

AFFIRMATIVE IMPACT

July 2018

Can 43 Shares Make a Difference? YES!

By Holly Testa

The issue: The retail sale of products containing methylene chloride and N-Methyl-2-pyrrolidone (NMP).

Commonly found in paint strippers, these chemicals have been linked to dozens of deaths by asphyxiation and heart attack, and are suspected carcinogens. In spite of the serious hazards presented, these chemicals are still widely available at many retailers, including Lowe's. The Environmental Protection Agency (EPA) proposed a ban of these two chemicals from retail shelves in January 2017, but implementation has been delayed.

The non-profit partner: Mind the Store, a campaign of Safer Chemicals, Healthy Families.

This non-profit promotes strong chemical policies and works with retailers to phase out hazardous chemicals. It has been urging both retailers and the EPA to phase out methylene chloride and NMP. A letter was sent to Lowe's in February 2017 requesting this phase out. Lowe's did not act, and a person named Drew Wynne died shortly thereafter, overwhelmed by fumes from a paint thinner purchased from a North Carolina Lowe's. Mike Shade, the campaign's director, wanted to bring this issue directly to shareholders at the annual meeting to highlight the increasing reputational and litigation risk as well as the social cost.

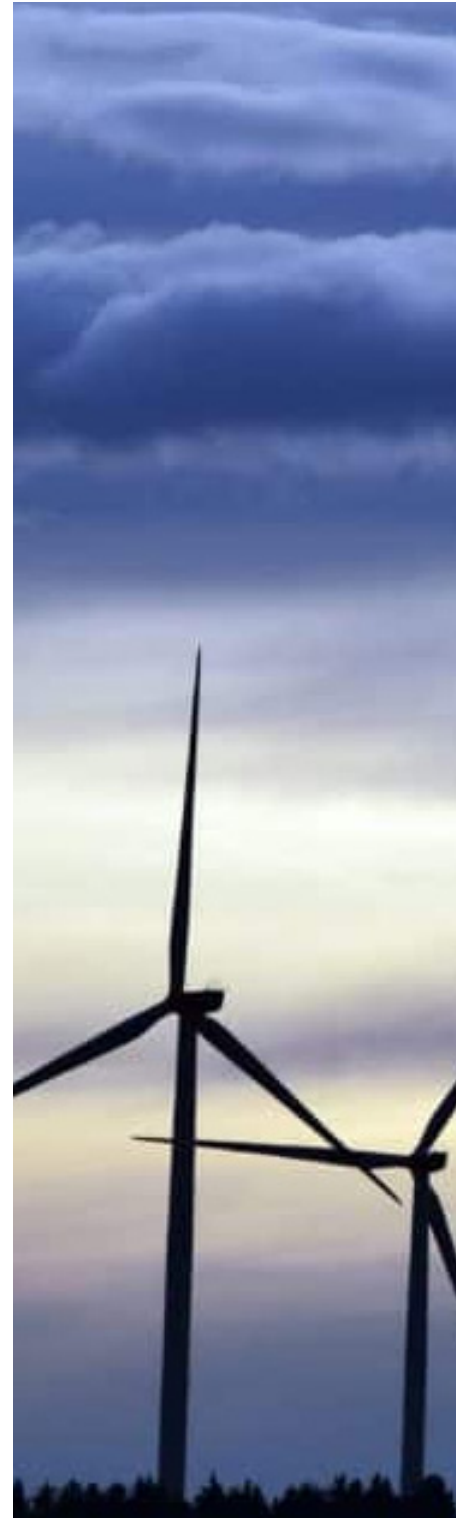
But there was a problem—only shareholders or their designated proxies can attend the annual meeting.

The investor role: Ownership comes with a voice.

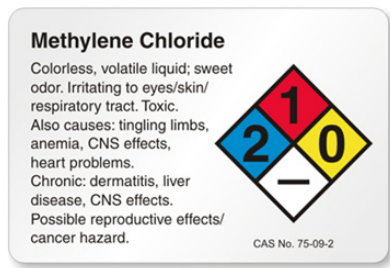
Two First Affirmative clients, who collectively owned just 43 shares in the company, exercised their right to designate a representative to attend the annual meeting on their behalf. One of those representatives was the parent of a Lowe's customer that recently died from methylene chloride exposure.

The outcome: Lowe's ultimately made the decision just prior to the annual meeting to phase out both chemicals by the end of the year. According to Mike, the fact that shareholders were supporting the presentation of this issue in a very visible forum was a tipping point in the negotiations: "It's clear that the threat of us coming to the AGM was a strong incentive for Lowe's to act."

The long-term goal: Industry-wide transition from hazardous chemicals to effective greener, safer choices. It can take years of concerted effort by a diverse range of stakeholders, including NGOs, consumers, and concerned investors to get to a tipping point—in this case, a bold move made by a single company that



leads to a domino effect. There is already evidence that this process is underway, as Sherwin-Williams and Home Depot recently announced they will follow Lowe's lead and phase out paint strippers containing methylene chloride by the end of the year.



Diversity Campaign Update

We believe that diversity, inclusive of gender, race and experience, is a critical attribute of a well-functioning board and a measure of sound corporate governance. Our concern about board diversity is reflected in our proxy voting policy, which directs us to vote against nominating committee board members if gender diversity is not at least 30% or if there is no racial diversity.

While most companies in our portfolio have at least one woman on their board, a small minority of our smaller cap companies still have zero women on their board of directors. In late 2017, First Affirmative contacted 10 companies held in client portfolios to express our concern at this unacceptable lack of diversity and to request dialogue and remedial action to address the issue.

We have subsequently received responses or engaged in dialogue with several of these companies. We are pleased to report that our engagement has contributed to substantive action in several cases.

- **Dentsply** announced their appointment of two women to their board on the same day as our dialogue with the company, and one board member meets racial diversity guidelines. The company expects to further enhance diversity when retirements from the board come up in 2019.
- **Eagle Bancorp** shared with us the recent addition of their first woman board member. They also indicate that six women sit on the board of their subsidiary EagleBank. The Company announced in their 2017 proxy that they see this subsidiary as a training ground for future Eagle Bancorp board members.
- **Consolidated Water** revised its nominating committee charter shortly after our letter was received, elevating diversity in its decision-making process, and has stated that it is striving to meet our 30% requirement.

- **Advanced Energy** updated selection criteria for director nominees to be more explicit about diversity and will include women and racial diversity in all nominee pools going forward.

What's next? We continue to monitor the progress of these companies, and will consider filing diversity resolutions at companies that have not responded to our inquiry or improved their board diversity profiles.

Advocacy Briefs

Zevin Asset Management continues our work at Kinder Morgan: Due to falling holdings at Kinder Morgan as our clients seek to lower the carbon footprint of their portfolios, we discontinued our filing of a shareholder proposal after three years of increasing support asking for two-degree scenario analysis to assess and disclose how the company is preparing its business for the transition to a low-carbon future. Fortunately, Zevin, an asset manager used by First Affirmative, took up the mantle and filed the same resolution in 2018. The result, 59% shareholder support, reflects the dramatic change in investor sentiment on climate risk disclosure and action. A sustainability reporting resolution at the company also reached majority status after many years of increasing votes.

Plastic Solutions Investor Alliance launched: First Affirmative signed a declaration that announced the formation of the Plastic Solutions Investor Alliance, an international coalition of 25 institutional investors with a combined \$1 trillion in assets to engage publicly traded consumer goods companies on the threat posed by plastic waste and pollution. This campaign has been organized by As You Sow, who will be organizing investor engagement with companies to find solutions through corporate commitments, programs and policies.

Advocating for comprehensive corporate environmental, social, and governance disclosure: Our advocacy efforts are often focused on obtaining information on specific issues directly from our portfolio companies so that we can adequately assess ESG performance and influence corporate behavior. Much of this company by company work would be unnecessary if comprehensive, uniform reporting on key sustainability issues was either mandated through regulation or effective, universally adopted voluntary reporting. Last quarter we were active on both fronts:

- **We asked 22 companies to participate in the CDP climate, water, and forest questionnaires** that facilitate comprehensive disclosure of a company's environmental impacts, policies, practices and progress. Over 6,300 global companies responded in 2017, resulting in the most comprehensive self-reported environmental data set in the world. This database is crucial for both

evaluating companies for our portfolios and for selecting companies we wish to engage, and so we participate in this campaign every year.

- **Voluntary disclosure has improved remarkably, but it varies substantially in quality, quantity and format** — and some companies continue to resist ESG disclosures that have been widely adopted by their peers. We therefore signed on to a petition organized by CERES to be filed with the Securities and Exchange Commission to adopt mandatory reporting guidelines for ESG related disclosure.

Interview with Joshua Brockwell of Azzad Asset Management

Joshua Brockwell is Communications Director at Azzad Asset Management. He is a public speaker and educator, offering

seminars across the country on ethical investing. In 2016, Mr. Brockwell established the shareholder advocacy program at Azzad.



If you had to pick one, which would be the greatest achievement of Azzad in terms of Shareholder Advocacy in 2017?

We were pleased to rally a coalition of investors, including First Affirmative, to pressure Chevron to address human rights abuses that take place in countries where

it does business, specifically in Myanmar/Burma. Chevron is the largest U.S. corporation operating there, where a brutal campaign of violence against the ethnic Rohingya minority is taking place. After pressure from investors last year, the company publicly pledged to work for a business environment that respects human rights. CEO Michael Wirth confirmed during a Q&A session during the annual general meeting in May that Chevron is in dialogue about human rights with Myanmar officials. Although more work needs to be done, we were grateful to hear this.

Azzad has been a strong supporter of human rights globally. Where have you seen the most progress on this issue, and where have you found the most resistance?

It's true that, as a company, we are supportive of human rights initiatives around the world. We would always like to do more in this field but are limited by competing priorities and resources. So, one of our biggest impediments to even

further progress is self-imposed. That's why I feel that one of the most important developments on this front in recent years has been the launch of the Investor Alliance for Human Rights, which is a project of the Interfaith Center on Corporate Responsibility. We joined this group early on and are optimistic about its ability to leverage the strengths of its many members to push for corporate social responsibility.

Your firm has been committed to addressing the plight of the Rohingya Muslims in Burma (Myanmar) and has engaged with several companies including Chevron on the issue. What results have come from these engagements and what will be the biggest challenges moving forward?

In 2017, Azzad and the non-profit International Campaign for the Rohingya partnered to organize investor letters to companies with ties to Myanmar/Burma asking them to reconsider their relationships. In October, our investor group of 31 institutions representing \$53.7 billion in assets signed a letter to six multinational oil companies in Burma; 24 institutions representing \$24.4 billion signed a similar letter asking several jewelry retailers not to source gems from Burma that profit that country's army. Tiffany and Cartier have already pledged not to buy these gems. One of the biggest challenges ahead is to continue the momentum of these efforts now that the Rohingya are not as prominent in the news cycle. Public attention helps garner support for campaigns. Unfortunately, there's no shortage of newsworthy causes these days.

What do you hope to accomplish in 2018, and what are some of the challenges you face in accomplishing your advocacy goals?

We're looking into reports of Facebook being used as a tool to foment ethnic tensions in some countries and whether to start a dialogue with them on that. We hope to build on the momentum that we started two years ago at Chevron and turn out more votes for the 2019 AGM. We're also working with Honeywell on lobbying disclosures, where their new CEO seems engaged and amenable to change. In terms of challenges, we're monitoring developments at the regulatory and legislative levels to roll back shareholder rights. That's something that should be on everyone's radar in the current political environment.

Additional or concluding thoughts?

There is tremendous potential for investors of all stripes to use their money for good, but unfortunately, not everyone realizes the impact that mobilizing their assets and voting their proxies can have. The American corporation is a democratic institution that gives individual shareholders a voice in the corporate governance process, and that's not the case everywhere around the world. I would encourage investors to know what they own and why they own it--and to use their clout to keep companies accountable to their shareholders.



First Affirmative Financial Network Honored as a Best For The World Company For Creating Positive Impact for Workers, Environment and Community

First Affirmative has been honored by B Lab as a Best For The World: Customers company. B Lab certifies B Corporations, companies that use the power of business to solve social and environmental problems.

The 221 recipients of the Best For The World: Customers award came from 69 different industries and 32 countries. First Affirmative is one of 30 investment advisory firms to receive this award. B Lab has honored First Affirmative as a Best For The World: Customers company every year since 2016. Also, in 2012, First Affirmative received the Best For The World: Workers award.

“We are thrilled to join the 221 firms that were honored as a Best For The World company,” said George Gay, CEO of First Affirmative, which has been a certified B Corp since 2011. First Affirmative is a wholly owned subsidiary of brokerage, custody, clearing and FinTech firm Folio Financial, Inc. (formerly FOLIOfn, Inc.).

Gay added, “First Affirmative’s staff and clients believe that as investors, we must take responsibility for the impact our portfolios have on the world. We create and manage more than \$1 billion in investment portfolios that are tailored to meet the unique needs of socially conscious investors. In addition, as the founder of The SRI Conference and Community, we have – and continue to do so – educated several hundred investment professionals each year on the benefits and ‘how to’ of SRI investing.”

Only Certified B Corp companies that rank in the top 10 percent of a B Impact Assessment category earn a spot on a Best For the World list. The Customer portion of the B Impact Assessment measures the effect a company has on its customers through the sale of products or services that promote public benefit and help underserved populations. It also measures whether a company’s product or service is designed to solve a social or environmental issue.

“With the rise of anger at a system that feels rigged, people are hungry for companies like First Affirmative Financial Network that are changing the system by building businesses that seek to create the greatest positive impact,” says Jay Coen Gilbert, co-founder of B Lab. “Best For The World is the only list of businesses that uses comprehensive, comparable, third-party-validated data about a company’s social and environmental performance. As consumers, talent and investors increasingly demand transparent, values-aligned businesses to buy from, work at and invest in, companies will need to not just be the best in the world but the best for the world.”

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5475 Mark Dabling Boulevard, Suite 108, Colorado Springs, CO 80918
p: 703.245.5820 • f: 703.245.5850 • www.firstaffirmative.com
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