

2022 Annual Engagement Review

Engagement Overview

Proxy Voting

- 1,642 Meetings Voted
- Supported 81% of shareholder proposals
- Opposed 40% of management proposals
- Opposed 63% of say on pay proposals

*Proxy voting data from July 31, 2021-June 30, 2022

Dialogue

- Over 150 contacts with portfolio companies
- Prioritized direct engagement via virtual meetings with 9 companies
- Participated in direct letters to over 100 companies
- Participated in 4 campaigns

Proposals

- Lead File - 2; Co-File - 7
- Withdrawals - 3; Omissions - 1
- 5 Voted. 2 majority votes. 2 > 30% Support

Public Policy

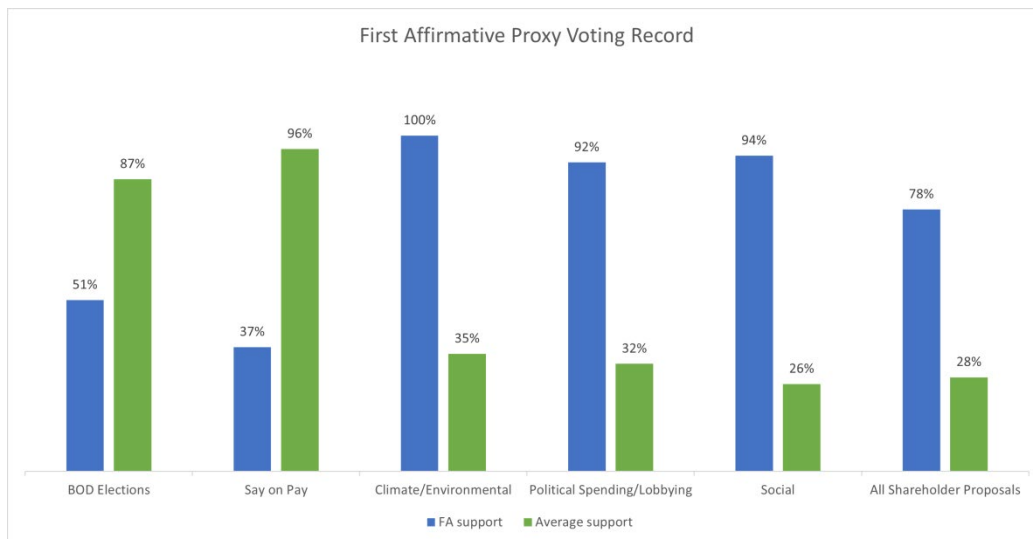
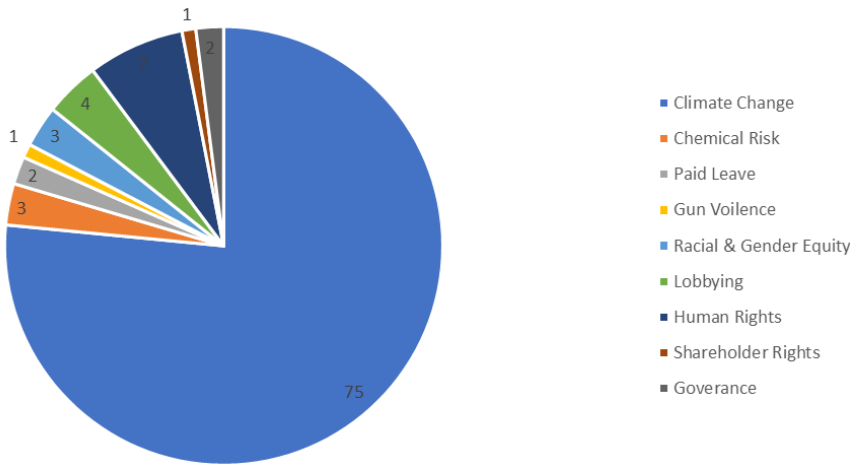
- 12 letters to federal, state, and international governing bodies

The Limits of Graphing ESG

Although our engagement priorities pie chart looks "perfect", take it with a grain of salt! Those perfectly straight lines and simple categories help to give a snapshot of where our priorities lie in a given year, but it does not really convey the complexity of each issue. Many issues we address cross multiple categories, and we do our best to place it into the best fit. For example, our work on plastics will typically fall into the climate/environment category, but plastics also have strong social implications given impacts on human health and coping with the externalities of plastics pollution. Pretty much every climate issue has crossover impacts...and the governance of a company is connected to each and every issue we work on.



Engagement Priorities



Average Support for S & P 500

Source: Sullivan and Cromwell, LLP 2022 Proxy Season Review 2022, Parts 1 and 2

The Emergence of “Anti-ESG”

You may be wondering about the discrepancy between our strong support of many categories of shareholder proposals and the more modest overall support for shareholder proposals of 78%. Why? In some cases, proposals may be unclear or address an issue not clearly connected to company operations, but in 2022 there was also a dramatic rise in so-called anti-ESG proposals. Many of these proposals, most of which were submitted by The National Center for Public Policy Research and the National Legal and Policy Center, focused on objecting to corporate diversity initiatives, equity audits, and lobbying/political spending disclosures.

Fortunately, most investors agree that there is a strong business case to be made for a diverse employee base and sensible lobbying disclosure and practice, and these anti-ESG proposals are not receiving broad support from any direction—from investors, companies, or the SEC, according to data compiled by Sullivan and Cromwell, LLP:

- Of 54 proposals submitted, 43 went to a vote and received average shareholder support of 9%.
- Companies successfully excluded these anti-ESG proposals on ordinary business grounds at a much higher rate than ESG proposals, with the SEC allowing exclusion 50% of the time, versus only 26% for ESG



social/political proposals.

- Perhaps most telling, when investors were offered proposals addressing the same issue from the opposing sides, anti-ESG proposals lost. A stellar example was a proposal we co-filed at Johnson & Johnson asking the company to conduct a civil rights audit. It received 62.6% support, the competing proposal received less than 3% support. We participated in a follow up call with the company following the vote — and they have agreed to conduct the audit.

2022 Shareholder Resolutions

Filed or Co-Filed by First Affirmative Financial Network
as of December 31, 2022



First Affirmative Proposals address the Sustainable Development Goals.

ISSUE	COMPANY	REQUEST	LEAD FILER	STATUS*	SDG Alignment
ENVIRONMENT/ CLIMATE CHANGE	Tractor Supply	Disclose GHG gas reduction targets aligned with the Paris Agreement's goal of maintaining global temperature rise at 1.5 degrees	First Affirmative	Withdrawn, agreement	
	Citi	Report on impact of bank and financing activities on forests and efforts to reduce negative impacts from such activities	Green Century	Withdrawn, agreement	
	Kroger	Report on company efforts to measure and curtail the use of harmful pesticides in its agricultural supply chains	Mercy Investment Services	Withdrawn, agreement	
SOCIAL	Alphabet	Annually report on materials censored or penalized in response to government requests	Azzad	Omitted, technical	
	MasterCard	Disclose if and how the company is reducing risks associated with processing payments for untraceable firearms and components	Rhode Island	10.30 support	



	Johnson and Johnson	Conduct third-party racial equity audit and disclose results	Trillium	62.60% support	
GOVERNANCE	Travelers	Disclose policies governing lobbying efforts and related spending	First Affirmative	52.70% support	
	UPS	Disclose policies governing the climate lobbying efforts and related spending	Mercy Investment Services	33.23% support	
	Disney	Disclose policies governing the climate lobbying efforts and related spending	Mercy Investment Services	34.30% support	

***Definitions:**
Filed: Submitted to company, ongoing
SEC Challenge: Company submitted a filing to the Securities and Exchange Commission requesting the proposal be omitted from ballot.
Omitted, SEC challenge: The SEC decided in favor of the company challenge to the shareholder proposal
Not Omitted, SEC challenge: the SEC decided in favor of investor filing the shareholder proposal and it will go to a vote

Withdrawals:
Technical: Withdrawal as a result of deficiency in the filing that cannot be remedied
Strategic: Withdrawal to recognize and encourage progress or in response to SEC challenge to avoid adverse decision
Agreement: Withdrawal after dialogue concludes with agreement to proposal request
Support number calculation: votes in favor / (votes in favor + votes against)

Mention of a specific company or security is neither a recommendation to buy or to sell that company or security. For information regarding the suitability of any investment, please contact your financial advisor. Past performance is never a guarantee of future results.

Engagement Highlights

Climate and Environment

All climate related shareholder proposals we filed were withdrawn quickly following productive dialogue:

- Our lead file at **Tractor Supply** was withdrawn after the company committed to comprehensive disclosure in accordance with Task Force for Climate Related Disclosure (TCFD) recommendations, hired a Director of Sustainability, set aggressive Scope 1 and 2 emissions, and agreed to review Scope 3 target setting.
- **Citi** agreed to adopt no-deforestation standards for soy clients operating in high-risk regions, develop a no-deforestation approach for high-risk beef clients, and improve its existing standards for palm oil and forestry clients to align with best practices. Further discussion with the company indicates continued progress.
- We also withdrew a proposal at **Kroger** addressing pesticide use. We recently received an update on progress from the company.

The extent of our participation in public policy requests in 2022 reflects the urgent need for coordinated government action at the local, national, and global to address climate and other serious environmental concerns.



At the global level we:

- Asked UN members to support a global treaty on [plastic pollution](#). The first of five meetings to [negotiate the treaty](#) took place in early December.
- Signed the [Global Investor Statement](#), an annual statement to governments demanding enhanced climate action. 604 signatories representing almost 42 trillion dollars in AUM signed in 2022.

At the national level we:

- Advocated for the inclusion of [Scope 3 emissions](#) in the proposed climate disclosure rule at the SEC and urged the SEC to adopt the rule as pressure by companies and trade associations to both delay and derail scope 3 disclosures continues. We are pleased to see that the vast majority of comment letters from investors [strongly support](#) climate disclosures.
- Asked Congressional members to support a bill that mandates deforestation reporting requirements and offers technical and financial assistance to reduce illegal deforestation.

At the state level we:

- Asked the California Air Resources Board to support advanced clean fleet and clean car rules. These rules have since been [adopted](#). This legislation's impact is being felt nationwide, as 17 other states have already adopted rules modeled on the same principles.
- Asked California and New York legislatures to specify procurement requirements to meet deforestation standards.

Much of our corporate engagement work was focused on climate related and human health related environmental issues.

- Conducted two dialogues with **Fifth Third Bank**, a continuation of a decade-long process. The bank continues to advance practices around financed emissions and is a leader in this area as a regional bank with strong governance oversight of climate related risk.
- Were updated on **ADP's** climate progress following our previously withdrawn proposal. The company established greenhouse gas goals and integrated ESG into executive compensation plans.
- Joined an investor coalition discussion with Unilever regarding their plastics reduction plans.
- Received a briefing, along with other CERES investor members, from **Mondelez**. This company is a standard setter for the industry in the adoption of sustainable agricultural practices, particularly in their cocoa and wheat supply chains.
- Continued our involvement with the CDP disclosure campaign, serving as a lead investor for 75 investors on a letter urging laggard Caterpillar to disclose. We also participated in this same ask of 15 other companies. Two of these companies have since disclosed for the first time.
- Participated in a [CDP campaign](#) targeting over 1000 companies with significant climate exposure asking them to set science based GHG targets that align with a 1.5° scenario.
- Requested that major chemical companies disclose their chemical footprint and phase out the of persistent "forever" chemicals, calling out PFAS of particular concern. **3M**, a primary target for this letter campaign, recently [announced](#) it would stop producing PFAS by the end of 2025.
- Asked banks to refrain from financing pipeline projects that jeopardize achieving a 1.5° scenario climate target.
- Asked corporate board of director members of the US Chamber of Commerce to address obstructive climate positions and to speak out when Chamber positions contradict company positions and actions.

Human Rights and Human Capital

Our engagement activities included:

- Asking banks financing pipeline construction to refrain from financing projects that have not obtained [Free](#).



[Prior, and Informed Consent](#) and where GHG reduction goals are compromised. We also joined a similar request aimed specifically at banks financing the Enbridge Line 3 pipeline.

- Joining with 175 other investors in a [statement](#) aimed at 26 companies asking for corporate accountability regarding Digital rights.
- Joining a coalition asking **McDonalds** to fulfill a 2018 commitment to reduce medically important antibiotics in their supply chain. The company has committed to dialogue.
- Signing a statement outlining investor expectations of companies with exposure to Ukraine as the conflict continues. We have also asked **Mondelez** for clarity regarding the “essential services” they are providing in Russia, expressing our concern for human rights and material risks if they continue operations in Russia.
- Signing a letter asking **Wells Fargo** to withdraw as underwriter of an Alabama prison, as it violates their stated commitment to no longer fund private prisons.
- Requesting that **Apple** commit to conducting a racial equity audit, in compliance with a shareholder proposal request that received a majority vote. The company has since [committed](#) to doing so.
- [Supporting](#) an SEC petition to require companies to disclose actions taken to meet corporate pledges related to Black Lives Matters and recommending that the disclosure be expanded to pledges regarding inequality.

Lobbying and Political Spending

- Our [majority vote](#) at **Travelers** earlier this year led to productive dialogue following an early 2023 shareholder proposal filing. We are pleased to report that after several years of negotiations we have withdrawn our most recent proposal after the company committed to the last item left in our disclosure request-full transparency on lobbying conducted by trade associations.
- Our filings at **UPS** and **Disney** asking for disclosure regarding climate related lobbying policies and spending both achieved over 30% support.
- We wrote to Senate members in support of the DISCLOSE act, requiring companies to report “[dark money](#)” contributions.

Governance and Shareholder Rights

- We asked the SEC to reject an **Amazon** request to omit a shareholder proposal asking for country-by-country tax reporting as recommended by The Global Reporting Initiative. The SEC sided with investors.
- We joined other investors urging Congress to curb the use of “dual class” shares-where some shareholders, typically insiders, have stronger voting rights.
- We wrote to the SEC in [support](#) of a proposed rulemaking that addresses investor concerns about the current rule that determines the inclusion of shareholder proposals when companies ask for omission due to substantial implementation, duplication or resubmission.

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:



TRILLIUM
ASSET MANAGEMENT®

Throughout the first half of 2022, Trillium had successes on racial justice, gender equality, climate change, and toxic chemical reductions, while continuing to move forward on issues such as worker empowerment, paid sick leave, and Indigenous People’s rights. Trillium saw remarkably high levels of support when shareholder proposals came to vote: Johnson & Johnson 62% (we supported as a co-filer), Anthem 41%, Travelers 47% and American Water Works 48%. Trillium continues to engage with companies and emphasis the importance of conducting racial justice audits. 10 of the 22 shareholder proposals were withdrawn after success dialogue.



Boston Common made three significant firm-level commitments: net zero asset managers initiative, deforestation-free forest-risk agricultural commodities by 2025, and finance for biodiversity. Boston Common engaged with the top ten emitters across two of their investment strategies regarding responsible refrigerant management. They also deepened their work on racial and gender equity and voted against 70 companies on gender or racial board diversity. They also addressed human rights in the Xinjiang Uyghur Autonomous Region (XUAR) across sectors and advocated for the SEC to adopt new climate disclosure requirements.



Impax continue to focus on the following core issues: climate change, environmental issues such as pollution and resource depletion, human capital issues such as diversity, equity, inclusion, environmental justice, and health and safety, and corporate governance. The policy advocacy work continued to focus on financing net zero, greening the financial system, and nature and addressing biodiversity loss. In 2021, Impax undertook 204 company engagements, 47% of engagements led to a positive outcome.



Calvert is focusing its climate change efforts on the steel industry. Calvert is continuing dialogue with Steel Dynamics and guiding the company to set emission reduction goals. In recent discussions, "Steel Dynamics demonstrates a commitment to reducing the company's climate risks through innovative solutions, capital expenditures, and target setting." Steel Dynamics is planning to use renewable energy for a steel plant in Texas.



Domini is focused on the path to Net-Zero while also addressing Uyghur Human Rights in Cotton Supply Chain, Freedom of Association, and Equitable and Affordable housing. Domini has engaged with H&M and Adidas to understand how they implement their human rights commitments. They filed a proposal at Nike to stop sourcing cotton from China into human rights are improved. Domini co-filed a proposal at Tesla to adopt a policy on freedom of association.



Green Century continued to push Costco to set greenhouse emission targets. "After 70% of its voting shareholders supported the Green Century Equity Fund's subsequent proposal on this issue and we held follow-up discussions with the company, Costco has now committed to setting carbon pollution reductions." Lowe's agreed to accelerate its efforts to eliminate deforestation. The firm had another win at Chevron, as the "the company has abandoned plans to drill in the Arctic National Wildlife Refuge and has ended its involvement in the Arctic region."



Parnassus launched engagement initiatives pressing for environmental justice in company operations and the elimination of technology bias in healthcare. As part of several extensive engagements, they filed their first-ever shareholder proposals at Republic Services, requesting a third-party environmental justice audit, and Cerner, requesting an assessment of the racial equity impacts of algorithmic systems. Following a significant vote, Republic Services committed to undertaking a civil rights audit including environmental justice elements, and the proposal with Cerner was successfully withdrawn for a commitment. In addition, they engaged several portfolio holdings on setting climate targets and upholding worker rights and wellbeing. [Link to 2022 Stewardship Report.](#)



RBC is supporting low-to-moderate income communities and families by providing funding for affordable housing and small business. RBC is also directing focus to the racial wealth gap and other systemic inequities experienced by Black, Indigenous, and People of Color (BIPOC) communities.



Follow our progress!

For timely updates on our advocacy activities, visit our website's [advocacy](#) and [news](#) pages. You can also follow us on [Twitter](#), [Instagram](#), [LinkedIn](#) 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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