



During the second half of 2015 Trillium filed shareholder proposals with over three dozen companies, asking them to adopt more sustainable business practices, to address their social impacts and improve their governance. We opened some new avenues of advocacy and had many successful dialogues. Through a combination of shareholder advocacy tools (shareholder proposals, dialogue, policy advocacy and others) Trillium and our clients are working to promote change in corporate behavior that we believe benefits investors, society and the environment.

## ENVIRONMENTAL

### Toxic Chemicals

Toxic liabilities, for example lead or formaldehyde, in a company's products create risks that may negatively impact shareholder value. Safer alternatives to the most hazardous chemicals exist and several companies have active chemical strategies. However, overall disclosures are insufficient. To fill the data gaps, Trillium introduced the Chemical Footprint Project — an online tool (publicly endorsed by more than \$2 trillion in investor dollars) that gives companies and investors meaningful data with which to benchmark progress on chemical use. A productive dialogue Trillium led with **Johnson & Johnson** in October resulted in the company agreeing to use the footprint tool.

In an effort to persuade **PPG Industries\*** to phase out sales of lead paint, we took a different approach. Our shareholder proposal filed at PPG in November highlights benefits that can accrue to companies that link sustainability metrics to compensation and asks management to assess linking sustainability metrics (i.e., metrics tied to its manufacture and sale of toxic material) to senior executive compensation. A reasonable ask, in our view, since 86 percent of CEOs surveyed on sustainability in a large 2103 study believe sustainability should be integrated into compensation discussions.

### Sustainability reporting

**Gilead** recently informed us that in response to our 2015 shareholder proposal, which received a 30% vote, the company published its first sustainability report in November. Currently, over half of the S&P 500, 57% of the Fortune 500 and 95% of the Global 250 issue sustainability reports.

### Renewable Energy and Greenhouse Gas Emission Targets

A report by the Carbon Disclosure Project found that four out of five companies earn a higher return on carbon reduction investments than they do on their overall corporate capital expenditures. That is one reason we filed shareholder proposals at **Verizon**, **Amgen**, and **Akamai Technologies** during the fall of 2015 asking these companies to address greenhouse gas emissions — with a focus on encouraging the companies to boost their support for renewable energy. This follows on our strong 20% vote at the **Smucker** annual meeting in August where we asked the company to issue a report on how it can improve its adoption of renewable energy. In November, **Home Depot** published its first set of renewable energy goals following our proposal and engagement in early 2015. The hardware retailer will now produce 100MW of wind and solar energy annually. Trillium recently withdrew our proposal at **Hologic** following the company's commitment to set company-wide greenhouse gas reduction targets in 2016.

### Sustainable Agriculture

Over the summer and fall Trillium engaged with **Danone** about its climate policy. As a large yogurt company, Danone operates in an industry where food, energy and human impacts overlap. It may be vulnerable to climate shifts that may present material challenges to its businesses. In particular, Danone's supply chain presents both an opportunity and a risk with respect to greenhouse gas emissions (mitigation) as well as social/farmer wellbeing in the face of climate change (adaptation/resilience). We were happy to see improvements in the policy it published in November. However, we are concerned that it is still lacking in significant ways and will continue to press the company to strengthen its approach

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*\*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. 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.*

to mitigating its climate change impact and to helping the farmers in its supply chain to build resilience. In July, following engagement with Trillium and other investors, **General Mills** publicly announce improved policies to protect bees and other pollinators from the impacts of pesticides.

## Food Waste

Food waste is a new addition to our work on sustainable agriculture. We have begun to address food waste because about 40% of the food produced in the U.S. is wasted rather than eaten. Due to the resource demands of agriculture, 25% of U.S. water use, 30% of fertilizer and 31% of cropland go into the production of food that feeds only landfills. Another way to look at the environmental magnitude of food waste is that if global food waste was a country, its carbon footprint would rank third, behind only China and the U.S. In addition to on-going dialogues with **Starbucks**, **Target**, **Panera Bread**, **Costco** and others, we filed the first shareholder proposal on food waste at **Whole Foods Market** in November. We believe a comprehensive approach to food waste will serve as a means for companies to reduce GHG emissions, save resources and money, and feed those in need.

## Deforestation

Continuing our work on deforestation, one of the primary causes of climate change and the second largest man made source of carbon, we have filed shareholder proposals on sustainable palm oil sourcing at **Church & Dwight** and **WhiteWave Foods**. These proposals ask each company to strengthen their policies and practices to ensure that the palm oil they source has not contribute to clearance of ecologically valuable forests in Southeast Asia.

## SOCIAL

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### Worker Safety

Recent tragedies at apparel and garment factories, including the Rana Plaza building collapse in Bangladesh which killed over 1,100 people, have raised awareness and increased scrutiny of factory working conditions. This heightened scrutiny brings additional risk for companies that rely on factories in countries with weak enforcement of building and health and safety standards; important risks include litigation, reputational damage, supply chain disruptions and financial impacts. Following **Nordstrom's** disclosure that 46% of Nordstrom Product Group's volume in 2014 was sourced from factories that it categorized as "At-Risk," we filed a shareholder proposal in November asking the company to identify and curtail human rights risk in its supply chain.

### Gender Pay Gap

There has been increasing attention paid in the last year to the fact that the median income for a woman working full time in the United States is reported to be only 78 percent of that of their male counterparts. This gap has largely remained flat over the past decade. In an effort to have an impact at a deeper level on this issue we initiated shareholder proposals this fall on the gender pay gap at **Citigroup** and **American Express**.

### Racial Diversity

In 2013, the U.S. Equal Employment Opportunity Commission reported racial minorities comprised 35.9 percent of the private industry workforce, but just 12.2 percent of executives and managers. It is obvious, that employment and advancement barriers persist in many businesses. According to the United States Census Bureau, African-Americans and Hispanics have been consistently underrepresented in science, technology, engineering and mathematics (STEM) occupations. In 2011, blacks represented 11 percent of the total work force but only 6 percent of STEM workers. Hispanics were 15 percent of the total work force and 7 percent of STEM workers. Because **Adobe Systems** and **Citrix Systems** do not publicly report complete EEO-1 data — furthering investors' inability to assess commitment to diversity — Trillium filed shareholder proposals in October and December seeking transparency on workplace diversity.

### LGBT non-discrimination

Even though we are gratified by the U.S. Supreme Court decision recognizing same-sex marriage, we continue to be deeply concerned about workplace discrimination. Unfortunately, it is still legal in 29 states to be fired for being gay and 32 states for being transgender. For that reason we continue our decades long work to ensure the companies we invest in provide fully inclusive LGBT non-discrimination policies. Over the summer, **UNFI** and **F5** responded positively to our engagement and updated their non-discrimination policies to cover all LGBT workers. And in October we filed a shareholder proposal at **J B Hunt** asking it to update its policies. We also filed similar proposals at **Southwestern Energy** and **First Republic Bank** in November. Finally, we have been urging Texas-based companies to join *Texas Competes*, an organization working to prevent Texas from adopting legislation that would permit discrimination based on sexual orientation and gender identity.

### Income Inequality

In November and December, we filed shareholder proposals at **Chipotle Mexican Grill**, **TJX Companies** and **Panera Bread** urging them to adopt principles for minimum wage reform. Americans have become increasingly aware of the problem of low wages and economic inequality. For that

reason, we believe that companies need to speak up in support of a minimum standard of living necessary for the health and general well-being of workers and their families; and a minimum wage that is indexed to maintain its ability to support a minimum standard of living. This issue is particularly concerning at Chipotle because an August 2015 Reuters report pointed out that Chipotle pays its leadership “more than a thousand times what they pay their typical worker, giving them [one of] the biggest internal pay gaps among S&P 500 companies.” Earlier this year, Trillium publicly announced its support for an initiative by Business for a *Fair Minimum Wage* calling for an increase in the minimum wage to at least \$12 by 2020. The current federal minimum wage is \$7.25 an hour, which is equivalent to \$15,080 per year at 40 hours of paid work each week, 52 weeks a year. This number is below the federal poverty line of \$15,930 for a family of two.

## GOVERNANCE

### Political and Lobbying Spending

Having made good, but not good enough, progress on encouraging political and lobbying spending disclosures at **Marathon Petroleum**, **Wells Fargo**, **Spectra Energy**, and **Emerson Electric\*** we re-filed these proposals this fall. In high impact industries like these where public policy needs to be developed with high levels of transparency, we continue to push for as much disclosure as can be achieved. In September and October, we also directly dialogued with an industrial company and an energy company about how their trade associations were obstructing sound climate change policy. Happily, in response to our urging, both companies met with their trade associations to explain how counterproductive their obstructionist tactics were to business, society and the environment.

### Board Diversity

Two Credit-Suisse Research reports recently linked board diversity to better stock market and financial performance (higher return on equity, lower leverage and higher price/

book ratios). And according to a 2015 Pew report almost 80% of women believe that having more women in leadership positions in business and government would have at least some positive impact on all women’s lives. Continuing our years-long engagement on board diversity at a number of companies, Trillium filed a shareholder proposal at **Discovery Communications** in November and **Union Pacific** and **Stifel Financial** in December on steps they are taking to foster greater diversity on the Board. We are delighted that we were able to successfully withdraw a proposal at **Palo Alto Networks** following a commitment to update its governance documents to encourage board diversity.

## PUBLIC POLICY

Following years of work with our colleagues at US SIF and Domini Social Investments we were pleased to appear with Secretary of Labor Tom Perez for an October press conference to announce a change in Department of Labor guidance on fiduciary duties that made it clear that incorporating ESG factors into the investment process is fully consistent with fiduciary obligations.

In September, the EPA announced a first-ever air quality rule directly regulating methane emissions from the oil and gas industry. Trillium and Ceres had organized a 2014 and July 2015 letter from investors representing \$1.5 trillion in assets supporting this precise kind of rule. We continue to speak up in support of containing methane emissions, because they are such a strong greenhouse gas, by speaking with policy leaders in the White House and filing a shareholder proposal at **EOG Resources**.

In October, we visited Capitol Hill to meet with the Senate offices of Oregon, Ohio, New Hampshire, South Carolina, Mississippi, Montana, and Georgia to provide the investor perspective on the implementation of the EPA’s Clean Power Plan. We also voiced our support for strengthening clean energy policy via tax incentives. Strong climate policies give our portfolio companies the certainty needed to successfully move forward in a low carbon economy.

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