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Randy Rice, *Editor*

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