

Active Investor Social Update

Second Quarter, 2018

Waste Not, Spend Less: The Circular Economy Can Make Companies More Efficient



By Steven Heim

Globally, humans generate 3.5 million tons of solid waste each day—a figure that is set to triple by the end of the century if we do nothing to prevent it.¹ The World Economic Forum estimates that ocean plastics will outweigh fish by 2050.² Landfills account for approximately 14% of methane emissions in the US,³ and food waste alone amounts to roughly \$680 billion in developed countries and \$310 billion in the developing world.⁴ It is vital that companies use our world’s precious resources responsibly—and it’s clear that waste represents a lost opportunity for capture and reuse.

Imagine a company that diverts its waste from a landfill, saving on the operational cost of disposal, then repurposes that “waste” for another company to fuel its own process. **This win-win for corporations and the environment is called the “Circular Economy,”** and embracing it could help companies become more sustainable and profitable.



Companies can also improve their resource productivity and bottom line by limiting energy use, minimizing water waste, and reducing waste disposal costs. Such actions fall under the theme of “Eco-Efficiency.” (Continued, pg. 4)

INVESTORS CAN SAY 'ENOUGH' ON GUNS

By Lauren Compere & Kristin Jenko

Gun violence in America continues at an alarming rate. According to the Centers for Disease Control, more than 33,000 people die each year in firearm-related deaths in the US. On an average day, 96 Americans are killed by guns, including seven children and teens. There have been at least 239 school shootings nationwide—an estimated five each month—since the Sandy Hook school shooting in 2012.⁵ Meanwhile, the racial justice implications of gun violence are especially pronounced, as black men are 13 times more likely than white men to be shot and killed with guns.

We find ourselves in a disturbing reality where, after each tragedy and period of national mourning, nothing changes. Legislators continue to be driven by partisan efforts on both sides, unable to take action on gun control. Responsible investors must ask themselves: **if policy makers cannot—or will not—impose regulations on guns, [how can we move toward more peaceful progress?](#)** (Continued, pg. 2)

Inside the Issue

Our engagement work aligns with many of the Sustainable Development Goals (SDGs), adopted by the UN to end poverty, protect the planet and ensure prosperity for all as part of a new sustainable development agenda to be achieved over the next 15 years.



¹ https://www.washingtonpost.com/graphics/2017/world/global-waste/?noredirect=on&utm_term=.d8a3a9effa36
² http://www3.weforum.org/docs/WEF_The_New_Plastics_Economy.pdf
³ <https://www.epa.gov/lmop/basic-information-about-landfill-gas>
⁴ <http://www.fao.org/save-food/resources/keyfindings/en/>
⁵ <https://www.nytimes.com/interactive/2018/02/15/us/school-shootings-sandy-hook-parkland.html>

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Metrics & Scorecards

Are Food and Beverage Companies Making the Grade on Nutrition?

By Lauren Compere

From an investor perspective, it's clear that health and nutrition will be among the most important drivers of growth in the food and beverage sector, and that the manufacturers that anticipate and respond to these factors will be best-positioned to deliver more sustainable financial performance and play a vital role in achieving the second and third UN Sustainable Development Goals: Zero Hunger, and Good Health and Well-being.

The 2018 edition of the [Global Access to Nutrition Index](#), the leading ranking of major food and beverage manufacturers' performance on nutrition, shows an overall improvement since the last assessment in 2016. The increase in the average score (from 2.5 to 3.3 out of 10) is largely driven by companies having better policies on nutrition and undernutrition, and sharing more information. However, **less than a third of the products assessed could be classified as healthy, indicating a clear gap** between company policies and execution on nutrition. Furthermore, many companies definitions are less strict than the independent research conducted for the Index.

Boston Common is co-leading the 2018/2019 collaborative engagement by investors and serves on the board of the Access to Nutrition Foundation. We urge companies to focus their efforts on demonstrating clearly to investors that they are delivering much-needed better performance on nutrition. This is a long-term performance and sustainability issue, and senior executive pay should be linked to hitting nutrition targets. If these changes are made, it will be good for business and for global health: a double win.

[Read more and view an infographic](#) about the Access to Nutrition Index at: news.bostoncommonasset.com



INVESTORS CAN SAY 'ENOUGH' ON GUNS

(Continued)

In June, Boston Common's Lauren Compere spoke at a Boston event co-convened by BASIC and Boston-based alumni from the Marjory Stoneman Douglas High School (Parkland, FL), addressing ways that investors can engage companies beyond gun manufacturers.

Boston Common has used both [strategic divestment and active engagement](#) to alert companies to investors' concerns and advance the conversation on gun control. Like many Responsible Investors, **we do not invest in companies engaged in gun manufacturing through their direct operations**. In addition, we review portfolio companies to identify trade relationships and supply chain connections that could expose them to potential risks. Through Active Engagement, we bring these risks to light, and urge action by companies.

This quarter, [we joined a coalition of 44 investors](#), representing \$634 billion in assets, **calling on gun manufacturers, retailers and distributors—as well as**

companies with financial ties to these industries—to review their operations, supply chains, and policies and take meaningful action on this public safety concern.

Among banks, Citigroup's policy is probably the most advanced to date, as they will require new retail sector clients and partners to adhere to these best practices: (1) they don't sell firearms to someone who has not passed a background check, (2) they restrict the sale of firearms to individuals under 21 years of age, and (3) they don't sell bump stocks or high-capacity magazines. This policy will apply across Citigroup's financing activities, including to small business, commercial and institutional clients, as well as credit card partners, whether co-branded or private label.

We have already begun to **engage 20 financial institutions** that have either recently **provided direct financing to firearms manufacturers or are involved in credit merchant processing**. Currently, we are leading the outreach with PNC Financial and JP Morgan Chase and have participated in dialogues with Morgan Stanley and Visa since launching this initiative at the end of May.

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Active Ownership Updates

Our engagements center on the following company asks:

- ▶ Prohibit lending or the use of credit cards/payment systems to gun manufacturers that sell, produce, or design specific weapons or ammunition. PayPal, Square, Stripe and Apple Pay already prohibit the use of their platforms for the sale of firearms.

- ▶ Prohibit lending to gun manufacturers and sellers that don't support federal universal background checks and/or endorse the [Sandy Hook Principles](#);

- ▶ Cease any liability coverage from insurance companies for owners of assault weapons; and

- ▶ Cease the financing or underwriting of gun shows and/or NRA-sponsored events.

Read more about [our perspective on Gun Violence](#) at: news.bostoncommonasset.com

Taking Stock: Reflecting on the Quarter

<p>Milestones</p>		<p>Lobbying Disclosure & Climate Change: Boston Common's resolutions on Lobbying Disclosure at American Water Works (40.3% in favor) and Verizon Communications (36.3% in favor) received strong support from shareholders at their respective Annual meetings in May. The UN Principles for Responsible Investment (PRI) launched a new publication, "Converging on Climate Lobbying: Aligning Corporate Practice with Investor Expectations," which features Boston Common's case study on Lobbying in the banking sector.</p> <p>Climate Change: ConocoPhillips became one of the first major US energy companies to publicly support many of the recommendations of the Task Force on Climate Related Financial Disclosure. Boston Common is leading the investor initiative with ConocoPhillips in the Climate Action 100+ global collaborative engagement.</p>
<p>Work in Progress</p>	    	<p>Conflict Minerals and Child Labor: Boston Common led an investor call with Microsoft on cobalt sourcing and child labor in the Congo. The company is mapping participants in its cobalt supply chain (smelters, traders, mine sites, and battery suppliers). As a result of Microsoft's on-the-ground work with Pact, a nonprofit, on the Children out of Mining program in the Katanga region of the DRC, Pact has seen a reduction in the use of child labor between 77% to 97% since 2015. Microsoft committed to expand the program to a new region with a further three year financial commitment to Pact.</p> <p>Banks & Climate Change: In our Banking on a Low-Carbon Future initiative, we engaged JPMorgan Chase, Morgan Stanley, PNC Financial and TD Bank this quarter. TD is using the UN Environment Programme Finance Initiative Taskforce on Climate-related Financial Disclosures (TCFD) to inform its own approach to climate risk, as well as with its high-emissions clients. PNC Financial provided further insights into its integrated governance approach to environmental and social risk due diligence across its lending activities. PNC expanded analysis of key emerging threats and opportunities to include adoption of electric vehicles, emergence of alternative energy, and stranded assets.</p> <p>Human Rights of Indigenous Peoples: We sent an investor letter to the Equator Principles Association advocating for the rights of Indigenous Peoples and asking the Association to consult with Indigenous Peoples in the revision of the Equator Principles. Last October, the Association of over 90 banks globally committed to revise its policies on Indigenous Peoples in response to the Dakota Access Pipeline controversy and a Boston Common-led global investor engagement.</p>
<p>New Initiatives</p>	 	<p>Gun Violence: Boston Common joined a coalition of 44 investors to engage 20 banks that recently provided direct financing to firearms manufacturers or are involved in credit merchant processing. We are urging banks to prohibit lending or the use of credit cards/payment systems to gun manufacturers that sell, produce, or design specific weapons or ammunition--as well as those that do not support federal universal background checks and/or endorse the Sandy Hook Principles. Boston Common is leading the outreach with PNC Financial and JPMorgan Chase and participated in dialogues with Morgan Stanley and Visa. Other portfolio companies include Barclays, TD Bank, and US Bank.</p>

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Eco-Efficiency Progress with Companies & Metrics



Air Liquide committed to updating its energy efficiency targets after already adopting new GHG reduction goals. The company also plans to analyze its water use and footprint for its global operations, following our 2016 engagement.



Origin Energy has turned away from buying coal-fired power plants. In our engagement with Origin, the company spent two years revising its capital allocation system to align with its long-term sustainability strategy.



Capital allocation for Eco-Efficiency investments is a key benefit for **Beijing Enterprise Water** to retrofit and build new water systems in China. The company is working to convince the central government to allow higher returns for investors in such projects.



As a member of the **Ford** sustainability stakeholder team, we advocated that Ford adopt public energy efficiency targets and join the EP100, a leadership campaign through which companies commit to doubling their energy productivity.



Lowe's committed publicly to exploring renewable energy investments for its US stores, following an agreement with Boston Common, New York State Comptroller's Office and a private investor.



3M and **Schneider Electric** each doubled their energy productivity for facilities using the US Department of Energy's "50001 Ready" energy management program vs. their "business-as-usual" facilities. The program helps companies improve their operations, save money, and increase energy productivity.



The **Sustainability Accounting Standards Board (SASB)** mapped our Eco-Efficiency metrics vs. the SASB framework, including specific topics and quantitative metrics, to determine how companies communicate Eco-Efficiency performance across its industry-specific disclosure standards.



Ceres adopted and adapted Boston Common's Eco-Efficiency framework in its new energy efficiency program to benchmark energy efficiency management practices by REITs and automotive industry companies.

WASTE NOT, SPEND LESS

(Continued)

Since 2015, Boston Common has led an **investor initiative on Eco-Efficiency to identify barriers to adoption and encourage corporate best practices** in our portfolio companies. We launched our Eco-Efficiency initiative focusing on portfolio companies with the highest greenhouse gas emissions after analyzing the carbon footprint of each of our core strategies. **Phase 1 of our engagement focused on energy and water.** This year in **Phase 2, we are broadening our focus to include waste by encouraging companies to adopt Circular Economy concepts** in their strategic planning in order to turn wastes into resources, reduce costs, and improve product quality.

Benefits can be found across sectors; **International Flavors & Fragrances** and **Repsol**, for example, incorporate Circular Economy concepts into their strategic visions for their flavors and fragrances and oil refinery businesses respectively.

Despite the vast potential to cut energy use and thereby reduce global greenhouse gas emissions, internal barriers block companies from achieving superior Eco-Efficiency performance. Further, **rather than merely improving existing operations, we want companies to re-imagine their products, redesign processes, and re-conceptualize business strategy in order to cut resource use.**

Over the past year, several portfolio companies with very different challenges on Eco-Efficiency have made progress as the result of our ongoing engagement or their own efforts. We also worked to sharpen Eco-Efficiency metrics and questions to identify best management practices. (See highlights table above.) On Earth Day 2017, [we reported](#) on the aims and framework for our Eco-Efficiency initiative.

Read [our perspective on Eco-Efficiency](#) at: news.bostoncommonasset.com

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