
AFFIRMATIVE IMPACT

April 2018

Investors Ask Banks and Credit Card Companies to Take Action on Gun Violence

By Holly Testa

What do financial institutions have to do with gun violence? Follow the money. Many banks not only finance firearms manufacturers and distributors, they also provide credit merchant services to firearms retail outlets, from the largest chain to the smallest storefront to the gun show vendor. When a customer buys an assault-style weapon or accessory designed to increase the firing capability of a weapon, they may well take out their credit card to pay for it. Does the lender have a responsibility?

Yes! Financial Institutions that enable the purchase of weapons and accessories via credit and merchant services may do so with no control over the types of weapons and accessories financed, the sales and safety practices of the retailer, or the background checks conducted on the purchaser at the point of sale. Responsible investors are concerned that many banks are not adequately considering the social cost and investment risk presented by extending credit for the purchase of firearms sales.

Banks and credit card companies are able to place restrictions on the products that may be purchased as well as who is qualified to purchase products in merchant credit agreements. These types of restrictions are little used, but there is precedent. New York columnist Andrew Sorkin points out that JPMorgan Chase, Citigroup and Bank of America recently banned the use of their cards to buy Bitcoin and other cryptocurrencies: "To be clear, those three banks won't let you use your credit card to buy Bitcoin, but they will happily let you use it to buy an AR-15 style semiautomatic rifle…"

First Affirmative and many other investors do not want to see banks in which they invest in the news following the next mass shooting for having supplied the seller with merchant credit services that enabled the firearm purchase. We are therefore organizing a letter writing campaign that will ask major banks and credit card issuers to add sales

restrictions to merchant credit processing agreements by July 31, 2018, that would, at a minimum:

- Prohibit the sale of high-capacity magazines or clips capable of holding more than 10 rounds of ammunition, as well as accessories that enable rapid fire capability—including bump stocks, trigger cranks, and "Hell-Fire" triggers.
- Require all merchants to restrict firearms sales for buyers under 21.
- Require all merchants to sell firearms only to customers who have passed a universal background check, regardless of the sale venue.

First Affirmative
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Several credit providers have already taken positive steps. PayPal, Square, and Apple Pay do not allow their services to be used for the sale of any firearm, firearm accessory, or ammunition. More recently, Citibank announced that it will require clients who offer credit cards backed by Citibank, or who borrow money, use banking services, or raise capital through the Bank to (a) not sell bump stocks or high-capacity magazines, and to (b) sell firearms only to customers who have passed a background check and are over 21 years old.

While respecting the rights of responsible gun owners, we believe that commonsense restrictions can help prevent or lower the death toll of future tragedies by limiting both the lethality of available weapons and the likelihood of highly lethal weapons ending up in the wrong hands.

Interview with Stu Dalheim

Vice President, Shareholder Engagement
Calvert Research and Management

Stu Dalheim manages Calvert's shareholder engagement program, which seeks to improve corporate environmental, social and governance performance through direct dialogue, standard-setting exercises and partnerships, and public policy. He is board chair of Bethesda Green and serves on the UNEP FI North American Task Force. Calvert is a global leader in Responsible Investing, a stewardship-based approach that includes analyzing companies based on non-financial information, including their environmental, social, and governance (ESG) factors, as well as evaluating financial data and information.

If you had to pick one, which would be the greatest achievement of Calvert in terms of Shareholder Advocacy in the past year?

Two regional banks and two software companies (all smaller firms) agreed to establish and/or strengthen employee diversity programs and to report on these programs and performance. Given the positive contributions improved diversity can make to corporate performance, this can be of particular value for smaller firms that have opportunity for growth. Contributing to corporate progress on diversity feels especially meaningful given the emergence of the #MeToo movement and ongoing focus on racial inequality in the United States. Empowering women and people of color in the workplace will remain a priority for Calvert.

Your firm's name puts the word research front and center. What role does this research play in your corporate engagement? Where do you focus your research efforts?

Research is at the core of Calvert's responsible investment work and is an important part of our engagement program. Calvert's research system is used by analysts to identify specific companies that we believe may be strengthened through our direct corporate engagement efforts. After a company is identified as an engagement candidate, our analysts' direct dialogue with the company's management guides the engagement course. Calvert's approach is to:

- Focus company engagement on financially material ESG issues as identified in our research system
- Engage companies that have opportunity for improvement on issues that Calvert has identified as being critical to improving social outcomes and environmental sustainability, such as climate change, stewardship of water and other essential natural resources, diversity and inclusion in the workplace, improving transparency and disclosure, and corporate governance.
- Help companies understand how their approach to addressing a material issue(s) differs from their peers, and provide them specific ideas on how to improve.

Share highlights from the most recent report in the Power Forward series, a collaborative effort of CERES, CDP, World Wildlife Fund and Calvert.

The report's findings include that, despite efforts from Washington to sideline action on climate change, a growing number of companies are taking increasingly ambitious steps to reduce their greenhouse gas emissions, procure more renewable energy and invest in energy efficiency. Companies are reporting financial benefits from their clean energy investments: Nearly 80,000 emission-reducing projects by 190 Fortune 500 companies reporting data showed nearly $3.7 billion in savings in 2016 alone. The report recommends that investors continue to engage in dialogues with companies to encourage them to set climate and energy efficiency targets and position themselves for a low-carbon future.

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

One major initiative is Calvert's involvement in Climate Action 100+, an international coalition of investors that have come together to engage the largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve corporate governance on topics related to climate change. The coalition's work with companies will begin this year and will call upon companies to reduce greenhouse gas emissions consistent with the Paris Agreement's goal of limiting global average temperatures to well below 2 degrees above pre-industrial levels. A reversal in climate and clean energy policies in the United States represents a challenge and speaks to the need for continued public policy engagement.

Climate Action 100+
Global Investors Driving Business Transition

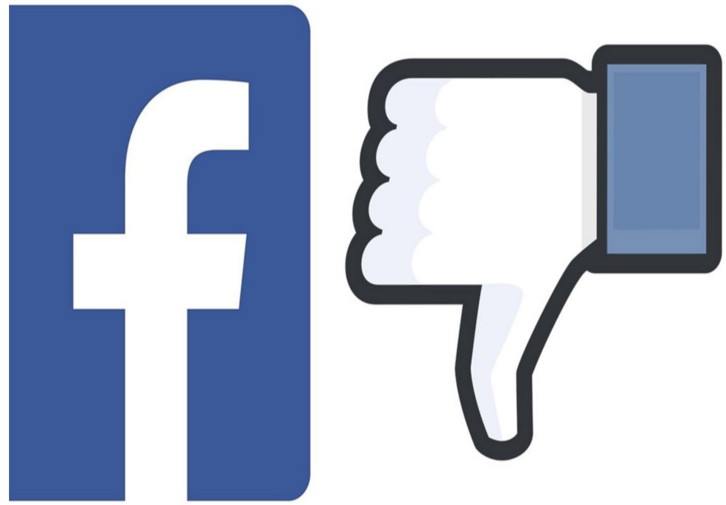
Any last words?

An issue to watch is investor engagement related to the ongoing opioid crisis, which has impacts that include the health-related issues of those affected by opioid addiction, and significant economic and social costs—as well as impacts to investors. Last November, Calvert joined the Investors for Opioid Accountability, a coalition of asset owners, asset managers and consultants with more than $1.4 trillion in assets under management as of January 2018. Calvert has filed a shareholder proposal with one pharmaceutical company calling for a board-level report on the governance measures implemented to address the risks and impacts related to manufacturing and selling opioid medications.

It's Time to Take a Hard Look at Facebook

By James Griffitts

With the recent news stories about the role Facebook played in the 2016 election, many users have been reevaluating their usage of the platform. The revelation that Facebook willingly facilitated the extraction of massive amounts of user data by firms like Cambridge Analytica has provoked a public backlash, hearings in Congress and in Parliament, new regulations from the European Union, and a major decline in Facebook's share price. In the past, Facebook, like many other tech companies, has been lauded by SRI investors for embracing renewable energy, but progressive environmental policies do not mitigate the social and governance issues that have recently come into focus for Facebook. In light of these revelations, many responsible investors are taking a fresh look at Facebook's ESG performance.



Facebook has faced intense criticism over its failure to protect the privacy of user data. It is now clear that Facebook routinely handed over vast quantities of user data to app developers with essentially no oversight or discretion. Though the app which harvested data for Cambridge Analytica may have violated Facebook's established research guidelines, and Facebook did ask that the data be deleted, there was no mechanism in place to ensure the data was actually used responsibly and deleted appropriately. Essentially, Facebook handed over huge amounts of user data on the "honor system."

Facebook has announced new measures to protect users' data privacy, but for many this is too little too late. In its early years, Facebook's laissez faire policy towards user data was billed as a feature for third-party developers rather than a bug for users, and used to attract developers to the app. When Facebook ramped up its ad-based business model, it leveraged the huge amounts of data it had collected to precisely target ads at users. Given that much of Facebook's financial success to this point has derived from sharing its user data, there is good reason to be dubious about whether it will be able to self-police.

Nor is data security the only area where SRI investors might find fault with Facebook. Diversity continues to be a major issue for Facebook, its nine-member board including only two women and one person of color. While this, sadly, is par for the course in the tech sector, that is neither an explanation nor an excuse. Nor does the picture look much better below the board level. Facebook's senior management is 70% white and 72% male.

Facebook has also been criticized for its role in aiding the spread of fake news. The often repeated (and, ironically, often misattributed) quote: "A lie can get halfway around the world before the truth can get its boots on," by Charles Haddon

Spurgeon is as true today as it was 200 years ago. Factually incorrect information is often shared via Facebook and creates misconceptions that are nearly impossible to dispel.

Facebook has announced a plan to try and limit the spread of fake news over its platform, including cracking down on spammers and shutting down bot accounts used by groups like the Russian government. However, Facebook's plan to fight factually incorrect news stories is to change its algorithm to promote "broadly trusted news sources." While the goal is laudable, the plan laid out by Facebook so far boils down to trying to crowdsource truth from its user base. The 2016 election cycle showed how easily untrue stories and beliefs can spread and how deeply they can take root, so promoting the most "trusted" news sources may not actually promote the most factually accurate sources.

Facebook plays a huge role in the daily lives of its more than 2 billion users and is now integrated into the social fabric, for both better and worse. Given that the Company functionally has no competition, it is essential that it be held to an exceptionally high standard to safeguard individual users and society at large.

Mark Zuckerberg, the iconic founder of Facebook acknowledges the challenge ahead: "The world feels anxious and divided, and Facebook has a lot of work to do—whether it's protecting our community from abuse and hate, defending against interference by nation states, or making sure that time spent on Facebook is time well spent. My personal challenge for 2018 is to focus on fixing these important issues."

Can the company evolve its corporate culture and business model to meet the challenge? SRI investors will be watching closely.

First Affirmative Joins Investor Alliance for Human Rights

First Affirmative is excited to announce its membership in the newly formed Investor Alliance for Human Rights (IAHR.) Established to provide a collective action platform to facilitate investor advocacy on a full spectrum of human rights and labor rights issues, the IAHR builds on longstanding advocacy by its members to promote corporate accountability on issues of human rights.

The IAHR will convene, inform, and activate the investment community to make a business case to both corporate decision-makers and policy-makers on human rights issues. The Alliance is committed to partering with relevant stakeholders to encourage adoption of the UN Guiding Principles on Human Rights and Business,a global framework to help companies assess and address human rights risks in their operations and supply chains.

INVESTOR ALLIANCE FOR HUMAN RIGHTS

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5475 Mark Dabling Boulevard, Suite 108, Colorado Springs, CO 80918
p: 800.422.7284 • f: 719.636.1943 • www.firstaffirmative.com

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