

2020: Taking Stock of Shareholder Engagement during Disruption

Last year garnered its own unfortunate but well-earned twitter hashtag: #2020worst. It brought us the onset of COVID-19, growing inequality as the stock market reached new highs and employment levels plummeted, rise of Black Lives Matters, ongoing political strife, a record year of natural disasters made worse by climate change... and the list goes on.

These overlapping challenges are symptomatic of a collective failure to adequately address the long-term environmental, social, and governance (ESG) risks that are the focus of our advocacy efforts. Although classifying issues as E, S, or G is standard practice, this past year made it abundantly clear that the issues we face cannot be easily categorized, that **all** issues have ES and G aspects, and that a more holistic approach is necessary.

Fortunately, 2020 has also served as a catalyst for responsible investors to evaluate engagement priorities and tactics of engagement. Pressing social issues have been prioritized and more fully integrated into our advocacy work on climate, chemical risk management, diversity, and human rights, and you will see this reflected in this year-end review.

Proxy Season 2020

Proxy Voting

- 1,139 Meetings Voted
- Supported 70% of shareholder proposals
- Opposed 34% of management proposals
- Opposed 61% of say on pay proposals

Dialogue

- Over 120 contacts with portfolio companies
- Prioritized 15 companies for lead engagement
- Participated in direct letters to 61 companies
- Supported four campaigns seeking broad based corporate action

Proposals

- Lead File - 1; Co-File - 9
- Withdrawals - 6; Omitted - 1
- 3 Votes: 2 > 40% and 1 > 30% Support
- Our third-party managers filed over 90 proposals, withdrew 54

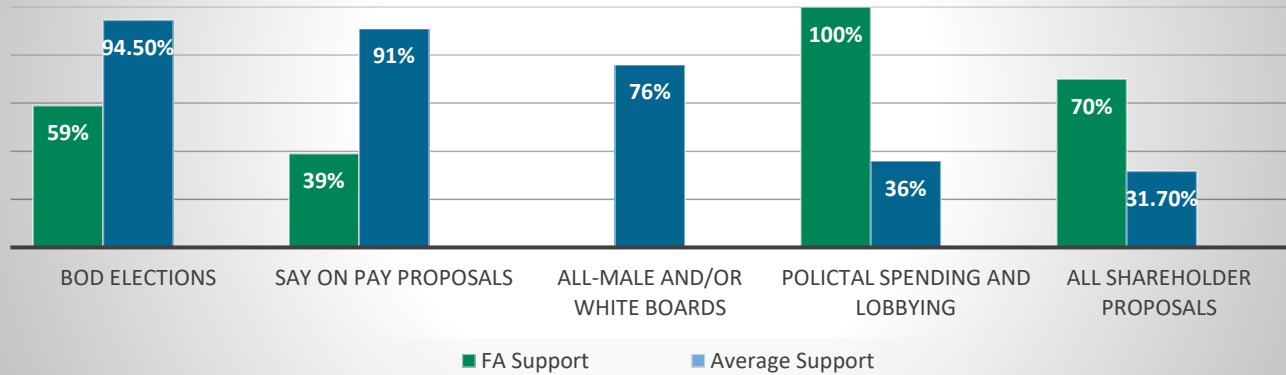
Public Policy

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



First Affirmative Proxy Voting Record 2020

*Nominating Committee Support


















2020 Shareholder Resolutions

Filed or Co-Filed by First Affirmative Financial Network as of 12/31/2020

COMPANY	REQUEST	OUTCOME	SDG ALIGNMENT*
Amazon	Report on company actions to address food waste	Voted. 32.1% support. 40.4% excluding insider shares. Amazon faced 12 shareholder proposals; many earned >30 % support. As Amazon's market power has grown during COVID-19, so has investor concern regarding the Company's management of adverse impacts.	<div style="background-color: #FFC107; padding: 5px; margin-bottom: 5px;">2 ZERO HUNGER</div> <div style="background-color: #28A745; padding: 5px;">13 CLIMATE ACTION</div>
Blackrock	Report on incongruities between proxy voting practices and policy positions regarding climate change.	Withdrawn, agreement. Disclosures have improved, but overall voting record continues to disappoint despite the agreement. A large coalition of investors refiled the proposal for 2021.	<div style="background-color: #17A2B8; padding: 5px; margin-bottom: 5px;">16 PEACE, JUSTICE AND STRONG INSTITUTIONS</div> <div style="background-color: #28A745; padding: 5px;">13 CLIMATE ACTION</div>
Capri Holdings*	Issue sustainability report	Withdrawn, agreement. After multi year effort, Capri issued a sustainability report that exceeded expectations. We will continue to engage on Covid-19 impacts to supply chains and employees.	<div style="background-color: #E91E63; padding: 5px; margin-bottom: 5px;">10 REDUCED INEQUALITIES</div> <div style="background-color: #FFC107; padding: 5px; margin-bottom: 5px;">12 RESPONSIBLE CONSUMPTION & PRODUCTION</div> <div style="background-color: #28A745; padding: 5px;">13 CLIMATE ACTION</div>



<p>Chevron</p>	<p>Report on how the company can reduce its carbon footprint to align with Paris Agreement goals.</p>	<p>Omitted. This proposal received strong 33.2% support last year. Chevron responded with inadequate disclosure, but the SEC allowed omission, citing “substantial implementation”.</p>	
<p>Comcast</p>	<p>Disclose policies governing lobbying efforts and related spending</p>	<p>Withdrawn. Report Published.</p>	
<p>TJX</p>	<p>Report on chemical management policies and chemical footprint reduction</p>	<p>Voted. 44.5% support, an exceptional outcome for this first of its kind proposal that indicates chemical risk is under increasing scrutiny by mainstream investors. Dialogue continues.</p>	  
<p>YUM Brands</p>	<p>Report on development of a comprehensive sustainable packaging policy</p>	<p>Withdrawn, agreement. Following a strong vote last year, dialogue with YUM led to a commendable packaging reduction commitment, including the removal of Styrofoam and Expanded Polystyrene from global supply chain by 2022.</p>	   
<p>Starbucks</p>	<p>Report on development of a comprehensive sustainable packaging policy</p>	<p>Withdrawn, agreement. The company announced waste reduction goal of 50% by 2030, with an emphasis on reusables.</p>	   
<p>JP Morgan Chase</p>	<p>Report on if and how lending activities will align with the Paris Climate Agreement</p>	<p>Voted, 49.6% support. We co-filed this resolution following JP Morgan’s inadequate response to a letter we sent on behalf of an 82-member investor coalition requesting that the bank measure and reduce the carbon footprint of its lending portfolio.</p>	
<p>Morgan Stanley</p>	<p>Report on if and how lending activities will align with the Paris Climate Agreement</p>	<p>Withdrawn, agreement. The Bank agreed to analyze methods to measure its portfolios for alignment with the Paris Agreement, and became the first major U.S. bank to join the Partnership for Carbon Accounting Financials (PCAF).</p>	



First Affirmative shareholder resolutions press for progress on many of the Sustainable Development Goals adopted by the United Nations in 2015.

Engagement Highlights

In addition to our work connected with shareholder proposals, many of which were previously highlighted in our [last update](#), we are pleased to share other highlights from 2020.

COVID-19 -19 Related Initiatives

- We participated in ongoing initiatives of the [Investor Alliance for Human Rights](#) to convey investor expectations with regard to human rights policies in supply chains and Covid-19 response.
- First Affirmative’s Chief Investment Officer co-wrote a forward to a Corporate Knights [report](#) highlighting inadequate sick leave policies, noting that “Investors should engage with the well over half of companies assessed in this report that are headquartered in countries – including the US – lacking adequate government-mandated paid sick leave policies.” We will be engaging our portfolio companies on this issue going into 2021.
- As COVID-19 highlights the role that endocrine disrupting chemicals play in compromising healthy immune systems, we expanded our work on chemical risk management issues:
 - We sent a letter on behalf of 10 institutional investors to McDonald’s requesting the elimination of one such chemical group, Poly and Perfluoroalkyl Substances (PFAS), from their food packaging and to address chemical risk management issues. We filed a shareholder proposal for 2021 annual meeting, and in January the company [announced](#) a goal to remove PFAS from supply chains by 2025.
 - After the first ever shareholder proposal on chemical risk management garnered a 44.5% vote at TJX, the company took several actions to ensure that chemical risk management is prioritized and [announced](#) significant commitments. We will engage with the company annually as they make progress.

Racial Equity

- In recognition that the investment industry has much work to do to advance the practice of integrating racial equity into investment management decisions, we joined the [Belonging Pledge](#). The ultimate goal is to build systemic solutions that will counter racial inequity by changing the way we make decisions about the deployment of capital.



- First Affirmative was mentioned, oddly enough, in the [sports pages](#). A letter to FedEx, Nike, and PepsiCo, led by a group of investors that included our firm, asked these companies to cut sponsorship to the Washington NFL football team if the racist name was not changed. This request has been made repeatedly for years; this time companies acted. The mounting pressure [compelled](#) team owner Daniel Snyder to commit to a name change.

Climate and Environment

- We [delivered](#) a petition on behalf of Union of Concerned Scientists to Blackrock that cites concerns with regard to their failure to support shareholder proposals and have joined a large coalition to file yet another shareholder proposal for 2021 after disappointing 2020 results. We are cautiously optimistic that Blackrock is **finally** [set to change course](#) in 2021 with their publication of new [stewardship expectations](#). These expectations include an analysis of the effectiveness of shareholder proposals and a commitment to support more shareholder proposals.
- We led a broad investor coalition to ask J.P. Morgan Chase for [clarity](#) regarding their stance on climate change. J.P. Morgan recently announced a plan to set [climate targets](#) after a proposal co-filed by a coalition including First Affirmative achieved a 49.6% support level. We have filed again in 2021 and dialogue continues.
- We joined indigenous groups, conservationists and other investors to [ask](#) major insurers to refuse to insure Arctic drilling projects. Swiss Re has already [agreed](#). We also joined an investor coalition to file a proposal at Bank of America for the 2021 proxy season asking for a policy that prohibits the financing of such projects. The proposal has already been withdrawn, as the company [took action](#).
- Amazon pledged to reduce food loss and waste in their own operations by 50 percent by the year 2030. We have been pressing the company for over five years on this issue, including a shareholder proposal on food waste that recently garnered 32% support.

Public Policy

Much of our public policy activity focused on minimizing [rollbacks](#) to effective environmental and social policies at the federal level and the implementation of rules that threaten investor rights. We have:

- Commented on the rollback of key environmental regulations like the National Environmental Policy Act
- Challenged federal response (or lack thereof) to Covid-19
- Demanded regulatory action to tackle systemic climate risk
- Requested better corporate reporting on climate change and human capital management
- Opposed DOL rulemaking that would limit the availability of ESG options in retirement accounts and investment manager's ability to vote client proxies

Much of our commenting has fallen on deaf ears, but consistent and ongoing pushback from investors turned back some of the worst proposals and positions investors to legally challenge some rules and successfully navigate others.

The Securities and Exchange Commission (SEC) adopted a rule in September that limits the abilities of shareholders to file proposals. These rules will not impact proposals filed in 2020 for the 2021 annual meeting season, giving us time to determine the best path forward. The rule was passed in spite of an



overwhelming majority of comments submitted by investors against the change, including those of [First Affirmative](#). Key changes and their potential impacts to our engagement program can be found [here](#).

Our Response? Innovation, NOT Retreat!

A change in administration will change the tone and focus of our work in the coming four years for the better, but challenges remain.

We are exploring options to minimize impacts on our engagement program and working with our partners to capitalize on the accelerating momentum towards a just and sustainable economy that the supporters of this proposal feel compelled to curtail. Over the next year we will:

- Work with an SEC that, under a new administration, will be in a position to mitigate some impacts of the new rule
- Work with our advocacy partners to find alternative filers for key proposals threatened by new eligibility rules
- Commit funding to ongoing legal efforts to overturn this rulemaking if necessary
- Leverage relationships with portfolio companies to reduce the need for shareholder proposals

Activist Managers Engagement Highlights

First Affirmative utilizes numerous management firms that also actively engage with their portfolio companies. Here are just a few engagement highlights:



Ensured completion commitments made by Chevron after a human rights proposal focused on operations in Myanmar was withdrawn. These included educational initiatives targeted toward Myanmar officials and policymakers and sponsoring a symposium of the [Center for Strategic and International Studies](#).



[Launched](#) a workplace racial equity initiative with nine portfolio companies to find out how they are addressing racial equity in the areas of board & executive accountability, corporate culture, data, analysis & reporting.



Walden Asset Management
Advancing sustainable business practices since 1975

Impacted board diversity at dozens of their portfolio companies; their engagement led a substantial majority to adopt the Rooney rule that requires diverse pools of applicants to be considered for all nominating committee decisions.



Engaged 82 US companies to disclose EEO-1 data that details the company's employment, broken down by racial, ethnic, and gender categories at each of ten professional levels. 24 have agreed to do so; shareholder proposals will be filed at selected nonresponding companies.



Organized an [investor statement](#) signed by over 325 institutions urging the business community to protect employees and communities from the impacts of COVID-19 that spurred multiple productive engagements with companies.



Focused engagement with utilities regarding climate transition plans resulted in [significant commitments](#) from some of the largest utilities in the United States to transition from fossil fuel to renewables, including net zero carbon emission by 2050 commitments from Duke Energy and Southern Company.



Continued their leadership role in the fight against deforestation by filing a proposal asking Proctor and Gamble to report on address degradation of intact forests in its supply chain, receiving an [astonishing 67% support](#)— more than twice the previous record for a forest protection proposal.



Developed and then shared a proprietary physical climate risk model with investee companies for feedback and [petitioned the SEC](#) to make disclosure of all physical locations mandatory, as accessing this data is required to evaluate physical climate risk.



Published a timely [report](#) detailing their findings with regard to corporate policies that support employee civic engagement and the results of dialogue regarding the provision of paid time off to vote.



Filed a first of its kind proposal at **UPS** asking them to address its large airplane carbon footprint in its climate change strategy-it received nearly 30 percent support, in part by successfully soliciting rare [support from Vanguard](#) mutual funds.

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:



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