First Affirmative
a FolioFinancial company

Advocacy & Impact
January 2020

Proxy Voting Trends

Our track record on proxy voting continues to contrast sharply with overall averages, as our proxy voting guidelines establish standards not typical within the mainstream investment community. We voted against over 40% of nominating committee board members due to lack of gender and racial diversity and against almost 50% of compensation committee board members due to their oversight and approval of excessive executive compensation.

Support for environmental and social proposals dropped from 27% in 2018 to 25% in 2019. This reflects in part the **failure** of the largest institutional investors like BlackRock and to J.P. Morgan Chase to support proposals that address critical ESG issues. This is in spite of their commitment to better align proxy voting with their public commitment to ESG investing and engagement following shareholder proposals in 2017. Concerned investors are **re-engaging** with these institutional managers by filing shareholder proposals again in 2019.

Proxy Season 2019

Proxy Voting

- 1,077 meetings voted
- Supported 67% of shareholder proposals
- Opposed 39% of management proposals
- Opposed 66% of executive compensation proposals

Dialogue

- Over 125 contacts with portfolio companies
- Participated in letters and statements with 85 companies, industry groups
- Prioritized 40 companies for lead engagement via letter and dialogue

Resolutions

- Lead File — 3 Co-File— 10
- Withdrawals — 7
- 5 > 30 % shareholder support
- Our third-party managers filed 129, withdrew 58

Public Policy Advocacy

- 11 letters to governing bodies addressing shareholder rights, human rights, climate and environment

Divestment

- Client customized stock industry exclusions available, including fossil fuel divestment options

2019 Shareholder Resolutions

Integrating the Sustainable Development Goals

Company	Request	Outcome	SDG Alignment
Amazon	Report on company actions to assess, disclose, reduce and manage food waste	Voted. 33.6% support. This resolution was one of 12 voted on at the annual meeting as part of a well-publicized campaign calling attention to the company's lackluster record on ESG issues and reluctance to engage.	2 ZERO HUNGER 13 CLIMATE ACTION
Chevron	Report on how the company can reduce its carbon footprint to align with the goals set by the Paris Agreement	Voted. 33.2% support. Chevron announced GHG emissions reduction goals early this year, but apply to just methane, representing only 5% of total emissions.	13 CLIMATE ACTION
PepsiCo	Report on progress in meeting published goal of attaining a nationwide 50% beverage container recycling rate	Withdrawn. PepsiCo has fallen far short of its 50% beverage container recycling rate goal, but it did produce a report outlining their efforts and the challenges to progress. Dialogue will continue through the Plastic Solutions Investor Alliance.	13 CLIMATE ACTION 15 LIFE ON LAND
SBA Comm-unications*	Produce sustainability report	Withdrawn. The company challenged this resolution at the SEC in spite of negligible reporting. However, We met with the company and to negotiate a withdrawal agreement that includes a commitment to basic sustainability reporting and ongoing dialogue.	12 RESPONSIBLE CONSUMPTION & PRODUCTION 13 CLIMATE ACTION
Cambrex	Report on steps being taken to increase board diversity.	Withdrawn. The company agreed to amend its corporate governance guidelines to reflect the importance of board diversity. It also established a policy of including diverse candidates in all board searches.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 5 GENDER EQUALITY
YUM Brands	Report on development of a comprehensive sustainable packaging policy	Voted. 33.6% support. Yum has made some progress on integrating sustainable packaging, but the company umbrella includes three different brands (Taco Bell, KFC, Pizza Hut) with different and complex supply chains and oversight. Engagement will continue.	12 13 14 15

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Nucor*	Disclose policies governing political contributions and provide detail on related spending	Voted. 40.6% support. In spite of very high support level, the company has not responded to requests for dialogue and we have already filed our resolution for the 2020 proxy season.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Masimo*	Report on steps being taken to increase board diversity.	Withdrawn. The company recently added a woman to their board and revised their nominating policy to include diversity. Note that we will continue to vote against the nominating committee until they achieve 30% gender diversity and have racial diversity representation.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 5 GENDER EQUALITY
J.P. Morgan Chase	Disclose policies governing political contributions and provide detail on related spending	Voted. 40.6% support. In spite of very high support level, the company has not responded to requests for dialogue and we have already filed our resolution for the 2020 proxy season.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
AbbVie	Disclose policies governing lobbying efforts and related spending	Voted. 33.3% support. AbbVie direct lobbying spending was $1.8 million in the third quarter of 2019, a nearly 200 percent increase from third quarter 2018. The company does not disclose the portion of its trade association dues used for lobbying.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Oracle	Disclose policies governing lobbying efforts and related spending	Withdrawn. After filing this resolution for five years, lead filer Boston Common withdrew on our behalf after a favorable agreement was negotiated.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS
Verizon	Disclose policies governing lobbying efforts and related spending	Withdrawn. We also co-filed with Boston Common on this resolution, and after four years they were able to withdraw after a favorable agreement was negotiated.	16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Engagement Briefs

Climate and Environment

We continue to engage the dwindling number of companies in our portfolio that don't provide sustainability reporting, and were able to **withdraw** a proposal at SBA Communications after dialogue. We continued our ongoing letter writing campaign, contacting six companies asking for action on sustainability reporting and three companies requesting disclosure about their plans for renewable energy adoption. We signed on to over 75 letters and statements to individual companies requesting specific climate and environmental disclosures and action, including setting science-based targets for greenhouse gas emissions, the management of animal protein sourcing, and ceasing the export of and reducing production of plastic waste. We also participate in in the **Investor Decarbonization Initiative**, an investor coalition established by Share Action that has helped investors engage with companies to make significant progress in getting companies to commit to proactive emissions reductions.

Diversity

Our work on board diversity continues, and we were able withdraw proposals at Masimo and Cambrex following productive dialogue. We are pleased that Masimo is now removed from the ranks of companies with no gender diversity, but nominating committee members will still earn a no vote until gender diversity reaches 30% and racial diversity is achieved. Support for all male boards continues to erode, dropping from 88% to 84% as more major institutional investors amend their policies to vote against nominating committee members. This was a watershed year, in that the S&P 500 has no all-male boards left and boards with three or more women climbed from 37% in 2016 to 56% in 2019.

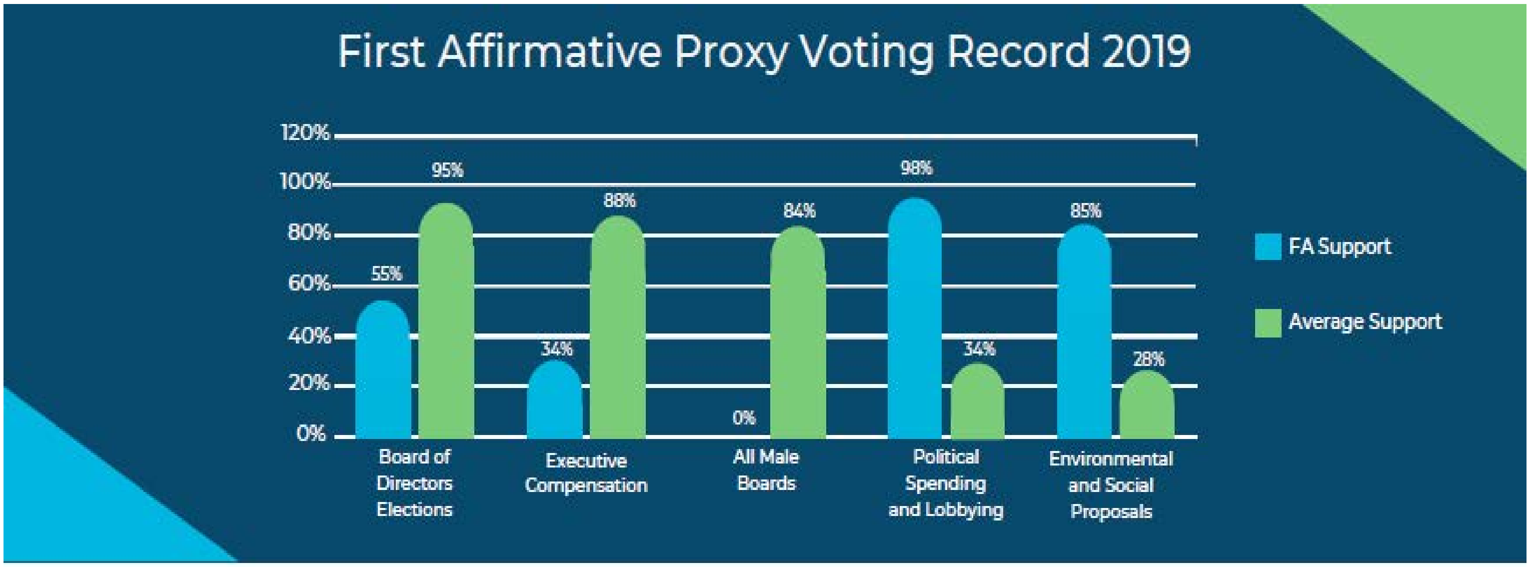
Political Spending

Our lead file at **Nucor** asking for political spending disclosure garnered a strong 40.6 support and a lobbying proposal at AbbVie achieved 33.3% support. Three lobbying proposals were successfully withdrawn.

Public Policy

While the ongoing threat to shareholder rights dominates our work on public policy, we also weighed in on other issues that are state, national and international scope. We supported reporting requirements to minimize corporate tax avoidance and **encouraged** the Financial Accounting Standards Board to require country by country reporting of tax payments. We also joined the **We Are Still In Campaign** pressing the new Congress to take climate action. We petitioned the Bangladesh government to allow the Accord on Fire and Building Safety to effectively continue its work to improve working conditions in the garment industry. An **agreement** was reached with the Bangladesh government.

In our home state of Colorado, we contacted legislators on three separate occasions to support aggressive GHG emissions goals and electrical vehicle support via extension of the vehicle credit and funding for charging infrastructure. Upon successful passage of these initiatives, our CEO George Gay noted that "As the rest of the world shifts toward electric transportation, forward-looking policies like a strong ZEV program provide companies and investors with the policy certainty needed to enable long-term investments in this rapidly growing industry, spur innovation, and generate more local jobs for Colorado's residents."



Our Focus on Financial Institutions: Investing for the Future or Bankrolling Failure?

We have engaged in two campaigns focused on financial institutions in recent years addressing 1) the failure of financial institutions to **adequately address climate change** in their lending and investment portfolios and 2) the role of banks and credit card companies in financing firearms purchases. (learn more about our firearms campaign **here**).

Why **concentrate** on financial institutions? They collectively act as gatekeepers to capital via their lending and investment decisions-and how they make those decisions will be a major determinant of the nature, pace, and scale of collective action on a broad range of long-term ESG issues. Nowhere is this more apparent than fossil fuel financing, as Bill McKibben points out in **Putting Pressure on the Finance World Could Be One of the Most Effective Ways to Fight Climate Change.** Our client portfolios are also indirectly exposed to industries otherwise excluded from their portfolios via these institutions lending and investment decisions.

Case Study: J.P. Morgan Chase

First Affirmative led an 82 investor coalition representing over $176 billion in assets under management in sending a letter [H1] to open a discussion about J.P. Morgan Chase's regrettable position as the leading financer of the fossil fuel sector.

All banks, including JPMorgan Chase, are crucial to accomplishing the necessary transition from a fossil fuel to a renewable energy-based economy, through the rapid redeployment of the capital required to meet the goals of the Paris Agreement. J.P. Morgan has touted its sustainable practices with substantial commitments to clean energy, vowing to facilitate 200 billion in clean financing by 2025 and committing to 100% renewable energy by 2020. However, these commitments seem insignificant when reviewing the companies lending practices. A recent report on global banks' financing of the fossil fuel industry, **Banking on Climate Change**, found that since the Paris Agreement was adopted J.P. Morgan Chase has been the world's biggest banker of fossil fuels overall, with financing of $196 billion, nearly 30% higher than the #2 bank. It is also, by far, the #1 banker of the 100 top companies expanding fossil fuel extraction and infrastructure.

Policies aligned with the Paris Agreement should recognize that fossil fuel extraction and use must be rapidly ramped down, and therefore must contain appropriate financing restrictions, particularly on financing that facilitates the development of new reserves. Recent dialogue with the company provided insights into ongoing risk analysis for high carbon sectors, with promises of more explicit disclosure in the near future, but this is not enough. All banks need to assess their role in contributing to the climate crisis and change course. First Affirmative joined As You Sow and other investors to **file resolutions** at J.P. Morgan and other banks asking them to immediately take tangible steps to measure, disclose, and reduce the GHG associated with fossil fuel lending.

In Their Own Words: Advocacy Accomplishments of Our Activist Managers

When First Affirmative builds investment portfolios designed to align with client values and financial goals, we engage investment managers who actively engage with portfolio companies on crucial ESG issues. We often partner with these managers on advocacy initiatives, which enhances our negotiating hand when negotiating with companies. We asked some of these leading firms to share impactful moments from 2019. Learn more about all of our activist managers by clicking on the manager icons.

TRILLIUM ASSET MANAGEMENT®

"Trillium's 2019 record of success in promoting diversity and inclusion is something we are extremely proud of. In the past year, seven companies added diverse board candidates following our engagements. We filed the first shareholder proposals focused on executive team diversity, one of which received a 56% vote. Five companies agreed to or began to disclose full or partial EEO-1 diversity reports. Finally, our advocacy led a dozen companies operating in states that permit sexual orientation and gender identity discrimination to commit to not discriminating against their LGBT employees." — Jonas Kron, Senior Vice President

Calvert

"In the wake of a shooting at a Walmart, Calvert called on the retailer to address its gun sales and safety policies. The company subsequently announced substantive changes —agreeing to use its influence to argue for gun safety regulations, share best practices to improve compliance with gun regulations, request that customers not openly carry firearms into its stores, and stop sales of ammunition for handguns and assault weapons. We were pleased to see this line in CEO McMillion's message: "We've also been listening to a lot of people inside and outside our company as we think about the role we can play in helping to make the country safer." Have you ever wondered if, as a shareholder, employee, or concerned and caring person, your voice matters? This is another indication that it does. Activism and engagement, especially when done strategically and in a manner consistent with long-term value creation, can work." — Stu Dalheim, Vice President, Shareholder Advocacy Manager

Domini

In 2019, Domini redoubled its longstanding efforts on protecting the forests. After the fires in the Amazon this summer and the fires still raging in Australia, the work feels more important than ever. The continued loss of forests creates massive risks for our planet and as well as our investments. We're proud of the work we've been doing with diverse stakeholders to recognize and protect the value created by forests and look forward to doing more in 2020. www.domini.com/forests

Our Activist Managers

Follow our progress!

For timely updates on our advocacy activities, visit our website's advocacy page and leadership blog. You can also follow us on Twitter and Facebook.

Advocacy Partners

First Affirmative joins forces with non-profit organizations that support investor networks addressing sustainability issues through active ownership and corporate engagement. Each of these organizations provides specialized expertise that supports our corporate engagement on priority issues. Our primary advocacy partners

The Fight for Shareholder Rights

Our October 2019 newsletter highlighted the threat posed by recent actions by the Securities and Exchange Commission (SEC), including a proposed rulemaking at the SEC that has since been published. In addition to substantial changes in the filing thresholds and resubmission thresholds for shareholder proposals, the proposed rules would curtail our ability to effectively represent our clients. Here are the key elements and potential impacts on our clients and advocacy program:

Shareholding requirement

- **Now**: $2, 000 held for one year, aggregation of shares allowed
- **Proposed**: Increases to holding size of $25,000 for one year, $15,000 for two years, $2,000 for three years, aggregation of shares not allowed

Impacts: This increase arbitrarily disenfranchises clients with smaller holdings. In fact, NONE of the resolutions we filed in 2019 could have been filed on behalf of those clients until year three. Aggregation, which allows shareholders to combine shares to meet the holding requirement, would be disallowed.

The ability to file a resolution provides leverage in those cases where a company is not effectively addressing material ESG concerns. Without that leverage, our ability to engage with reluctant companies will be adversely impacted.

Support required for proposal resubmission

- **Now**: 3% first year submitted /6% second year/10% third year
- **Proposed**: 5% first year submitted/15% second year submitted/25% third year submitted AND proposals that after 3 years receive >25% but < 50% and support declined by 10% will be excluded.

Impacts: Most proposals filed by First Affirmative that have gone to a vote exceed proposed thresholds, but this rulemaking is particularly damaging to shareholder's ability to raise concerns about emerging issues and eliminates the opportunity of shareholders to use their proxy to weigh in on important issues. Most proposals start with minimal support, but those that prove their business case over time are often withdrawn after successful negotiation or go on to win substantial, and even majority support.

For example, a proposal to granting investors the right to nominate board directors to appear on the proxy received only 4.4% support the first year it was filed at Netflix, but won a majority vote when refiled two years later in 2015. The Board enacted proxy access in 2019. The same patterns applied at other companies on this same issue before achieving majority support and eventual company adoption.

The Fine Print

The proposed rule also requires for shareholder proponents to state when they would be able to meet with the company to discuss the proposal. A similar requirement is not imposed on the company. More concerning yet, the provision with the greatest adverse impact to our advocacy program is tucked away in a short footnote. Our clients routinely delegate the proposal filing and subsequent negotiations to First Affirmative. Footnote number 70 simply states that the filing shareholder (a.k.a. our client!) is required to be present during these negotiations as well.

We are greatly concerned that the SEC would choose to interfere with the advisor/ client relationship in this way. Our clients retain us to provide them investment advice; they should certainly have the right to delegate complex discussions on material ESG issues that impact the investments that we manage.

60 Day Public Comment Period Ends February 3, 2020

Dear Chairman Clayton...

SEC Chairman Clayton cited numerous supporting letters reported to be from "mainstream investors" as evidence of investor support when he announced proposed rulemaking. Those letters are now the subject of an investigation as to their authenticity, with Bloomberg reporting that their investigation "... shows they are the product of a misleading -- and laughably clumsy -- public relations campaign by corporate interests."

We are heartened to see that a large and diverse array of investors have joined First Affirmative to submit critical comments in the last few weeks — from large financial industry groups representing the SRI/ESG community, institutional investors, foundations and individuals. Our advisors and clients are also weighing in through personalized letters and petitions.

Regardless of the final SEC decision on this issue, First Affirmative remains committed to a strong and vibrant corporate engagement program.