

# Active Investor Social Update

Fourth Quarter, 2019

## Inside the Issue

### Workplace Equality

- 1 We believe better diversity and inclusion policies and practices can be a key enabler of growth for firms.

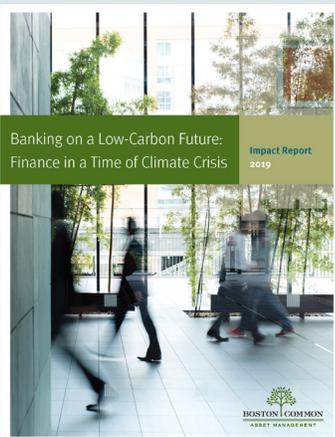
### Digital Human Rights

- 2 Data privacy, artificial intelligence, and facial recognition are becoming significant risks for investors and companies alike.

### Wider Climate Risk: Deforestation

- 2 Given the performance gap in our report, no-deforestation policies will be a primary focus of our 2020 bank engagement.

**Banking on a Low-Carbon Future: Finance in a Time of Climate Crisis** is Boston Common's fifth annual study of how 58 global banks are managing climate risks and opportunities, building on last year's report.



[Download Report here](#)

### Key Findings

- ⊕ 78% of the banks surveyed are implementing risk assessment or 2 degree scenario analysis.
- ⊕ 84% of the banks are implementing due diligence or third party assessment on green products.
- ⊖ Only half of the banks are engaging their high-carbon sector clients on low-carbon transition plans.

*Continued on pg. 2*



## Workplace Equality: A Roadmap for Comprehensive Diversity, Equity, and Inclusion

**We believe more ambitious and innovative practices for diversity, equity, and inclusion can be a source of sustainable advantage for firms.**

### The Problem

The essential and long-overdue pivot towards gender and racial equality in the workplace has proved elusive despite many corporate Diversity, Equity, and Inclusion (DEI) programs. Indeed, data suggests that over the past thirty years, the percentage of managers from diverse, ethnic, and racial backgrounds has remained stagnant or reversed, despite voluntary initiatives.<sup>1</sup>

The importance of achieving such diversity is well understood. In 2017, McKinsey released an in-depth study, *Delivering through Diversity* that found both gender and ethnic diversity on executive teams are "strongly correlated with profitability and value creation."<sup>2</sup> However, without more effective and proven interventions, internal cultural barriers to workplace equality are likely to prevail.

### What has Worked?

Progress on Gender Diversity at the Board level, has been significant. Though still far from perfect, corporate boards have made progress that was unimaginable a mere decade or two ago. As of June 2019 for example, women now represent 27% of board seats on S&P 500 companies, up from 15% in 2011 and the last all-male board appointed a woman director.<sup>3</sup>

We identify three mutually reinforcing areas of sustained effort that made this improvement possible: Investor Voice, Data, and an Ecosystem on best practice. Investor engagement that supports board diversity began in the 1990s. Boston Common's founders were leaders in several early initiatives, and we continue to make Board diversity a priority in our work around the world. Data on gender diversity at the board level has been collected for decades, and a growing chorus of institutional investors has been pushing for increased board diversity believing it can reduce risk and enhance decision-making.

*Continued on pg. 3*

<sup>1</sup>Dobbin, Frank and Kalev Alexandra 'Why Diversity Programs Fail,' Harvard Business Review July-August 2016

<sup>2</sup>McKinsey&Company, Delivering through Diversity (January 2018).

<sup>3</sup>Umoh, Ruthhttps. "The Last All-Male Board On The S&P 500 Just Added A Female Member." Forbes.com. (July 2019).

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## 2020 New Engagement Focus: Digital Human Rights

Data privacy, artificial intelligence, and facial recognition are becoming material risks for investors and companies alike. Unless concepts like privacy, civil rights, and human rights are baked into the actual design of newer technologies from the get-go, it is a lot harder to manage the risk of adverse human rights outcomes.

Digital human rights will be a flagship engagement in 2020. We are working collaboratively with the Global Network Initiative, as a founding investor member, and the Investor Alliance for Human Rights.

We plan to expand our engagement on digital human rights across all our holdings in all regions, including Asia, and will address performance gaps using resources such as the 2019 Ranking Digital Rights Corporate Accountability Index. We will use best practice models, like **Microsoft**, which has developed a set of AI Ethical Principles.

Recently, we co-filed a resolution with **Alphabet (Google)** asking the company to establish a human rights risk oversight committee of the board of directors.

Currently Alphabet does not have a comprehensive human rights policy and failed to engage the investor group on this topic, despite numerous requests. Given its re-entry into China with Project Dragonfly, we believe it is important for Alphabet to have an overarching framework that covers all business lines. The company should conduct human rights due diligence or human rights impact assessments to prioritize the highest risks especially in some regions around the world.

To learn more, please read the recent article in the *Financial Times* featuring Boston Common's Lauren Compere, [Digital human rights are next frontier for fund groups.](#)



“Most investors do not have a very good understanding of the implications of all of the issues in the digital space and don't have sufficient research and tools to properly assess them — and that goes for companies too.”

Lauren Compere

## Wider Climate Risk: Deforestation and Banking

In the latest report on our multi-year engagement with global banks on climate change, we found a striking gap in managing wider climate risk, specifically deforestation and biodiversity loss.

Two new indicators related to deforestation had the lowest scores in our study. Despite more than 469 companies adopting zero-deforestation or 'No Deforestation, No Peat, No Exploitation' NDPE supply chain commitments, none are on track to meet their 2020 commitments. This presents a significant risk to the banks financing these companies.

Over the last two years, we sought to go beyond fossil fuels to address physical and climate risks associated with deforestation. We advocate for a best practice financing framework that includes no deforestation policies across all forest-derived commodities.

Only 16% of banks require clients to adopt no-deforestation policies. Even in the relatively advanced markets in Australia and Europe, only about a third have required no-deforestation policies and even fewer have expanded these policies to all soft commodities. None of the US or Canadian banks—and few in emerging markets—requires clients to adopt no-deforestation policies. Our findings indicate a systematic reluctance by banks to demand higher standards from clients with exposure to deforestation risks. **Given the performance gap, no-deforestation policies will be a primary focus of our 2020 bank engagement.**

### Leading Practices Examples

✓ **HSBC** - In 2014, the bank decided to finance only those customers that were already partly certified under RSPO (Roundtable on Sustainable Palm Oil) and that aimed to complete certification by the end of 2018. Customers were also required to provide evidence of independent verification of their NDPE policies. As a result of HSBC's engagement, a number of clients adopted NDPE policies.

✓ **The Soft Commodities Compact** is a company-led initiative to mobilize the banking industry to look at ways in which banks can assist their clients to achieve net zero deforestation in the key soft commodities, such as palm oil, soy, beef, and timber products by 2020. **JP Morgan** and **Standard Chartered** have made progress on this initiative.

### Our Call to Action



Require soft-commodity clients to adopt zero-deforestation policies, apply it to all regions and soft commodities, and require time-bound certification schemes, such as RSPO.

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## Workplace Equality: A Roadmap for Comprehensive Diversity, Equity, and Inclusion

The increase in gender diversity has come about as a result of sustained, intentional efforts to build an ecosystem of support, e.g. the 30% Coalition, highlighting best practice/effective tools, creating pipelines, measuring progress, and publishing research.

### Our Plan

Although most large companies have diversity programs in place, the pace of change has slowed in regards to increasing the number of women, people of color, disabled employees, and other under-represented groups in management positions. Other investors share our views. We were a founding participant in a monthly conference call of investors, asset owners, and business leaders interested in sharing best practices around embedding a racial equity lens in investment processes. We are advocating for an approach that seeks out new opportunities, removes artificial barriers and enhances the ability of firms we invest in to embrace a multi-cultural workforce.

Which diversity initiatives achieve the best outcomes for companies and employees? New, emerging frameworks including important work by the Boston Consulting Group (BCG) identify successful diversity and inclusion measures worldwide for women, racial and ethnic minorities, and LGBTQ+ employees.



### Next Steps

We will build on our long history of engaging on board gender and racial diversity and on workplace practices, including support of the Women’s Empowerment Principles. In 2020, we plan to continue our comprehensive approach based on strong proactive Investor Voice, the creation of robust Data, and a supportive Ecosystem of research on best practice.

We will use the newer frameworks in conjunction with our own research, as we frame our engagements at portfolio companies with significant US employee footprints. We believe both US and international companies can greatly benefit from adopting some of the most successful, research-tested initiatives in support of diversity. This will include addressing the current pitfalls facing many companies by advocating that goals be made public and be measurable – and the achievement of these goals be integrated into performance goals and compensation at the individual and team level. Many of our portfolio companies are already leaders in one or more of these areas. By sharing our framework, we hope to help them rise beyond the Boardroom to become leaders in workplace equality across the board.

[Read more here](#)

## SEC Spotlight: Protecting Shareowner Rights

**Preservation of our shareholder rights in the US has been a constant struggle under the current Administration.**

That is why we have joined other investors to form the Shareholder Rights Group and have stepped up our public policy engagement efforts. Since November, Boston Common has been part of key investor groups defending our existing shareholder rights with the SEC. We advocated for keeping the existing shareholder proposal process, as changing it would harm the interest of investors and stifle key progress made from leveraging the shareholder proposal process over the past 30 years.

We have co-signed key letters submitted by the [PRI](#)<sup>1</sup> and the [Shareholder Rights Group](#).<sup>2</sup> Some of these proposed changes include substantially increasing the thresholds for the number of shares and the holding period for initial filings and significantly raising the resubmission thresholds. An expanded definition of micromanagement has also been proposed, which would impede our ability to file shareholder proposals on a material risks such as climate change.

### 2019-2020 Resolutions Filed

When dialogue fails, we use shareholder resolutions as a way to achieve impact in US public equities.

| Issue  | Company  |
|--|--|
| Board Diversity  | Carlisle Companies*<br>FBL Financial Group Inc.* |
| Lobbying Disclosure                                    | American Water Works*<br>Oracle*                 |
| Human Rights Due Diligence                             | Alphabet Inc. (Google)                           |
| Climate Change: Setting GHG Emission Reduction Targets | HD Supply*                                       |
| US Drug Pricing Transparency                           | Biogen, Merck                                    |
| *Lead Filer  |  |

<sup>1</sup> <https://www.sec.gov/comments/s7-23-19/s72319-6535900-200526.pdf>

<sup>2</sup> [https://www.iccr.org/sites/default/files/page\\_attachments/shareholder\\_rights\\_group\\_to\\_jay\\_clayton\\_102519\\_2.pdf](https://www.iccr.org/sites/default/files/page_attachments/shareholder_rights_group_to_jay_clayton_102519_2.pdf)

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## Taking Stock: Reflecting on the Quarter

5 GENDER EQUALITY



### Milestones

**Board Diversity:** We successfully withdrew our resolution with **Carlisle Companies** on its approach to [diversity at the board level!](#) As part of our dialogue, the company agreed to amend its Corporate Governance Guidelines to acknowledge the relevance of gender & racial diversity as one of the factors to consider in board appointments.

13 CLIMATE ACTION



**Climate Change:** Released our fifth annual study, [Banking on a Low-Carbon Future: Finance in a Time of Climate Crisis](#), of how global banks are managing climate risks and opportunities. We shared the findings and call to action with all 58 banks including holdings **Bank Rakyat, Citi, ING, JPMorgan Chase, Fifth Third, Morgan Stanley, Standard Chartered, and US Bank.**

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



### Work in Progress

**Eco-Efficiency:** This fall, we launched another phase of our flagship Eco-Efficiency engagement with a special focus on waste management including plastics. We sent letters to 15 companies, and we have received robust written responses or held initial discussions with **Portland General Electric, PTT Global Chemical, Taiwan Semiconductor, and Verizon Communications.**

12 RESPONSIBLE CONSUMPTION AND PRODUCTION



**Responsible Mineral Sourcing for Renewable Energy:** As 2019 ended we re-engaged with **Microsoft** and **Panasonic** on responsible cobalt sourcing practices including expanding supplier traceability and addressing child labor. We reached out to lithium producers **SQM** and **Albemarle**, and since then Albemarle has stepped up their water monitoring activities and enhanced disclosure on indigenous community engagement.

10 REDUCED INEQUALITIES



### New Initiatives

**Board Diversity:** In a new phase of our diversity engagement, we will use company responses from our 2019 engagement to inform our 2020 voting process. We reached out to almost 150 companies explaining why we have voted against their boards in 2019 given they did not meet our gender and ethnic diversity criteria. Our diversity threshold in the US and Europe is 30% women and at least one ethnic or racial minority. In Asia, we vote 'against' if there are no women on the board.

8 DECENT WORK AND ECONOMIC GROWTH



**Workplace Equality:** In 2020, building on our long history of engaging companies on board gender and racial diversity, we will expand our focus to workplace practices and diversity and inclusion measures for women, racial and ethnic minorities, and LGBTQ+ employees.

## Eco-Efficiency Phase II: Operational Efficiency and Waste

This fall, we launched Phase II of our Eco-Efficiency engagement with a special focus on waste management, including plastics. We expanded our engagement to companies that ranked among the highest GHG emitters in our portfolios, such as, **Alaska Air, Southwest Airlines, Avangrid, LG Chem, Portland General Electric, Samsung Electronics, and TDK.** New sector focus includes **telecom (NTT, Verizon, Deutsche Telekom), hospitality and leisure (Royal Caribbean Cruises, Melia Hotels, Disney), and consumer staples (P&G).**

A new American Council for an Energy-Efficient Economy [report](#) shows by 2050 energy efficiency alone can “slash US energy use and greenhouse gas emissions by 50%, getting us halfway to US climate goals” and “deliver energy savings worth more than \$700 billion.”<sup>1</sup> This is why we broadened our focus to operational efficiency, while other investors are primarily engaging on GHG emissions and renewable energy targets.

### Some notable practices wins:

 **PTT Global Chemical (Thailand's) Environmental Management Accounting** includes Plant Investment Justification Criteria that considers the first priorities to be occupational health and safety, the environment, and energy savings.

 **Portland General Electric** shared that it is reviewing the ISO50001 energy management system (EMS) which we recommended and that it has already adopted internal carbon pricing into its analysis as part of their Integrated Resource Planning for 2019.

**Taiwan Semiconductor** recently  launched a zero waste to landfill project and is considering expanding public reporting on recycling plastic waste.

We are encouraged by the robust written responses we have received and initial discussions, including with **Verizon Communications.** In 2020, we plan to continue sustained dialogue with these companies and to publish a progress report to share best practices with investors and companies.

<sup>1</sup> <https://aceee.org/press/2019/09/energy-efficiency-can-slash>