2014 Highlights of our work on environmental, social and governance issues

"We alone cannot change the world but we can cast a stone across the water to create many ripples…"
Anonymous but misattributed to Mother Teresa

As engaged shareholders, we have years of experience using our investor voices to hold companies accountable for the impacts they have on employees, stakeholders, communities, and ecosystems. Given the large social and environmental footprints of publicly traded corporations, this is especially meaningful; but measuring the effectiveness of this work, some of which is described below, is difficult because change is typically not the consequence of any one action. We are part of many collaborative, long-term efforts to advance progressive causes and often join forces with other investors to build shareholder support for our dialogues, so that each investor's input is amplified. Through our work, we hope to give power to other stakeholders, both inside and outside companies, to achieve improvements.

This report summarizes some of the environmental, social and governance work we have undertaken on behalf of our clients in 2014. For more timely updates, please follow us on Twitter or LinkedIn or visit the news section of our website.

Some of the companies mentioned below are not widely held in our clients' portfolios but are retained because of significant capital gains tax consequences if they were sold. We take the opportunity to use these shares to improve corporate behavior.

We prioritized the same two main issues in 2014 as we did in 2013: corporate lobbying and climate change. For many companies both problems are especially pertinent. For example, we have been collaborating with other investors to press companies to change their public policy advocacy on climate change through resolutions that challenge companies to conduct board level reviews of their public policy positions and lobbying activities related to energy policy and climate change. This work addresses the important issue of advocacy through third-party trade associations such as the U.S. Chamber of Commerce, API (American Petroleum Institute) and NAM (National Association of Manufacturers) who have aggressively campaigned against all stages of climate change legislation. Until the Securities and Exchange Commission (SEC) enacts more rigorous standards for public companies to disclose their direct and indirect lobbying and policy activities, companies will continue to hide behind the anonymity of the trade groups, letting the U.S. Chamber, NAM and others fight carbon mitigation policies while continuing to claim publicly that they support climate action.

Corporate lobbying

While the U.S. Supreme Court's *Citizens United* decision and the unprecedented amount of political spending in the 2012 elections attracted a great deal of media attention, company expenditures on federal lobbying far exceeded political election contributions, often by more than a 10-to-1 ratio. Whether the issue is environmental impact, consumer protection, financial reform or shareholder rights, it is important to understand how companies spend money to influence our laws and regulations by their lobbying activities both directly or indirectly through third-parties. We joined 60 investors in filing resolutions challenging companies to annually report on their federal and state lobbying. The resolutions included requests to disclose payments to trade associations used for lobbying as well as support for tax-exempt organizations that write and endorse model legislation. The lobbying disclosure initiative is an extension of ongoing shareholder efforts seeking greater corporate political spending transparency and accountability.

We filed shareholder resolutions with two companies, **WalMart** and the utility **Centerpoint,** demanding increased disclosure of their lobbying activities. In conjunction with other investors, we co-filed six more on the same topic at **AT&T**, **IBM**, **Chevron**, **Google**, and **Exxon**. We also continued our substantial dialogue with **UPS** over its membership in ALEC (the American Legislative Exchange Council). We are concerned about the disconnect between **UPS'** strong focus on sustainability and its support for a partisan anti-environmental organization such as ALEC. We have succeeded in bringing this issue to the attention of their board repeatedly over the past few years. We also voiced our concern to **Ebay** about their membership in ALEC and were very pleased that our voice was heard when **Ebay** joined the growing ranks of companies that dropped their membership. Since August, **Microsoft**, **Google**, **Facebook**, **Yelp**, **AOL**, and **Yahoo** have abandoned ALEC. ALEC is clearly concerned with corporate members leaving the organization based on member companies' conversations with shareholder advocates. Also, Zevin participated in an open debate with key figures of ALEC focusing on their views on climate change.

<u>Sustainability reporting and climate change</u>

While not especially exciting from an activist perspective, corporate tracking and reporting on sustainability measures helps make companies more responsive to a global business environment characterized by finite natural resources, changing legislation, and heightened public expectations for corporate accountability. Data on occupational safety and health, vendor and labor standards, waste and water reduction targets and product-related environmental impacts are important business considerations. Not managing these issues properly creates significant regulatory, legal, reputational and financial risks. In our dialogues and filings with companies, we have focused on encouraging companies to measure and report on their greenhouse gas emissions and then set reduction targets. This is especially relevant for companies with significant manufacturing operations. To this end, we have co-filed resolutions at **Emerson Electric** and **CR Bard** encouraging them to issue a sustainability report describing environmental, social, and governance (ESG) performance and goals, including greenhouse gas emission reductions. A shareholder proposal co-filed with Oxfam America at **General Mills** was withdrawn after the company developed a strong policy to implement measures to cut greenhouse gas emissions from its supply chain. It has also agreed to press for political action to address climate change. We were pleased to see a much improved sustainability report at **WW Grainger** as a result of our conversations with the company. We also had fruitful discussions with **Airgas,** which just started its journey toward a more comprehensive sustainability framework, putting together a sustainability committee comprised of senior executives and overseen by the board.

We have begun discussions with **Disney** on setting science-based greenhouse gas emissions targets rather than setting easy-to-attain targets. In addition, we have communicated strong disapproval of **Disney's** funding of trade association efforts to block minimum wage increases. We visited the headquarters of the retailer **TJX** to learn more about their sustainability efforts and were heartened to see that many of the suggestions that we had made in previous years have been integrated into their procedures. These included training their supplier factories about water conservation measures and cracking down on poor fire safety standards in supplier factories.

As homebuyers become more educated about environmental options and green residential construction, and as policymakers increase incentives for green development and restrict conventional development efforts, we were concerned that the homebuilder **Pulte** might find itself at a competitive disadvantage if it did not integrate sustainable design and construction principles into its operations. In addition, risks from the physical impact of a changing climate could affect many parts of Pulte's operations - including threats to raw materials, water supplies, and altering geographical patterns of habitation. Our communications with the company on these issues, as well as demand from their employees, have driven the company to agree to issue an annual sustainability report so we have withdrawn our shareholder proposal. We welcome this step given the huge impact this industry has on land, water, and energy use but will continue our dialogue with them to make sure that they are focusing on appropriate issues.

We co-filed shareholder resolutions at **Berkshire Hathaway, Home Depot, Qualcomm, Chevron** and **Exxon** urging them to set quantitative greenhouse gas reduction targets for their products and/or operations. Although we have minimal exposure to fossil fuel companies in most client portfolios, as part of our growing focus on climate change we feel it is important to keep challenging their public policy advocacy opposing climate change solutions. Last year's resolution asking **Exxon** to detail the climate change assumptions that the company is using for its strategic planning led the company to produce a 60 page report which confirmed that they are not worried about climate change regulation. Regulation of carbon emissions in the U.S. is vital to reducing our country's fossil fuel consumption and the best way to do this would be a tax on carbon emissions. However, as long as fossil fuel companies keep making large donations to political candidates, the stalemate on carbon legislation is likely to continue. At **Exxon**, we additionally co-filed a resolution to nominate a candidate to the board with environmental expertise and to tie sustainability measures to executive pay. At **Chevron**, we asked for a report on community impacts of fracking.

We are supportive of the pioneering work of Ceres and the Carbon Tracker – urging oil companies to focus on low cost projects and cancelling those with high breakeven costs. On Carbon Tracker's numbers, the major oil companies are expected to spend a third of their new investments [capex], or about $550bn, over the next ten years on projects that require an oil price of $95/bbl. Two thirds of this spending is on projects that have not yet broken ground so they are prime candidates for cancellation. In recent years, every time an oil company has announced a sharp cut in its exploration and development spending, its share price has jumped, as this converts an enormous amount of cash flow into money that can be returned to shareholders through dividends or stock buybacks. Two related issues that we have been following with interest are the growing potential for stranded assets (those assets that lose their value due to changes in the marketplace, for example as a result of changes in climate regulation) and the decreasing profitability associated with capital expenditures on high cost unconventional projects. As a result, we co-filed a resolution at **Chevron** urging the company to adopt a policy to increase the amount authorized for capital distribution to shareholders. We were also involved in conversations with **Statoil**, urging them to withdraw from oil sands. In an important first step, the company halted its steam-driven oil sands project in northern Alberta for three years, citing rising construction costs and delays in new export pipelines as reasons to suspend the project.

We partnered with First Affirmative Financial Network to co-file a resolution at **Kinder Morgan** questioning expansion of the company's Canadian oil sands export capacity and investment in coal export infrastructure. These investments are of concern due to strong community opposition and the recent steep decline in oil prices. The resolution seeks additional information on how the company is preparing for market conditions in which demand growth for the high carbon fuels it transports is reduced due to regulation or other climate-associated drivers.

And finally, let's not forget banks and their role in financing climate change through their loans to the fossil fuel sector. As a co-filer on resolutions led by the Australasian Centre for Corporate

Responsibility (ACCR), Zevin successfully encouraged **Commonwealth Bank** and **ANZ Bank** to disclose their exposure to financing greenhouse gas emissions. In response, **Commonwealth Bank** has undertaken to disclose the carbon emissions initially from their lending to the energy sector and then all their lending and **ANZ Bank** has disclosed the emissions intensity of its power generation lending. Banks are acutely exposed to climate-related risks through their lending activities and many fossil fuel companies depend on banks to help them grow.

We were also involved in coalition efforts around the following issues:

• Palm oil	• International LGBT rights	• Free trade agreements and GMOs	• FedEx's sponsorship of a racist DC football team name
• Net Neutrality and privacy at the FCC	• Support for climate change initiatives in Massachusetts	• Land rights in Pepsi's supply chain	• EPA environmental/ public health toxicity disclosure
• Toxic chemicals in Apple's supply chain	• EPA Carbon Pollution standards	• Advertising as a contributor to childhood obesity	• Environmental impacts of Alaska's proposed Pebble Mine

Summary of ZAM's 2014 shareholder proposals

Company	Topic	Lead filer
WalMart	**Lobbying disclosure**	**Zevin Asset Management**
Centerpoint	**Lobbying disclosure**	**Zevin Asset Management**
Pulte (withdrawal compromise)	**Sustainability reporting**	**Zevin Asset Management**
Franklin Resources (challenge lost at SEC)	**Proxy Review**	**Zevin Asset Management**
T Rowe Price (withdrawn)	**Proxy Review**	**Zevin Asset Management**
UPS (withdrawn)	**ALEC review**	**Zevin Asset Management**
Commonwealth Bank	**Climate risk in loan portfolio**	**Australasian Centre for Corporate Responsibility**
ANZ Bank	**Climate risk in loan portfolio**	**Australasian Centre for Corporate Responsibility**
Chevron	**Carbon asset risk**	**As You Sow**
Kinder Morgan Inc	**Carbon asset risk**	**First Affirmative Financial Network**
Berkshire Hathaway (withdrawn)	**Greenhouse gas emissions reductions targets**	**Investor Voice**
Home Depot	**Greenhouse gas emissions reductions targets**	**Trillium Asset Management**
Qualcomm	**Greenhouse gas emissions reductions targets**	**Boston Common Asset Management, Walden Asset Management**
Chevron	**Greenhouse gas emissions reductions targets**	**Sisters of Saint Dominic**
Exxon	**Greenhouse gas emissions reductions targets**	**Sisters of Saint Dominic**
General Mills (withdrawal compromise)	**Climate change risk in supply chains**	**Oxfam America**
AT&T	**Lobbying disclosure**	**United Automobile Workers**
Chevron	**Lobbying disclosure**	**American Federation of State, County and Municipal Employees**
IBM	**Lobbying disclosure**	**First Affirmative Financial Network**
Google	**Lobbying disclosure**	**Walden Asset Management**
UPS	**Lobbying disclosure**	**Walden Asset Management**
Exxon	**Lobbying disclosure**	**United Steel Workers**
CR Bard	**Sustainability report**	**Walden Asset Management**
Emerson Electric	**Sustainability report**	**Walden Asset Management**
Exxon	**Executive compensation & sustainability**	**Needmor Fund**
Exxon	**Board environmental expertise**	**Province of St. Joseph**
Chevron	**Risk management in fracking**	**Sisters of St. Francis of Philadelphia**