

The impact of advocacy on environmental, social, and governance (ESG) investing



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Key takeaways

- Active equity ownership allows investors to influence corporate behavior and create value by benefiting from sustainable business practice improvements.
- Recent studies have detailed the positive financial impacts of sustainable corporate practices on investment returns.
- Trillium Asset Management has affected many issues through our ESG advocacy, including climate change; toxic chemicals; labor practices; diversity, gender, and inclusion policies; and board diversity.

Executive summary

At Trillium Asset Management, we believe that being a shareholder carries the responsibility of actively engaging portfolio companies in a range of environmental, social, and governance (ESG) issues. To do so, we employ all of the tools at our disposal: initiating direct dialogue with senior company leadership, filing or co-filing shareholder proposals, working within multistakeholder initiatives, convening company meetings, holding proxy advisory discussions, and speaking publicly about issues of concern. In doing so, we encourage companies to take positive and effective environmental and social actions that are consistent with shareholder interests. Perhaps most important for investors, studies have shown that operational and stock price performance of companies may be positively influenced by good sustainability and ESG practices.

An integrated approach to advocacy

We believe that companies incorporating ESG factors into their long-term strategic planning—and communicating that fact to investors—will provide a more complete picture of their prospective value. Trillium was one of the first asset managers in the industry to actively engage corporate leadership in this way, and we have been instrumental in bringing together concerned shareholders, corporations, and advocacy groups.

We seek to exercise shareholder rights with an integrated approach to advocacy that includes proxy voting, filing shareholder proposals, engaging in dialogues with companies, and influencing the development of public policy. The ability to file shareholder proposals calling for companies to take specific policy actions is one of the most influential tools we have in our toolbox.

Our team frequently collaborates with other investment firms, as well as with public and private pension funds and foundations, and has been involved in high-level discussions with dozens of the most influential companies in the United States. Over the

years, we have demonstrated concrete wins in a variety of areas, including human rights, the environment, diversity, and political contributions.

The financial impact of ESG advocacy

Financial performance is one area that has received substantial, if not the most, attention in research on ESG issues. A recent report analyzed approximately 200 studies to assess how sustainable corporate practices have affected investment returns.¹ The report highlights were as follows:

- Solid ESG practices resulted in better operational performance in 88% of companies.
- Stock price performance of 80% of companies was positively influenced by good sustainability practices and lowered the cost of capital of 90% of companies.
- Companies with strong sustainability scores showed better operational performance and were less of an investment risk.

Case study: seeking gender equity in the boardroom

ISSUE	RESULT
<p>One of the primary ways ESG investors focus on gender is through workplace equity, with a particular focus on women in corporate leadership positions. Although women currently make up nearly half of the S&P 500 Index workforce, only 5% of CEOs in the S&P 500 Index are women, and they hold less than 20% of corporate board seats.²</p> <p>The institutional investors in the Thirty Percent Coalition—a national organization founded in 2011, whose mission is for women to hold 30% of board seats in all public companies—wrote a series of letters to companies in the S&P 500 Index and Russell 1000 Index that did not have any women on their boards. The final letters were signed by 75 signatories, including Trillium Asset Management and a variety of institutional investors and state treasurers, with approximately \$3 trillion in assets under management, as well as representatives of national women’s organizations. The coalition’s institutional investors also followed up with those companies that did not respond in any positive way by filing shareholder resolutions.</p>	<p>To date, 62 companies in the S&P 500 Index and Russell 1000 Index have appointed a woman to their boards following the Thirty Percent Coalition’s campaign, which began in 2012.³ These female board appointments were a first for the majority of these companies. In addition, many of the shareholder resolutions have been withdrawn as agreements were reached between investors and companies.</p> <p>At Trillium, seven companies have appointed women to their boards following our engagements, including energy, manufacturing, and financial services companies. At an additional eight companies, we have been able to withdraw our shareholder proposals when companies have committed to include gender and racial diversity among the qualities they seek in board members, and Trillium continues to engage those companies to ensure they follow through on their commitments.</p> <p>The Thirty Percent Coalition is also asking companies to commit to best practice corporate governance policies that include explicit recognition of gender and race as considerations in the board nomination process, select from a gender and racially diverse candidate pool when a board opportunity presents itself, and periodically report on their progress, as public accountability is an essential component of positive corporate change.</p>

Case study: creating a buzz for bee preservation

ISSUE	RESULT
<p>A growing body of scientific evidence has concluded that neonicotinoids—a relatively new class of insecticides that affects the central nervous system of insects—are a major contributor to both wild bee and honey bee declines.</p> <p>Over the past few years, Trillium, along with nongovernmental organizations and other investors, has been engaging big-box home improvement retailers and other companies, urging them to strengthen their existing commitments to protecting bees and other pollinators by immediately disclosing the progress they have made in phasing out neonicotinoid pesticides in all of their plants and off-the-shelf products.</p>	<p>The world's largest home improvement chain removed neonicotinoid pesticides from 80% of its flowering plants and it will complete its phaseout in plants by 2018. Another large home improvement chain responded to a shareholder resolution filed by Trillium and other investors by committing to phase out neonicotinoids by 2019.</p>

- Environmental topics, such as corporate environmental management practices, pollution abatement, and resource efficiency, were the most relevant to operational performance.
- Social factors, including good workforce practices, have had a large influence on operational performance.
- With regard to governance, issues such as board structure, executive compensation, antitakeover mechanisms, and incentives were viewed as most important.

Environmental factors

Trillium has pushed companies to improve on a variety of environmental issues through our advocacy work, including setting reduction goals for greenhouse gas emissions, reducing fugitive methane emissions, setting renewable energy purchasing targets, and reducing exposure to toxic chemicals such as neonicotinoids.

For more than a decade, Trillium has pressed companies to track and report their direct impact on climate change. Trillium filed the very first shareholder proposal asking for disclosure of the significant environmental and social impacts resulting from oil extraction operations in the Athabasca oil sands in Alberta, Canada. This proposal led to improved disclosure of social and environmental impacts.

Agriculture is one of the greatest contributors to climate change. It is also one of the industries most vulnerable to the variances in temperature and in the water cycle that accompany climate change. That is why we are extremely pleased that our shareholder proposals and dialogue over the years have led to the development of strategic plans on climate change and

agriculture, as well as the reduction of climate footprints and climate risk exposure for certain companies.

In an effort to reduce the climate change impact of companies, Trillium has engaged both the supply and the demand sides of fossil fuels. Numerous companies, including retailers, technology firms, and healthcare companies, have set renewable energy targets following Trillium's engagements through dialogue and shareholder proposals. Through public policy engagement as well as advocacy focused directly on oil and gas companies, Trillium has helped put measures in place that will reduce methane emissions by tens of millions of metric tons of carbon dioxide equivalent.

Social factors

Trillium has engaged with companies on a wide range of social issues, including gender pay equity, diversity data disclosure, improving supply chain human rights policies, and LGBT equality in the workplace.

One of the early social issues that helped define the modern socially responsible investment movement was the immoral nature of apartheid in South Africa and corporate participation in its continuance. From Trillium's earliest days, we provided our clients with South Africa-free portfolios and actively lobbied pension funds to divest from South Africa.

In 2012, we began engaging portfolio companies with all-male boards and those lagging their peers on diversity. Seven companies have appointed women to their boards following our engagements and another eight have committed to include gender and racial diversity among the qualities they seek in

board members. Working with the Thirty Percent Coalition, Trillium has assisted several companies in implementing strategies to expand the talent pool from which board nominees have traditionally been drawn.

Trillium views diversity, inclusive of gender and race, as a critical attribute to a well-functioning organization. Trillium's engagement has also helped move dozens of Fortune 500 corporations to implement gender identity, gender expression, and sexual orientation nondiscrimination policies. We believe a disproportionate percentage of transgender people still experience employment discrimination. The federal Employment Non-Discrimination Act would extend fair employment practices under federal law to the lesbian, gay, bisexual, and transgender community. Trillium's resolutions and dialogue have prompted nearly two dozen companies to add sexual orientation and gender identity and expression to their nondiscrimination policies.

Governance factors

Trillium has worked to improve corporate behavior in key aspects of corporate governance, including corporate responsibility data disclosure, political contributions transparency, and board diversity.

How corporate boards of directors oversee corporate political and lobbying spending has become increasingly important in the past 10 years. As public scrutiny is brought to bear on this issue,

this spending has reputational risks for many companies, but for investors, there is also concern about the integrity of the public policy process and how corporate dollars are spent or wasted to affect the process. With the help of the Center for Political Accountability, Trillium has filed shareholder proposals at dozens of companies and has successfully persuaded approximately two dozen companies to significantly improve their spending transparency, including companies in the energy, transportation, healthcare, financial services, retail, and manufacturing sectors.

Conclusion

Since 1982, Trillium Asset Management has been investing for a better world through an active ownership approach to ESG investing. Our goal is to provide competitive financial returns for our clients while helping them leverage the power of their assets to improve the ESG performance of companies.

A sustainable future will require engaged investors who are aware that corporate performance, investment performance, and ESG issues are inextricably interconnected. In the past 30+ years, the ESG community has achieved a number of major successes in building this awareness and in bringing about change. This type of collaboration between investors, companies, and communities can accelerate a move toward sustainable business practices beyond what any of us is able to achieve alone.

1 "From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance," University of Oxford, Arabesque Partners, March 2015.

2 "Women in S&P 500 Companies," Catalyst, 2/3/16.

3 The Thirty Percent Coalition, October 2015.

The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. The Russell 1000 Index tracks the performance of 1,000 publicly traded large-cap companies in the United States. It is not possible to invest directly in an index. Past performance does not guarantee future results.

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