Zevin Asset Management, LLC

Impact Update

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At Zevin Asset Management, we build responsible investment portfolios for our clients. We then address risks and create positive social impact by engaging with portfolio companies. In the second quarter of 2019, we directly challenged companies at shareholder meetings and channeled our investor voice on several important issues.

In focus: Skin in the game

Changing company practice for the better can be a challenge. More and more investors acknowledge the value of responsible investment, but there is disagreement on which approaches improve management of key risks and impacts. We take a straight-forward approach, focusing on executive compensation. Most people know that CEO pay is off the charts; in 2018 the chief executive of the average S&P 500 company earned 287 times the average worker's pay. We have encouraged companies like **CVS Health** and **The TJX Companies** to be transparent and thoughtful about this gap in the hope of helping to shrink it in the long run.

Making matters even worse, the structure of executive pay often causes companies to cut corners, take unwarranted risks, and ignore pressing environmental and social challenges. Exorbitant and unfocused pay packages created perverse incentives that reduced oversight at **Wells Fargo**, leading to the bank's fake accounts controversy. After the **Volkswagen** diesel emissions scandal and **BP**'s Gulf of Mexico explosion, experts and advocates have pressed to "claw back" misbegotten CEO paychecks — without much success.

Responsible investors can help shape incentives toward positive outcomes even as we examine the deeper problem in executive compensation. To this end, Zevin Asset Management has urged dozens of companies to link senior executive payouts to social and environmental risk metrics and performance goals. We have used shareholders proposals to target major firms like **Apple**, **Citrix Systems**, and **eBay**. Late last year, Citrix responded to our proposal, agreeing to spell out how diversity and inclusion factors influence annual CEO performance evaluations.

None of this is a substitute for working in the long term (through advocacy and probably legislation) to rein in the CEO pay packages that threaten the equality and stability of workplaces and of our society. However, tying payouts to social and environmental risk metrics can begin to address the above concerns. A study conducted by the UN Principles for Responsible Investment concluded that "the inclusion of appropriate Environmental, Social and Governance (ESG) issues within executive management goals and incentive schemes can be an important factor in the creation and protection of long-term shareholder value."

Last quarter, our shareholder proposals received strong votes at **UPS**, **Amazon**, and **Alphabet** (the parent company of Google). At UPS, we improved our vote result to 16 percent of all votes cast and we will keep pushing. Amazon faced a record number of shareholder proposals this year, including our pay-based challenge. Amazon needs to confront deep labor issues in its supply chain and cut risky high-tech product lines that enable governmental and private actors to collect and store peoples' private information. Over time, these risks will grow, and we argue that changing the tech giant's incentive structure will help address blind spots. This call was supported by nearly one quarter of outside investors (not including CEO Jeff Bezos's massive share position) and we will carry the fight forward.

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Alphabet is in a similarly tricky situation. In meetings with senior executives, we have flagged the company's poor approach to diversity, inclusion, and human capital management. In the tech sector, the inclusion imperative is clear: business value depends on hiring and retaining the most talented people, no matter where they are or what they look like. For the past 18 months, we have pressed executives to finally take responsibility for improving racial and gender diversity — especially in the aftermath of last fall's 20,000-worker walkout. In June, our shareholder proposal received support from 30 percent of the company's outside shares (not including the founders' positions) and continues to frame the challenge of executive compensation, executive accountability, and inclusion. Read more information on this ongoing engagement in this CNBC report.

As a bonus, we also used investor power to amplify the concerns of Silicon Valley Rising, a community advocacy group resisting gentrification and housing insecurity in the shadow of Alphabet's campuses. Our proposal, which was co-presented with Silicon Valley Rising and Google workers helped push Alphabet to announce a $1 billion commitment to address the Bay Area housing crisis.

Shareholder meeting updates

Our advocacy led to positive results at other at shareholder meetings around the country last quarter. Notably, proposals that we supported at **UPS** and the drug maker **AbbVie** received solid results. And we helped channel investor voices at the annual meeting of **Walmart**. Critics of the retailer's low wages and approach to sexual harassment claims among its more than 2 million employees sponsored several shareholder proposals and mounted a big presence at the annual meeting in Arkansas — including a speech from U.S. Senator Bernie Sanders. We helped Walmart workers acquire tickets for the meeting, and when representatives were blocked at the door, we mobilized in response with our partners at ICCR. We received an apology from the company and jumpstarted a conversation between advocates and Walmart executives in the ensuing weeks.

What else is new?

- We continue to collaborate with fellow ICCR members in an ongoing engagement with **JPMorgan Chase**. Our new letter calls on executives to square the bank's energy sector lending with the requirements of the Paris Accord on climate change. We aim to follow up in a meeting with JPMorgan, which is the world's leading lender and underwriter to fossil fuel companies.
- Another letter, sent to **Amazon** in tandem with major European pension funds, calls on the company to obey the core standards of the International Labour Organization (ILO) in all operations globally. The time has come for Amazon to stop hiding behind local regulations, which are often weaker than ILO standards.
- We helped call out **donor advised funds** around the country which are reportedly allowing "philanthropic" money to be distributed to racist and anti-LGBTQ hate groups. After a troubling media report brought this to light, we engaged with partners to help follow the money and convince asset managers to stop allowing the financial system to be used for hate.

Thanks for reading and sharing. For more on this work and our broader advocacy, join us on our website, Medium, Twitter, and LinkedIn. And please don't hesitate to contact Pat Miguel Tomaino (pat@zevin.com) with your questions, thoughts, and suggestions.