Zevin Asset Management

SHAREHOLDER ADVOCACY GUIDE

STRENGTHENING INVESTMENTS
THROUGH POSITIVE CHANGE

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Certified B Corporation

How do you make the most of your role as an investor? By making the most of the companies you own.

We and our clients share a common goal of protecting and growing their portfolios. An essential contributor to that goal is the opportunity to proactively improve the companies in which we invest.

Enter shareholder advocacy, an integral part of our investment approach where we push companies towards change using our unique investor voice.

We build portfolios by investing in companies that we believe will gain value over time. To do this, companies must manage real-world risks and opportunities, including environmental, social, and governance (ESG) factors that can affect their performance.

Getting a handle on that is not easy for most companies. And it doesn't happen without external pressure. Thoughtful and ambitious shareholder advocacy initiatives can bring about the change needed to make an impact.

"We are committed to cutting edge shareholder advocacy efforts that create substantive and longlasting change across companies and the world as a whole."

Sonia Kowal
PRESIDENT

TAKING AN ACTIVE ROLE IN VALUE CREATION

More investors now acknowledge that risk and return are influenced by elements that go beyond what's reported in a company's traditional financial statements. Corporate decisions, policies, and initiatives around issues such as climate change and diversity, equity, and inclusion (DEI) touch every piece of a company's value chain. Understanding how these issues affect our investments and impact our society is at the heart of good investing, and it's why ESG factors are an important indicator of future performance.

But the unfortunate reality is that companies rarely increase their focus on sustainability without pressure. Productive and timely change is often inspired by investors who prod them to action. Being an active, engaged, and responsible investor manifests as constant pressure to persuade companies to change.

Shareholder advocacy is the process by which we engage with companies in client investment portfolios about environmental, social, and corporate governance issues. It includes proactive proxy voting, dialogue with corporate executives, shareholder resolutions that are voted on at company annual meetings by all shareholders, investor letters and public policy advocacy.

It empowers us to create change. Shareholder advocacy can lead to improvements such as setting achievable greenhouse gas (GHG) reduction targets and enacting employee wellness policies that boost workforce engagement and reduce turnover. These are not only positive social outcomes, but they also are key for companies seeking to optimize their operations, save resources, and improve relationships with stakeholders like employees, communities, and suppliers.

On the other hand, being a passive shareholder invites the risk of "riding to the bottom." This is sometimes the case when investing in sustainable fund products; the holdings may reflect ESG themes, but they deliver little opportunity to proactively promote positive change.

The result is a "buyer beware" environment in the fund space. Some of the most prominent asset managers in the world have mislabeled investment products as sustainable, pointing to dubious ratings assessments. This leads to a mixed bag of fund options that may put investors into companies they aren't looking to support. As **MarketWatch** notes, "The danger lies when an investor believes they are investing responsibly when they buy one of these 'less bad' funds. Unfortunately, many of them are marketed using terms such as 'best in class,' 'sustainable' or 'low carbon.' This is greenwashing."

ADVOCACY IN ACTION

CLIMATE CONCERNS AT UPS

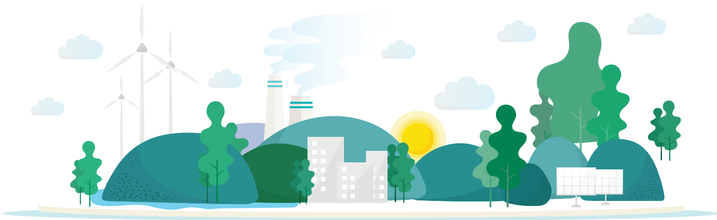
We engaged closely with UPS over several years, leading the company to adopt a science-based greenhouse gas reduction target covering much of its business, and to set clear targets for purchasing more renewable energy.

After meeting with executives in Q4 2019, we were encouraged that the company was taking steps to bring its business in line with the strictest goals of the Paris Agreement.

Despite those early measures, the company did not go to the lengths required to truly manage its GHG emissions. UPS's goal of a 12-percent reduction in absolute GHG emissions for global ground operations by 2025 is a good first step, but it falls short of expectations given the sprawling scope of its operations. Most glaring is the omission of its airplane fleet, which accounts for 60 percent of its direct emissions. Neither does the goal commit UPS to the further reductions necessary to meet the net-zero emissions by 2050 required by the Paris Agreement.

We published a public memo to bring these arguments to large investors and proxy advisory firms, building support for our proposal and showing that UPS has more work to do. We will continue to pressure the company, believing that a more comprehensive effort will allow UPS to demonstrate its role as a leader in its industry for the long term.

Our goal:
Contribute to reduced carbon footprint by prioritizing emission reductions across the full spectrum of operations.



How do we initiate shareholder advocacy campaigns?

Identifying material issues

We blend our own research with information from the Sustainability Accounting Standards Board (SASB) to determine issues that are most material to the sectors in which we invest. In the tech industry, for example, we found that human capital, human rights and freedom of expression, and data privacy and security were the areas that most prominently impact corporate risk.

Conducting ESG due diligence

We go beyond running the numbers and engage with portfolio companies, interviewing management teams on their approach to managing the identified issues. We also connect with NGOs, think tanks, community groups, and data providers to develop a full picture of a company's progress and plans.

Determining direction

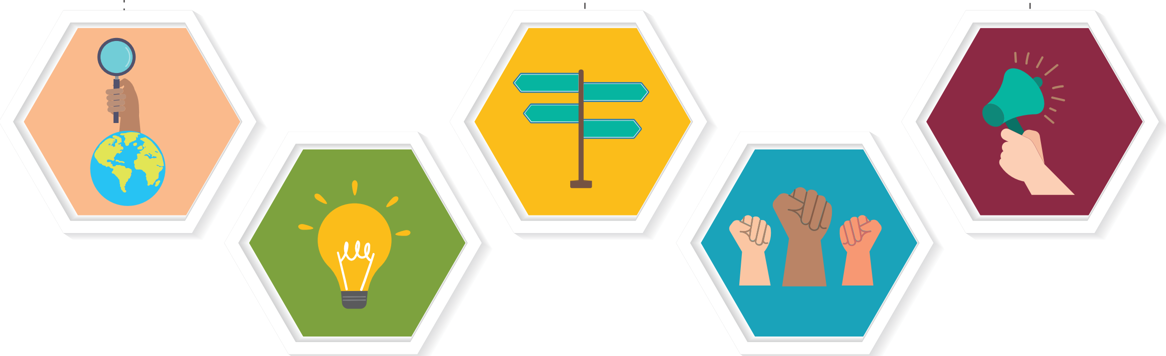
We convene our advocacy and investment teams to discuss our best course of action. In some cases, we may decide that management is on the right track and no action is needed. When we see elevated risk, however, we create a plan to encourage change.

Building a coalition

There is power in numbers. We forge and are key members in coalitions that expand the investment dollars in play, giving us better visibility and making our issue a higher priority. We partner with large investors who are aligned with our viewpoint, including public pension funds, union pension funds, faith investors, foundations, and other collaborators.

Leveraging tools of influence

We issue letters to open direct lines of communication with companies. We amplify our voices by mobilizing the press, collectively drawing attention to a well-researched challenge that demands change. If our outreach goes unanswered, we develop shareholder proposals that lead to a vote by other investors at shareholder meetings, determining a "yes" or "no" verdict on the issue. Proposals that do not pass still produce impact by highlighting the issue and setting the stage for continued dialogue.



CASE IN POINT

DIVERSITY & ACCOUNTABILITY IN TECH

Our work in the tech sector demonstrates how shareholder advocacy can potentially address social issues and company value.

DEI has for years been a challenging issue for tech companies. They rise and fall based on the caliber of their workforce, regardless of where their employees are from or what they look like. Poor representation and hostile cultures drive turnover among people of color and women — which can increase training and human capital costs. Workers who face discrimination can raise legal claims. And companies that fail to scan the market for underrepresented workers are at a disadvantage in the cutthroat competition for talent.

Simply put, inequality presents concerns for tech companies and long-term risks for investors.

From a social perspective, race- and gender-based inequality also threatens to further separate people of color (including Black, Latinx, and Native American workers) and women from security and opportunity.

We reached out to a dozen portfolio companies that were struggling to build workforces with a diverse mix of talent and perspective. Some lacked transparent reporting, while others lacked a clear strategy to appoint women and minority board directors.

Almost without exception, these companies lacked policies tying diversity metrics to executive pay. Accountability is key to change, and other tech giants were already blazing the trail by linking compensation to ESG issues.

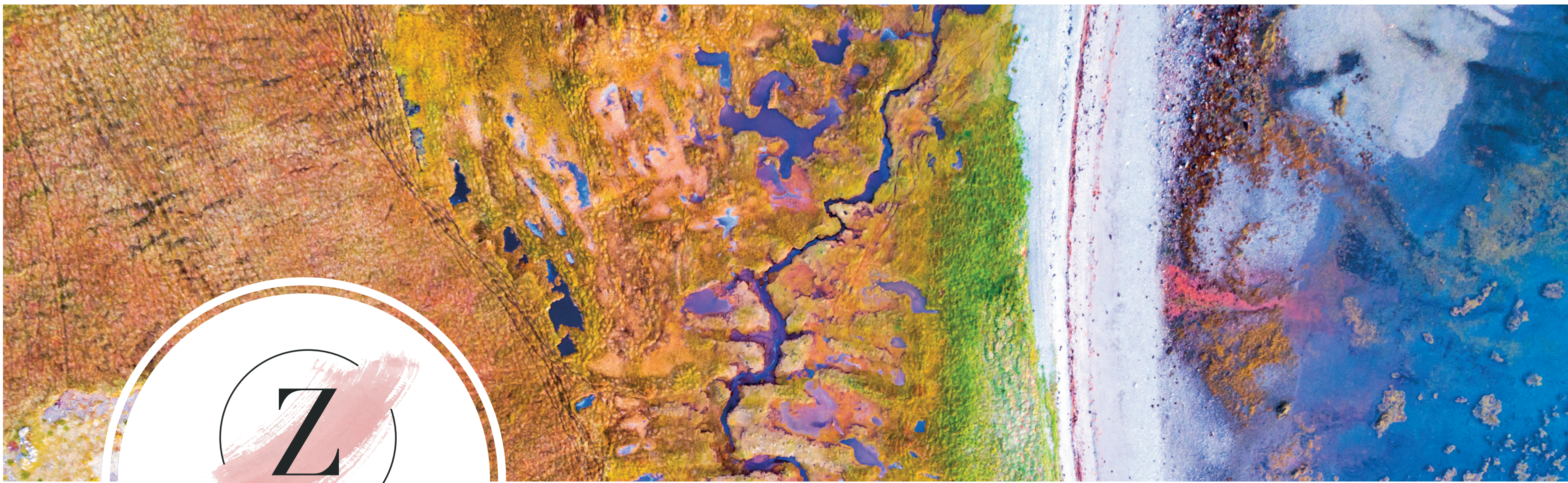
That link served as the cornerstone of our campaign. We generated a dialogue with most of the companies on our list. We filed shareholder proposals with those who were not sufficiently responsive: Alphabet, Amazon, Apple, eBay, and Citrix Systems. Our message is clear: boosting accountability was an important step toward improving inclusion and protecting investor value.

We've seen exciting momentum. Apple announced that its senior executive bonus plans would contain an ESG "modifier" beginning in 2021. The company stated in its 2021 proxy statement that the Compensation Committee will now consider certain ESG factors "to increase or decrease the bonus payouts by up to 10%." This change could also deepen the board's involvement in ESG strategy and enhance directors' oversight of management.

Alphabet made similar moves after an extended dialogue and a number of high-profile concerns around employee treatment and DEI. In 2021, the giant agreed to launch a program in 2022 that will partially tie senior executive bonuses to ESG performance.

The point: when we focus on a material issue, our goal is to stay ahead of risk. In this case, our shareholder proposals were effective impact investing tools used to highlight a key concern and accelerate change. The reform we sought was relevant to the health of our holdings, rooted in good business practices, and part of a more effective risk management strategy.

COMMITMENT TO
BETTER OUTCOMES



Zevin Asset Management

As long-term investors, we must have vision. Our shareholder advocacy approach provides us with the opportunity to proactively improve companies, creating stronger portfolios over time.

This commitment is one factor in the recognition we've received as a leading voice in shareholder advocacy. In fact, our team earned the highest possible rating from Real Impact Tracker, which noted our "deep and meaningful engagements and [focus] on making impactful change."

Our independence, investment rigor, and advocacy work create a trifecta that differentiates our work. Indeed, standard practice for some investment firms is to "reward" companies that do good by investing in them. But we see little added value there. We know we can have greater impact by proactively engaging with our holdings to inspire change across a broader social and environment footprint - without sacrificing returns.

Investors come to Zevin Asset Management in part because of our ability to bring material issues to the fore and strive for better outcomes. If you'd like to learn more about our approach to shareholder advocacy, contact us at invest@zevin.com

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