ARJUNA CAPITAL
ENLIGHTENED INVESTING

SHAREHOLDER ENGAGEMENT
April 2019 / 2nd Quarter

We seek to make our investors' capital transformational capital, not incremental capital. Through the shareholder proposal process, we are raising our clients' voices to call for change.

TRANSFORMATIONAL CAPITAL

April showers bring May flowers, but also the start of annual meeting season for US corporations. On behalf of our clients, Arjuna Capital has shareholder proposals going to a vote at 14 of these meetings. We're squaring off with Big Oil, Big Banks, and Big Tech while addressing issues from climate change and gender-pay equity to diversity and democracy.

The specific companies where we've filed proposals are ExxonMobil and Chevron in the oil patch, Bank of America, JP Morgan, Wells Fargo, Bank of New York Mellon, Mastercard, and American Express on Wall Street, and Facebook, Google, Twitter, Adobe, Intel, and Amazon in Silicon Valley.

WHO DECIDES WHAT HAPPENS TO OUR CLIMATE?

In a recent upset at the Securities and Exchange Commission (SEC), Arjuna Capital prevailed over a legal challenge from ExxonMobil, which sought to block our first-of-its-kind shareholder proposal asking for a significant shift in climate-change governance at the oil giant.

This is the sixth year we've engaged with Exxon on climate-change risk, and to date we've successfully pressed for transparency. We now know that Exxon is not preparing for the biggest threat it will face this century. And we know that investor capital is at significant risk from possible future governmental climate policies, growing competition from renewables, peak oil demand, and unburnable fossil-fuel reserves.

So, this year we are asking a new question: Who decides what happens to our climate? This is a question of governance, decision making, and fiduciary duty. It's a question for the board.

When I attended Exxon's annual meeting during Rex Tillerson's last year as Chairman and CEO, he asserted that temperatures could rise two degrees, four degrees, or six degrees, and that the company would simply adapt. It would remain the last man standing. That disturbing position, which persists to this day, is neither a business plan, nor an acknowledgement of culpability. After all, it is the company's core products that have not only caused climate change but are exacerbating it at an unprecedented rate. It is the epitome of leadership asleep at the wheel.

Our newest proposal therefore asks Exxon (and Chevron) to charter a board-level climate-change committee to chart a more strategic and sustainable path for the oil giant. Such a committee would oversee corporate strategy relating to climate risk and opportunity, and to adapting and transitioning the company to a carbon-constrained future. For Exxon, this would mean bulking up the climate-change expertise of its board beyond its one token environmentalist. More importantly, it would make climate-change strategy a central focus of the board rather than a tertiary consideration.

Board committees are normally limited to topics like executive compensation, audit, finance, and public policy. But given the existential threat facing Big Oil, a dedicated committee is warranted. Wisely, the SEC agreed with us that investors have a right to weigh in on whether or not Exxon should improve its climate-change governance. We are optimistic investors will agree with us as well.

DIVERSE DECISION MAKING IS BETTER DECISION MAKING

For years, we've heard the call: First it was, "Companies need women on their boards." Now it's become, "Companies need *more* women on their boards." It's been a push for incremental progress. But what we really need is transformational change. That is, parity among men and women on boards, parity for women in the C-Suite, and an employee base and leadership that fully reflects the gender and racial diversity of our country. Because that is the structure that will transform our decision making, improve corporate performance, and better address the challenges of sustainability.

We seek to make our investors' capital transformational capital, not incremental capital. And that means going beyond just investing in companies with more diverse leadership, which we also do. Through the shareholder proposal process, we are raising our clients' voices to call for change.

Over the last four years, we have leveraged the power of our client's ownership to press 22 of the world's largest companies to commit to pay equity. So far, these gender and racial pay gap disclosures have been reported on an equal-pay-for-equal-work basis. That is, they measure whether two people—a woman and a man, a white and a black employee—doing the same job are paid the same. It's a critical first step, but it's only half the story.

The other half is median pay, which measures how much women, regardless of position, make on average versus men, and how much people of color, regardless of position, make on average versus white employees across a company. Assessing median pay equity will tell you whether a firm's highest paying jobs are reserved mostly for males and whites. It's a measure of who is holding the high-paying jobs and therefore who is holding the power.

In January, Citigroup surprised us when it became the first company to comply with our request that it reveal its "median" company-wide gender and racial pay gaps. The numbers weren't flattering. At Citigroup, women make 29% less than men and people of color make 7% percent less than whites. The banking giant's disclosure of these more dramatic median pay gaps puts in context the firm's earlier disclosures (which we also requested) that showed women and minorities earning 99 cents on the dollar versus their male and white peers on an "equal-pay-for-equal-work" basis.

This is why we need both halves of the story: Equal pay for equal work insures pay fairness for a given job. Median pay equity seeks equal ***opportunity*** for women and minorities to climb the corporate ladder. When Citigroup disclosed its median pay gaps, it also affirmed its commitment to close them.

On April 2nd, Equal Pay Day, Arjuna released our second annual Gender Pay Scorecard, ranking the gender and racial pay equity disclosures of 46 companies across four sectors of the economy. Citigroup was the only company to receive an A. We did this not to name and shame, but to create a new standard for disclosure. Because without transparency, there is no accountability. And without accountability, there is no change.

Our work in gender and racial pay equity addresses a root cause and structural barrier that is preventing women and minorities from succeeding. In that paradigm, we all lose by not benefiting from their talent and contributions. Which is why, for all of us, the paradigm needs to change.

Natasha Lamb, Director of Equity Research & Shareholder Engagement