ARJUNA CAPITAL
ENLIGHTENED INVESTING

SHAREHOLDER ENGAGEMENT
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PERSISTENCE

The power of persistence is not to be overlooked. In fact, persistence in the face of opposition has become a rallying cry for the modern feminist movement. It is also a hallmark of how we, as investors, press the companies in our clients' portfolios to do better—to improve their environmental, social, and governance practices. Together we create better businesses and better investments, not in one year, but over the course of many.

This fall, after years of persistence by our clients and our firm, two of our highest-profile company engagements have come full circle—but in very different ways.

EXXON'S DAY IN COURT

On October 23rd, the Attorney General of New York brought ExxonMobil to trial—alleging the country's largest oil and gas company misled investors about how it manages climate-change risk. Those allegations are, in no small part, informed by the climate-change disclosures negotiated by Arjuna Capital over five years ago. As a result, I was the first witness called to testify.

In 2013, we filed the first shareholder proposal asking ExxonMobil to address carbon asset risk. That is, the risk that two-thirds of all fossil-fuel reserves could be stranded—unburnable and devalued—in the low-carbon future necessary to avoid catastrophic climate change.

Our engagement resulted in Exxon's first carbon asset risk report, entitled "Energy & Carbon-Managing the Risks," where Exxon denied that any of its assets were at risk of stranding in a low-carbon future. The logic being that a low-carbon future would not come to pass, so there is no need to prepare for it. Specifically, the company used the strawman of the world's poor to assert global governments will not pass the regulations necessary to limit global warming to a less-than-two-degree increase. Why? Because poor populations need cheap fossil-based energy. And while we have been critical of the company's position for the last five years, it is folly, not fraud, to ignore the biggest existential threat to ExxonMobil's business.

But the AG's case is not about denial. It is about what Exxon told investors publicly and what the company did internally. The allegation is that Exxon claimed the company used a "proxy cost on carbon" to account for future climate regulation, while it failed to incorporate that cost into internal decision making. Specifically, the AG asserts that Exxon failed to use this cost to assess the viability of some of its highest-cost, highest-carbon-intensity assets—the Canadian oil sands.

In August, we shared our decision to sell the majority of fossil-fuel assets in our clients' portfolios. We did this at a time when client demand for fossil-fuel-free investing is going up, and the business case for fossil-fuel investing is going down. Given the structural changes to the energy market—including diminishing profitability due to the high costs of unconventional fossil-fuel assets and increasing regulatory pressure to decrease carbon emissions—we believe eliminating fossil-fuel exposure will be a long-term tailwind to the financial performance of our clients' stock portfolios. Case in point, our fossil-fuel-free stock strategy—Arjuna 350—has outperformed the S&P 500 for the last five years.

The decision to sell out of the traditional energy industry comes after many years of proactively engaging with fossil-fuel companies to improve their efficiency and strategic planning. In fact, our clients filed the first methane leakage proposals at natural gas companies beginning in 2012. These engagements have sought to reign in gas leakage in service of more efficient operating assets and less climate impact. That's because methane has 86x the global warming potential of carbon dioxide over a 20-year timeline and leaks from the time a well is drilled to the time that gas is delivered for combustion. If more than 2.6% is leaking, it's worse than coal. But, the biggest measure of our success is how our proposals have been replicated by other investors and scaled across the natural gas industry.

Our engagements at oil and gas giants ExxonMobil and Chevron have been multifaceted over the years. We have asked for transparency on climate risk. We have asked for more profits to be paid back to investors as dividends rather than invested in their highest-cost, highest-carbon projects. And we have asked the companies to diversify their assets into renewable energy. Most recently we

proposed Exxon and Chevron add a Climate Risk

Committee to their boards of directors, to create more climate-competent boards with clear lines of fiduciary duty to investors.

And while we will not take big stakes in Big Oil, we do plan to continue to engage with the oil majors on behalf of our clients. Because, while a minority will directly hold stock in these companies, as "universal owners," all of our clients' portfolios remain at risk from climate change. In fact, the systemic risks associated with a rapidly warming planet will impact any investor investing in a broad and diversified portfolio. And we don't plan to sit on the sidelines.

CITIGROUP TAKES THE LEAD

On September 19th, Citigroup took out a three-page spread in *The New York Times* highlighting the bank's commitment to gender equity and three "gender equality trailblazers…fighting to close the pay gap," including myself. Citi opines "if we all join forces and fight for change like they have, together we can alter the status quo, improve business on a global scale and erase that economic gap far sooner than expected." The back page of the DealBook section features a startlingly candid letter from Citi CEO Mike Corbat who admits, "Advancing gender equality requires honesty, transparency and, at times, discomfort."

That discomfort first came to pass over two years ago at Citigroup's 2017 annual meeting, when I presented our clients' proposal to management, the board, and shareholders, asking the company to disclose and close its gender pay gap. The resultant discussion between myself, Citi's Chairman, and a fellow shareholder would have been par for the course, if not captured by a *Bloomberg Businessweek* reporter who featured the exchange as the opening vignette in a cover story.

Perhaps unsurprisingly, the following year, when our clients came back and filed the proposal again, Citigroup was the first bank to come to the table and commit to change. On Martin Luther King Jr. Day 2018, Citi disclosed its "equal pay for equal work" gap of 99 cents on the dollar and awarded raises to women and minorities at the firm. For each of the next eight weeks, another bank followed suit, until nine financial services firms had negotiated with Arjuna to commit to transparent pay equity.

Citi again showed its stripes this past January. In response to another proposal from our clients, the company committed to go further than any US company, let alone bank, had by publishing its global median pay gap alongside its "equal pay for equal work" gap. In brief, the "equal pay" gap measures how women and minorities are paid compared to their direct peers on a statistically adjusted basis, but the "median pay" gap measures the raw median data on how women and minorities are paid versus men and non-minorities across the whole firm. The issue being that women and minorities lack equal opportunity and are disproportionately holding low-paying, versus high-paying, jobs. The median number is far less flattering than 99 cents on the dollar. Women at Citigroup earn 29 cents less on the dollar than men at the firm. In contrast to the prior year, of the 11 other companies where Arjuna filed the proposal, none followed Citi's lead.

But Citi has not backed down, and neither have we. Instead, it is doubling down to press other companies to make an honest accounting of their gender and racial pay gaps. To tell the whole story—whether comfortable or uncomfortable.

To date, our clients have used the power of their money, and the power of their share ownership to press 22 Fortune 500 companies to disclose and close their gender and racial pay gaps on an equal pay for equal work basis. These companies represent the Big Banks of Wall Street, the Big Tech firms of Silicon Valley, and some of the country's largest retailers. They also employ nearly 3.5 million people, and over 1.5 million women whose salaries are now assessed and adjusted each year to ensure that discrimination is not a factor when determining their pay.

But there is more work to do to ensure that equal pay translates into equal opportunity. Because transforming corporate leadership is in service of not only a more equitable society, but the financial outperformance that diversity of thought, experience, and perspective affords. And so, we will persist.

Natasha Lamb, Director of Equity Research & Shareholder Engagement

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