The Art (and Science) of Shareholder Engagement
ABOUT ICCR

Currently celebrating our 44th year, the Interfaith Center on Corporate Responsibility has been a leader of the corporate responsibility movement for four decades. Beginning with our calls for corporations to withdraw from South Africa in opposition to apartheid, ICCR members have been actively engaging the world’s largest companies in an effort to transform corporate practices on a host of issues from rooting out human trafficking and supply chain abuses to ensuring safe food and water, to calling for financial and health care reform to protect the world’s most vulnerable. Today our membership is comprised of 300 institutional investors with over $100 billion in invested capital. Representing faith-based communities with congregations all over the world, SRI asset management companies, unions, pension funds and a global network of allies, ICCR members are not only shareholders, but trusted partners in corporate responsibility initiatives that promote a more just and sustainable world.

We do this in a variety of ways:

• CORPORATE DIALOGUES: As active shareowners who have built productive and long-term relationships with management, ICCR members conduct hundreds of dialogues every year to advance a wide range of issues. Because we have a vested interest in a company’s success and propose realistic solutions as opposed to making demands, these dialogues often bear fruit in the form of meaningful reform and have a positive impact on long-term profitability.

• SHAREHOLDER RESOLUTIONS: When dialogues are unproductive, ICCR may issue shareholder resolutions to engage management and other investors’ attention around a specific issue.

• CSR TOOLS: ICCR’s database offers members a historical record of shareholder actions with hundreds of companies. Known for our insightful reports on emerging trends such as our Invested in Change: Faith-Consistent Investing in a Climate-Challenged World, Extracting the Facts (an investor guide to hydraulic fracturing operations) and Effective Supply Chain Accountability, offering investor guidance on the California supply chain legislation, along with our ability to convene key stakeholders from the business, NGO, community and investor sectors, ICCR is a resource for all those working in corporate responsibility.

OUR MISSION

ICCR seeks a global community built on justice and sustainability through transformation of the corporate world by integrating social values into corporate and investor actions.

We invite you to join us. We are inspired by faith and committed to action.
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n several pieces in this issue of *The Corporate Examiner* we explore the mechanics of our members’ long-term work to transform companies from the inside to promote greater justice and sustainability. What are the elements common to productive engagements? What happens when engagements stall or fail? ICCR has begun monitoring engagements in an effort to develop best practices. In a look at two studies “The Art (and Science) of Shareholder Engagement” a piece written by guest columnist Robert Kropp of Social Funds, we shed light on what makes for a good process.

On June 18th, Pope Francis released his much-anticipated Encyclical on the environment, *Laudato Si’*. I was fortunate to be speaking at the Milan EXPO that week and the excitement across all communities was palpable. With *Laudato Si’*, the Holy Father has issued a vital message regarding our shared moral responsibility to live in harmony with the environment; it is also an urgent call to action that we hope will be heeded by all people around the globe. The Encyclical builds much-needed momentum for the Road to Paris — a strategic campaign in advance of the coming historic UN climate change conference (COP21). You can follow ICCR member comments at [www.iccr.org/our-issues/environment/interfaith-investor-response-papal-encyclical-climate-change](http://www.iccr.org/our-issues/environment/interfaith-investor-response-papal-encyclical-climate-change) or Twitter @ICCRonline.

Our readers know ICCR members have been engaging corporations on the impacts of climate change since 1989, anticipating many of the connections made in the Encyclical. On April 15, Earth Day, ICCR published *Invested in Change: Faith-Consistent Investing in a Climate Challenged World*, a comprehensive white paper chronicling the work of ICCR members on climate-related themes, and a fuller discussion of shareholder engagement as a tool to advance corporate climate change solutions. This issue includes an excerpt and a number of case studies which demonstrate our members’ impact on this urgent issue.

On April 29 and 30, we conducted a local pilot project in Cincinnati — “Climate Capital and the Power of Collaboration”, to bring our message to a well-established local network and strengthen community capacity to accelerate the shift to low-carbon and sustainable energy sources. With 200 individuals introduced to our work at a large, public gathering, 90 people from the Cincinnati region joined us for a two-day event which brought together local representatives from the business, academic, investor and media communities to explore practical and actionable solutions to build local capacity around the financing of climate solutions. That event introduced a new model of working for ICCR, one which we hope to replicate and scale up in the coming year. Inside this issue, you’ll see photos of some of the day’s participants.

We hope that this and the issue’s other articles will inspire and energize your work in the months ahead.

With appreciation for all you contribute to our mission,

Laura Berry
Executive Director
Islamic Finance: An Opportunity for Interfaith Collaboration for Economic Justice

By Samir Safar-Aly

Introduction
Long before the merchants of Venice in the 1500s, Muslims in the European Middle Ages conducted business as far and wide as Spain and China. With the Quran’s 370-odd references to commerce, Islamic law (which some would term the Shariah) provided Muslim merchants with a moral compass on how to make investment decisions; these teachings can also be reflected upon in our modern corporate world. With a global Muslim population of around 1.6 billion, an Islamic financial industry has developed to provide an alternative approach to finance.

Contemporary Islamic Finance
Currently the contemporary Islamic finance industry (“IFI”) is estimated to be worth more than USD 1.66 trillion¹ and growing fast, having fared relatively well during the recent financial crisis. The IFI typically provides finance through a number of profit and risk sharing arrangements based on Islamic principles, such as a prohibition on usury (riba) — a concept shared with the Bible. All financing agreements must be approved by the financial institution’s Shariah Supervisory Board (“SSB”), typically comprised of three Islamic scholars, who review and approve transactions by way of issuing a legal opinion. Those sitting on SSBs must have the authority to issue such opinions, having completed years of semi-nary schooling.

Apart from lending arrangements, another aspect of the IFI are official Shariah ‘screens’ or filters, applied to market indices, including NASDAQ, the S&P Dow Jones, Canada’s S&P/TSX, and the UK’s FTSE.

These ‘screens’ typically remove stocks from industries not compatible with the Shariah, such as alcohol, pork, adult entertainment, gambling, the arms industry and conventional interest-based banking. Companies that are highly leveraged beyond certain thresholds (generally no more than 33% debt-to-equity) are also filtered out. As completely interest-free corporations are few and far between, companies are typically allowed a minimum percentage of profits to be derived from otherwise Islamically prohibited sources (typically no more than 5%). However, any derived profit or dividends received must be donated to an approved charitable cause, before profits can be realized (in what is called a ‘purification’ process).

A Judeo-Islamo-Christian Economic Tradition?
All property is reviewed in Islam as ultimately belonging to God. Consequently, as with Christianity, stewardship and charity is a fundamental principle. Indeed, alms-giving (zakat) is one of the mandatory five pillars of Islam. Closeness to God is something that the Quran shares with both the Bible and the Torah:

“Fair in the eyes of men is the love of things they covet… heaped-up hoards of gold and silver… and (wealth of) cattle and well-tilled land. Such are the possessions of this world’s life; but in nearness to God is the best of the goals (to return to).” (Quran 3:14)

“Be just! For Justice is nearest to piety.” (Quran 5:8)

(2014) at 5.

“The reward of goodness aught save goodness? Which is it, of the favors of your Lord that ye deny?” (Quran 55:60-61)

Similarly, Pope Benedict XVI’s Encyclical Caritas in Veritate stated that the Catholic Church “rejects the secular logic of separating the market and morality”. Islamic teachings on the economy bear a great deal of similarity with Catholic Social Teachings and Social Gospel ideology. From workers’ rights, environmental justice, animal welfare, or good corporate practice, Islam has much to contribute towards the challenges facing the economy today.

The Vatican newsletter, Osservatore Romano in 2008 stated that, “the ethical principles on which Islamic finance is based may bring banks closer to their clients and to the true spirit which should mark every financial service.” The IFI can learn much from the great efforts of the ICCR, its members, and the power of shareholder activism. Organisations such as SEDCO and Arabesque have already successfully launched Islamic investment funds that are also compliant with the UN Principles of Responsible Investment. Azzad Asset Management, located in Falls Church, VA, is another leading Islamic mutual fund company. Similarly, Saturna Capital, headquartered in Bellingham, WA, has experienced strong financial performance through its Islamic mutual funds, attracting both Muslim and non-Muslim investors alike.

As a Muslim having gone to a Catholic high school in London, I have seen first-hand the benefits of interfaith dialogue across faith-based communities. Given the global complexities of the challenges for justice in the economy, it is likely to be only a matter of time before interfaith economic dialogue between the IFI and ICCR and its members takes place for positive global change.

Invested in Change: Faith-Consistent Investing in a Climate-Challenged World

On Earth Day, April 22, ICCR released Invested in Change, a paper which examines the work of faith-consistent investors and the practice of shareholder engagement to advance climate change solutions. Invested in Change lays out the business and moral case for private sector action on climate change and discusses the different strategies available to investors seeking to catalyze positive change on this issue. Included are examples of investor impact from ICCR member engagements on climate change, from corporate GHG reductions and improved energy efficiencies, to public policy advocacy and green energy investing. It is intended to provoke discussion around practical solutions for investors interested in curbing the impacts of climate change and accelerating the shift to low-carbon and sustainable energy alternatives.

ICCR members began formal engagements with companies on climate change, then called “planetary warming”, in 1989. Since then, over 600 shareholder proposals have been filed by ICCR members and hundreds of corporations have been engaged by investors on climate-related topics. Invested in Change builds upon this 25-year history of shareholder action on climate change and describes the current strategies members are using to confront these issues.

Investors’ interest in climate change stems not only from their fiduciary concerns regarding the real and immediate risk climate changes poses to their own institutional assets, but from their concerns about its broader and longer term ramifications on global economic stability. For faith-consistent investors, these concerns take on a distinctly human dimension as they consider the justice implications for vulnerable communities that, due to their resource constraints, will disproportionately bear the impacts of climate change. The latest Papal Encyclical and calls from other faith leaders

INVESTOR IMPACT: Reduced methane flaring in oil wells
Mercy Investment Services

Mercy Investment Services filed a resolution with Continental Resources asking the company to adopt quantitative goals to reduce or eliminate flaring, a byproduct of burning natural gas that releases approximately six million tons of carbon dioxide per year into the atmosphere. The resolution prompted a dialogue with the company which resulted in its commitment to reduce flaring to as close to zero as possible. Subsequently, a task force representing oil production companies in North Dakota announced its intention to increase the capture of natural gas during drilling, further reducing flaring, and has stated that it believes in six years it will be able to capture up to 90% of its carbon emissions.
INVESTOR IMPACT: Driving down emissions and driving up fuel economy in the automotive sector
The Sisters of St. Dominic of Caldwell, NJ

The Sisters of St. Dominic of Caldwell, along with other ICCR members, began engaging Ford Motor Company and General Motors in the mid-1990s on climate change, then called “planetary global warming”. Ford was the first U.S. company to leave the Global Climate Coalition, a well-funded group dedicated to refuting the science of climate change, and when many more companies ICCR was engaging followed suit, the association ultimately was forced to close its doors. In 2003, a resolution was withdrawn when Ford agreed to issue a holistic report that included disclosure of its emissions, elements to increase fuel efficient technologies, and public policy. In 2005, Ford released a first-of-its-kind climate risk report in the auto industry analyzing the business implications of climate change on the company’s strategic planning and overall competitiveness, and in 2008, it established a Greenhouse Gas Reduction Plan for its entire operation and pledged to reduce GHG emissions for its new vehicle fleet by at least 30% by 2020. It now continues to make commitments under this Climate Stabilization Commitment, reducing emissions in both its facilities and in the end use of its products through increased fuel efficiency — important steps needed to balance environmental and social concerns with the drive for strong returns for its investors that were brought about by shareholder engagement. Investor advocacy also facilitated Ford’s support of robust Corporate Average Fuel Economy (CAFE) Standards to significantly reduce emissions generated by its products.

for climate action only serve to reinforce the importance of advancing change for the global community.

Core strategies for ICCR’s climate change work include engagements related to: climate change mitigation, mainly through carbon emissions reduction; disclosure of corporate public policy activities made via lobbying and political spending initiatives; improving corporate reporting and accountability through measurement and disclosure of carbon footprints; and, encouraging proactive climate change adaptation plans that will reduce climate risk. In addition, members use their influence as shareholders to advocate for stronger legislative and regulatory frameworks that will enforce carbon emissions reductions while advocating for proactive investing in climate solutions, including green energy technology and infrastructure. Collectively, these strategies look to encourage the private sector to adopt more sustainable practices and to actively participate as innovators in the coming green energy revolution.

ICCR members adapt the strategies they use in their engagements with companies depending on the companies’ current business models, disclosures and impacts. They encourage leadership and public support of climate policy and regulation and request that companies assess and disclose their climate risks, set rigorous, science-based emissions reductions targets, and support board oversight of climate risk mitigation strategies.

Recognizing that there is a critical role for investors to play in moving the economy toward a low-carbon path by investing in innovative new technologies and infrastructure, on February 9th, 2015 ICCR convened its first Climate Finance Round Table with investors, investment professionals and leaders in climate finance to catalyze investments in climate solutions. [See page 8]

Above and left are two examples of corporate advancement in ICCR’s climate change program.

ICCR urges energy companies to adapt their business plans to better manage climate realities because we believe their resources, experience, capital and expertise are needed to lay the foundation for what will inevitably be a carbon-constrained future. We believe they can not only be a part of the inevitable green energy revolution already underway, they can help lead it. As our members deliver their statements at the annual general meetings of energy companies this year, they will be emphasizing this critical message.
Climate Capital and the Power of Collaboration

On April 29 and 30, ICCR and Xavier University’s Department of Sustainability hosted an event intended to catalyze discussion and action at the community level around investment solutions to climate change. The initiative was facilitated by representatives of the Region VI Coalition for Responsible Investment and made possible through a grant from the Sisters of Charity Ministries Foundation.

Roughly 90 people from the Cincinnati region joined us at Xavier’s Cintas Center for a two-day event including a panel discussion on the evening of April 29 featuring local representatives from the business, academic, investor and media communities and a more informal workshop on April 30 where practical and actionable solutions were explored to build local capacity around the financing of climate solutions. Panelists included representatives from Procter & Gamble, Macy’s and Fifth Third Bank that are headquartered in Cincinnati, as well as representatives of anchor institutions such as Xavier University, Mercy Health, Green Umbrella and the Ohio Public Employees Retirement System.

Participants in the Invested in Change event included local members of faith, environmental, academic, investor and corporate communities with a shared commitment to explore how they could best combine their talents and resources to make an impact on climate change. The main panel on April 29 convened ICCR’s Executive Director Laura Berry; Procter & Gamble’s Vice President, Global Sustainability, Len Sauers; David Zellner, Chief Investment Officer of Wespath Investments; and, Anas Malik, Associate Professor of Political Science at Xavier to discuss what is currently being done to address climate change and what is needed to speed the transition to the new, green economy. The discussion was moderated by Carolyn Washburn, editor of the Cincinnati Enquirer.

Breakout discussions focused on the following themes:

Productive engagement, how collaboration leads to change and framing what it takes for investors and corporations to work together; what investors are doing now including asset allocation/diversification, understanding fiduciary duty and the shifts that are needed in institutional investment policies; what we can build together through investment opportunities, and a discussion of expectations regarding financial and environmental performance. We were also joined by a panel of students from Xavier’s department of sustainability — the voices of the next generation of sustainable investors.

The two-day event highlighted the hunger for more information and resources including:

- Common platforms to assess and benchmark corporate performance on climate concerns;
- Guidance around the incorporation of ESG considerations in portfolio management;
- Positive climate financing options, with an emphasis on local opportunities; and,
- Educational programs to help establish common understandings around climate action.

Christi Electris, of the Croatan Institute.
Christina Herman, ICCR Program Director
Len Sauers, Vice President for Global Sustainability, Procter & Gamble
Scott Hassell, VP and Director, Environmental Affairs, Fifth Third Bank and President of the Board of Trustees of Green Umbrella
climate issues and how they are best addressed.

There was particular interest in learning more about community-based investment programs that might catalyze more sustainable energy solutions and in developing channels whereby local groups might connect to broader climate financing efforts. ICCR introduced its new investor toolkit, *Invested in Change*, which describes the different strategies available to investors and offers a set of questions investors wishing to address the issue may want to consider.

“ICCR truly models collaboration and engagement regarding concerns about global economic stability and social justice,” said Sr. Sally Duffy of SC Ministry Foundation. “The convening in April focused on climate, capital and collaboration, and actions to minimize the real risk of climate change. SC Ministry Foundation is deeply grateful to partner in this convening and grateful to all the sponsors, participants and speakers who shared their expertise and hopes on our collective journey to sustainability and to be change agents for solutions to climate change. We hope that the convening and the toolkit “Invested in Change: Faith-Consistent Investing in a Climate-Challenged World” will serve as resources and catalysts to actions leading to fulfillment of ICCR’s 2015 climate change strategy through shareholder engagement and policy advocacy.”

Said Anne Dougherty of Xavier University’s Office of Sustainability, “Hosting ICCR in our town was an unusual opportunity to connect our friends in a different setting — socially active investors met corporate leaders, who met sustainability students in a forum as equals — and we collectively were surprised by the amount of work already going on. Students, professors, and staff of Xavier University were grateful for the opportunity to host and participate in the ICCR forum and round table.”
ICCR’s Climate Finance Roundtable

On February 9, 2015, ICCR convened a Roundtable that brought together investors, investment professionals, and leaders in climate finance to problem solve and brainstorm around investment solutions that will help accelerate the transition to renewable energy and mitigate the worst impacts of climate change.

There is a critical role for investors to play in moving the economy toward a low-carbon path by investing in innovative new technologies and infrastructure. The International Energy Agency (IEA) estimates that an additional $1 trillion per year in investment is needed to get us on the path to clean energy at the scale required to respond to current energy consumption. Participants discussed the vehicles and opportunities to engage in this space and shared strategies to address the obstacles that may arise. The event focused on a whole-portfolio approach to climate finance and provided resources and answered key questions for investors exploring these investments.

Sessions included:
- Understanding the Landscape
- Exchanging Ideas
- Investment Opportunities
- A Clearinghouse

Audience members listening intently.

Val Smith, the Director of Corporate Sustainability at Citi was one of the day’s panelists.

Peter Ellsworth, Senior Manager of Investor Programs at Ceres (left) joined event convener Sr. Patricia Daly, for a discussion of fiduciary duty and investment opportunities in climate finance.

Croatan Institute Fellow Fern Jones spoke on the panel “Understanding the Landscape: Why Climate Finance is Critical to Propel Solutions to Address Climate Change”.

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ExxonMobil Shareholders Call for Stronger Leadership to Address Climate Change

"I call it a liturgy. It is a ritual — it’s going through the motions," Fr. Michael Crosby said of his attendance at Exxon’s annual shareholder meeting in Dallas on May 27th. Crosby, of the Province of St. Joseph of the Capuchin Order, and WIMCRI, was there to present a proposal requesting the appointment of a board member with environmental expertise, given the known environmental impacts of Exxon’s global operations. Asked if he felt his message was being heard by Exxon’s CEO, Rex Tillerson, Crosby conceded: “There is listening that is coming out of true dialogue, and there’s being silent having already made up your mind.”

Crosby’s resolution was only one of several shareholder proposals on the company proxy that called for a thoughtful response to the growing threats of climate change. While the environmental expert proposal won a strong result of 23% when the votes were tallied, in a letter to shareholders in advance of the vote the board complained that “To set aside one seat for an environmental specialist or for any single attribute or area of expertise would, in our view, not be in the best interests of the company or its shareholders because it would dilute the breadth needed by all directors to make informed decisions for the company.”

Impending climate regulation means that GHG emissions pose serious and material risks to the long-term health of fossil fuel companies; for that reason, investors have advocated for ambitious reduction targets and increased investments in carbon mitigation technology and research into more sustainable forms of energy production. Frustrated by what they view as slow and insufficient gains on these concerns, they expected meaningful commitments demonstrating that Exxon’s board and management aren’t resisting, but are responding to the mounting calls for climate action.

“Industry peers look to Exxon for inspiration, new strategies and innovation and for the signposts that will set the course for the future of the energy sector. Exxon’s leadership position compels it to use that power responsibly, not only for the benefit and enrichment of their shareholders, but for the common good and for future generations,” said Sr. Pat Daly, Executive Director of the Tri-State Coalition for Responsible Investment and proponent of a resolution calling on Exxon to set quantitative and time-bound greenhouse gas (GHG) reduction targets.

As GHG emissions reduction becomes more imperative due to the growing body of scientific evidence on the impacts of climate change, fossil fuel companies are facing increased scrutiny from policy-makers, investors and the public. This scrutiny has only intensified in recent months as world leaders prepare for the climate talks in Paris this fall, and faith communities around the world anticipate the imminent release of Pope Francis’s Encyclical on the environment.
Said Daly, “While some of these climate resolutions have been on the proxy before, given the devastating climate impacts we are already seeing, the stakes have grown exponentially higher, as have the expectations of investors. Mr. Tillerson needed to demonstrate to the investors who are still here, that he and his company aren’t tone deaf to what is perhaps the most urgent threat currently facing the planet and its people. Rather than dig in their heels and resist the inevitable, we had hoped they would have the vision to take advantage of the many business opportunities the new, green economy will present.”

Crosby reinforced this message, saying, “Even Saudi Arabia last week indicated they see solar as the future for their country...The weaning has to begin...yesterday...We hear what you are saying about future energy needs and demands. It’s true, we are a fossil-fuel driven society, but we can’t remain so. The company has to be making plans for the future...”

But if shareholders expected an indication that company management was registering their concerns, they were disappointed. In his prepared remarks, Mr. Tillerson failed to mention climate change even once.

Tillerson questioned the reliability of current climate models and rejected the idea of transitioning to renewables by saying “We choose not to lose money on purpose,” adding that the renewables market is heavily subsidized. When reminded that Exxon and other fossil fuel companies receive subsidies far greater than those accorded renewables, Tillerson said, “We don’t receive any subsidies.”

According to Robert Kropp, a journalist for Social Funds, “[Tillerson’s] statement is belied by a recent study by the International Monetary Fund (IMF), which reveals that in addition to $492 billion in direct subsidies to the fossil fuel industry globally, $5.3 trillion a year is spent on indirect subsidies such as paying for the health effects of air pollution and climate change mitigation costs. Unless a way is found to put an end to the externalization of such costs, they are certain to increase dramatically in a short period of time.”

Said Laura Berry, ICCR’s Executive Director, “Tillerson made it clear that Exxon continues to define itself narrowly as an oil & gas company, as opposed to adopting the broader more socially relevant identity of energy company. Given the financial, legal and reputational risks of this model, it is therefore incumbent on management to demonstrate to its shareholders that this vision is sustainable for the long-term. If resources won’t be deployed to research and explore alternative forms of energy, then they need to be deployed to adequately account for the externalities produced by continuing to burn fossil fuels - and they should be deployed proactively, so the company will be ahead of and not behind the curve when regulation hits.”

Berry continued, “Exxon has gone on record as saying it favors carbon pricing that levels the playing field; it needs to join its European counterparts and publicly promote carbon pricing policy and ensure that its lobbying and political activities are consistent with this messaging. And if it wants to continue to be a carbon burning company then it will need to make serious investments in the technology that will mitigate its impacts, e.g., carbon capture and sequestration or some other appropriate technology. What clearly is unacceptable, is a “business as usual”, “milk it for all it’s worth approach”, as this is literally burying one’s head in the (tar) sand.”

The GHG reduction targets proposal, led by the Sisters of St. Dominic of Caldwell, NJ, was supported by a coalition of global investors that collectively represent over $1 trillion in assets including global funds AP2, AP3, AP4, and AP7 of Sweden; CCLA, the Northern Ireland Local Government Officers’ Superannuation Committee, and the West Yorkshire Pension Fund; U.S. Public Funds of the California Public Employees’ Retirement System (CalPERS), New York City and the States of Connecticut, Massachusetts, and Vermont; many major faith-based funds including the Presbyterian Church USA Board of Pensions, the Unitarian Universalist Association, Bon Secours Health System, and dozens of Catholic institutions, and the asset management companies Calvert Investments, Walden Asset Management, Zevin Asset Management and Christian Brothers Investment Services.

In a pre-AGM statement Rev. Séamus Finn of the Missionary Oblates of Mary Immaculate and ICCR Board Chair observed, “There is wide consensus among those in the investment community that these companies need to make more significant and faster progress to address the growing threats of climate change. Many of our faith-based members have missionary presences in the world’s most vulnerable communities. We are acutely aware of climate change’s potential to exacerbate the inequality at the root of the social justice problems these communities already face. The moral imperative for leadership on climate from ExxonMobil is clear; its failure to model best practices for the sector will be seen as just that, a failure.”

“Mankind has an enormous capacity to deal with adversity and those solutions will present themselves as the realities become clearer, either through proved modelling...or as they are evidenced to us,” Tillerson told the audience at the AGM the next day. “I know that is a very unsatisfying answer to a lot of people.”

Said Crosby, “Tillerson’s response sounded like thinly veiled climate change denial, or at the very least, a déjà vu from our days fighting the misinformation campaigns of the Global Climate Coalition in the 80s and 90s. I had hoped we were beyond that. And I’m most certain that the communities already being hardest hit by climate change will find his answer quite unsatisfying indeed.”
Smoking out Human Trafficking in U.S. Tobacco Fields

Domestic labor trafficking is a growing challenge for the U.S. agricultural sector. ICCR members have held long-standing dialogues with tobacco companies on questions of public health and, as significant agricultural employers, questions around recruitment practices became a natural addition to tobacco engagements.

Undocumented workers are often the main workforce in many U.S. agricultural areas. In their countries of origin, they often must pay contract labor brokers thousands of dollars to cross our borders; once here, these workers are under the control of labor contractors. This practice results in forms of forced and compulsory labor on many, if not most, U.S. farms, including tobacco farms. According to the Centro de los Derechos del Migrante:

- 58% of workers surveyed reported paying a recruitment fee;
- 52% were not shown a work contract; and,
- 1 in 10 workers surveyed reported paying a fee for a non-existent job.

Working conditions on U.S. tobacco farms can also be harsh. A common occupational hazard is Green Tobacco Sickness — acute nicotine poisoning. Because of their vulnerable status, undocumented workers are less likely to have access to formal grievance mechanisms and/or compensation, should they fall ill or suffer abusive working conditions.

Since 2009, members of ICCR have worked with tobacco companies to improve conditions for farm workers. Said Cathy Rowan of Trinity Health, who co-leads ICCR’s tobacco work, “Most tobacco companies don’t hire farm workers directly, but rather contract with suppliers. We are asking them to comply with the ILO’s “Recommendation on Supplementary Measures for the Effective Suppression of Forced Labor” which recommends eliminating the charging of recruitment fees to workers and requires transparent contracts that clearly explain terms of employment and conditions of work.”

ICCR members, led by the Province of St. Joseph of the Capuchin Order, filed a shareholder resolution at Alliance One International, Altria Group, Lorillard, Philip Morris International, Reynolds American and Universal Leaf in the fall of 2014. The resolution asked the boards of directors of each company to create a policy which ensures that their suppliers do not hire laborers who have had to pay to cross the U.S. border to work or, once here, to work on U.S. farms.

ICCR is a founding member of the Farm Labor Practices Group (FLPG), a multi-stakeholder initiative comprised of tobacco manufacturers, leaf merchants, growers, workers, faith-based investors, the Consulate General of Mexico and the U.S. Department of Labor. Formed in 2012, the group seeks to help both farmers and farmworkers in production of labor-intensive crops better understand and cooperatively ensure compliance with applicable labor laws and regulations, and to foster a level playing field that promotes good farm labor practices to improve workers’ lives on farms. Facilitated by The Keystone Center, participating tobacco companies include Alliance One, Altria, Japan Tobacco, Philip Morris International, Reynolds American and Universal Leaf. To date, the FLPG has designed and sponsored labor management training for thousands of farmers in ten states. Said Fr. Michael Crosby of the Capuchins, “If you directly, or indirectly through your suppliers, use labor brokers to recruit and place migrant labor, you may be at risk for forced labor and trafficking in your supply chain. Through our participation in the FLPG, we are working to develop industry-wide procedures which integrate internationally agreed-upon core human rights conventions, and ensuring that suppliers are enforcing these as well.”
Unethical Recruitment: A Gateway to Slavery

Across the globe, millions of workers become trapped in slavery through the actions of unscrupulous labor brokers who charge exorbitant recruitment fees, either do not provide contracts or change contract terms, impose unreasonable deductions from promised wages and leave workers vulnerable to exploitation. Two years ago, ICCR launched its “No Fees” initiative, a program designed to lead companies to create robust management systems to ensure that workers in their immediate and extended supply chains are not forced to pay for employment.

ICCR uses its position as respected, long-term investors to convene roundtables — a powerful and effective mechanism for promoting multi-stakeholder collaboration — to rapidly advance progress on a given issue. By getting the key decision-makers from a group of peer companies together in one room to brainstorm along with investors and subject matter experts from government agencies, NGOs and civil society, solutions to some of the most intractable issues present themselves sooner and, due to sector-wide buy-in, remedies become easier to implement.

On January 23, 2015, ICCR convened a Multi-Stakeholder Roundtable on Ethical Recruitment. Over 60 participants came together for a discussion of how recruitment impacts workers, the risks it presents for the global supply chains of many industries, and best practice tools and frameworks being utilized by leading companies. Over the course of the day, Roundtable participants discussed the challenges of labor recruitment, and the need for additional worker-driven initiatives, and for programs that enhance communication between workers and management throughout supply chains.

The program included three panel discussions: Building Expertise on Ethical Recruitment, Monitoring and Verification of Recruitment Practices, and Sharing Best Existing Practices. Said Senior Program Director David Schilling, “Corporations have a responsibility to ensure that human rights are respected throughout their supply chains, and that all of their suppliers adhere to company policies, and are not contributing directly or indirectly to slavery. The day’s panels were intended to provide corporations with valuable insights that will help them address one of the most intractable labor issues affecting their supply chains.”

“Labor recruitment is, for the most part, a legitimate business, offering a range of services that include arranging work permits, housing, transportation and payroll,” said Associate Program Director Valentina Gurney. “It serves as a vital link in the labor markets of many countries, and helps connect workers with industries looking to fill a wide range of jobs. Human rights risks arise, however, when unscrupulous and unregulated brokers are involved. All too often, these brokers take advantage of migrant workers’ vulnerability, and abuse them with impunity.”

As an effective countermeasure, ICCR recommends implementation of direct hiring and recruitment. Direct recruitment eliminates the need for corporations to deal with the complex, and often shadowy labor broker system. And as an interim step, effective monitoring of suppliers is vital.

Several corporate representatives raised the question of best courses of action when their suppliers receive poor audits, as well as the appropriate grounds for closing a troubled operation, particularly in countries where the rule of law is weak. Rather than suspending a relationship with a troubled supplier in need of remediation, the “No Fees” Initiative recommends continuing relationships, while implementing mandatory training for suppliers, which has the power to catalyze change and protect workers.

ICCR released a public report summarizing the key findings of the Roundtable in April of 2015, and in the next year, its members will continue to work to strengthen corporate policies, practices and disclosures regarding human trafficking and slavery.

Ethical labor recruitment has three characteristics:
- Workers do not pay fees to obtain employment;
- Workers retain full access to personal documents including passports; and
- Workers receive a written contract at the point of their recruitment.
2015 Proxy Season Update

As of May 18, 2015, ICCR members have filed 251 shareholder proposals at 186 companies for the 2015 season. Of these proposals, 58 withdrawals have been negotiated as a result of agreements with management. Below, we are pleased to highlight just a few early successes from the 2015 proxy season.

Board Diversity and Inclusiveness
The ability to draw upon a wide range of viewpoints, skills and experiences is critical to a company’s ability to succeed, and a diverse board increases the likelihood that a company will make the right strategic decisions. Until 2015, eBay had just one woman on its Board of Directors. Within months of receiving a shareholder proposal, eBay increased the number of women on its board and revised its Guidelines to state that when searching for new directors, its Board would actively seek out highly qualified women.

Climate Change
The urgency of climate change is propelling investor and corporate action to mitigate the impacts of climate change. After receiving a shareholder resolution, Bank of America, once the largest funder of U.S. coal, announced that it was officially committing to slashing its financing of coal. And after shareholder engagement, Costco publicly acknowledged the importance of climate change, and adopted greenhouse gas emissions goals. Across the pond, the boards of directors of both Shell and BP this year supported shareholder resolutions calling for multiple actions on climate change.

Lobbying Expenditures Disclosure
Corporations lobby both directly and indirectly via third party groups to promote a legislative and regulatory environment that is more favorable to their businesses. Because there is often no transparency regarding how lobbying dollars are invested, investors seek greater disclosure to ensure that these funds are managed responsibly and not deployed to promote agendas that may run counter to a corporation’s publicly stated positions. As a result, broad-based investor support for lobbying disclosure resolutions has been growing steadily across many sectors. The average vote received by lobbying resolutions this year was 27.5%, a very strong show of support when one considers the majority of shares are held by management. A first-year CenterPoint resolution received just over 41%, as did an Ameren lobbying disclosure resolution.

Sexual Orientation and Gender Identity Discrimination
Employment discrimination on the basis of gender identity or sexual orientation diminishes employee morale and productivity, and many corporations are now taking steps to ensure safe and respectful workplaces. Over the past three years, Walden Asset Management has persuaded 32 companies to improve their workplace policies. In 2014 and early 2015, Texas Capital Bancshares added sexual orientation and gender identity provisions to its policy. Franklin Electric increased the transparency of its EEO policy and also amended its medical plan to offer spousal and dependent benefits. Resolutions filed for 2015 annual meetings at Cullen/Frost Bankers, First NBC Bank, and IDEX Corporation were withdrawn after the companies agreed to improve the inclusivity and visibility of their nondiscrimination policies.
Global Health
ICCR members have been working with pharmaceutical companies to encourage them to share their licenses for life-saving HIV/AIDS medicines with the Medicines Patent Pool (MPP), established in 2010 to make branded drugs available for generic manufacturing. To date, 6 companies have entered the Pool, and this year, Gilead Sciences, AbbVie, and Merck signed agreements with the MPP for key pediatric HIV drugs tenofovir alafenamide, lopinavir, ritonavir, raltegravir, and drunavir, for use in low and middle income countries, which are home to 99% of children and adolescents living with HIV. In addition, Johnson & Johnson agreed to work alongside the MPP to support the development of new pediatric treatments.

Human Rights
Our members have been working with Mondelēz to end forced child labor on cocoa farms in West Africa. Mondelēz recently implemented a Cocoa Life Program to improve farmer livelihoods. It has set a goal of reaching 200,000 cocoa farmers. Meanwhile, Hershey’s announced that it intends to source at least 50% of its global cocoa supply from certified and sustainable sources by the end of 2015, a full year ahead of schedule. And after a group of shareholders asked Boeing for more stringent disclosures of its activities regarding labor practices and employee grievance mechanisms, the company agreed to implement the Ruggie Principles on human rights, a policy based on the UN Guiding Principles on Business and Human Rights.

Human Trafficking
This year, the Electronics Industry Citizenship Coalition adopted a code of conduct amendment specifically addressing trafficking and slavery risks posed by unethical labor recruitment practices. Adding this critical “no fees” component to its code helps ensure that vulnerable workers desperate for work in the electronics sector will not be exploited and enslaved. HP has added a Foreign Migrant Standard to its Supply Chain Responsibility Program as reinforcement against the risk of exploitive labor practices among migrant workers.

Palm Oil
The production of palm oil, a common ingredient found in numerous processed foods and cosmetics, can have serious environmental and human rights impacts, and therefore poses tremendous risks for corporate supply chains. ICCR members have been engaging companies to promote sustainable palm oil sourcing. This year, Sysco became the first food wholesaler to establish one of the most progressive sustainable palm oil sourcing policies in its industry. Panera Bread is also ready to issue its first palm oil policy after a year-plus of dialogue. International Flavors & Fragrances is making progress on sourcing sustainable RSPO palm oil. Yum! committed to sourcing 100% of its palm oil from sustainable sources by 2017.

Food
Widespread use of antibiotics essential to human health in animal agriculture has led to a dangerous rise in human antibiotic resistance. After receiving a shareholder resolution asking the company to prohibit use of antibiotics, McDonald’s adopted a new policy this year restricting its suppliers’ use of antibiotics in chickens. Under pressure from shareholders and other groups, Wendy’s agreed to remove sodas from its kids’ meals, in an effort to lower the risk of childhood obesity. Not long after, Burger King and Dairy Queen, urged by some of ICCR’s partners, followed suit. After a shareholder engagement, Target agreed to expand its healthy food offerings and improve its in-store presentation of healthy foods. After receiving a shareholder resolution, Lowes agreed to phase out neonicotinoid pesticides to protect pollinator health and help ensure the safety of our global food supply. Dow agreed to safer use of its pest-resistant Enlist weed control system which pairs GE corn and soy seeds with Enlist Duo — a mix of glyphosate and 2,4-D, which can cause cancer.

Finance
ICCR members have been engaging the leading U.S. banks on risk management protocols, responsible lending policies, and improvements to their governance structures in an effort to promote more just and ethical financial services. In response to shareholder pressure and billions of dollars in fines and penalties, this year JPMorganChase issued a “How We Do Business” report, detailing its commitments to transparency and to strengthening its internal audits and controls. Bank of America and Wells Fargo have agreed to develop similar reports, for release in 2016.

Pay Disparity
This year, both TJX and Walmart raised worker wages. Long a topic in shareholder dialogues, ICCR members saw the moves to raise wages as a positive step forward for both companies, and a signal to their peers in the retail sector of the need for broader wage reforms.
Why Talk? ICCR and the Art (and Science) of Shareholder Engagement

By Robert Kropp

Until 1970, the only shareholder resolutions permitted by the Securities and Exchange Commission (SEC) addressed corporate governance. But when a federal court allowed a resolution addressing the sale of napalm to be included on the proxy ballot at Dow Chemical, the decision unleashed a flood of resolutions taking up social and environmental issues. In the 45 years since, the waters have only continued to rise, and such resolutions now number in the many hundreds every proxy season.

Out of this cauldron of change was born the Interfaith Center on Corporate Responsibility. In 1971, the Episcopal Church filed a resolution with General Motors, requesting that it cease doing business in apartheid South Africa. Not surprisingly for a groundbreaking initiative, the resolution received little support from shareholders accustomed to rubber-stamping the position of management; but it did contribute to the global social movement that eventually helped end the apartheid regime in that country.

Tim Smith, the first Executive Director of ICCR and now the Director of ESG Shareowner Engagement at Walden Asset Management, said of the early years of ICCR's corporate engagement, "For the most part, we really filed the shareholder resolution and then had no contact with the company until we went to the stockholder meeting. And in many cases, it was just giving your speech and waiting for the results."

But now, as current Executive Director Laura Berry commented, "The only real win is withdrawn resolutions, when companies look to us as a focus group for risk management." How ICCR members have been so successful in conducting corporate dialogues is the subject of a research paper, aptly titled "Why Talk? A Process of Model of Dialogue in Shareholder Engagement", co-authored by Fabrizio Ferraro and Daniel Beunza.

Ford Motor is now generally recognized as the most sustainable car manufacturer headquartered in the United States; but in 1993, when ICCR members began their engagement with the company, Ford was funding the Global Climate Coalition, an organization that denied the reality of climate change. That year, Sister Patricia Daly of the Dominican Sisters of Caldwell, NJ, filed a shareholder resolution asking Ford to endorse the Ceres Principles, a code of corporate environmental conduct. Meaningful dialogue did not begin until after the 1998 proxy season; in 1999, Ford announced it was leaving the Global Climate Coalition.

"ICCR's dialogue with Ford Motor Company," the authors state, "suggests that successful dialogue entails a genuine commitment to long-term engagement, and that dialogue is effective by producing a synthesis between the activists' and the company's position."

By examining ICCR's engagement with Ford and other corporations, the authors discern several consistent factors leading to successful outcomes. As the dialogue of members with Ford demonstrates, "a genuine commitment to long-term engagement," often lasting for several years, substantially lessens the likelihood of engagement defaulting back to an adversarial relationship.

The long-term engagement arising from the commitment of ICCR shareholders encourages two developments that contribute to the many successful dialogues conducted over the years.
First, over the course of time, ICCR members succeed in raising awareness of the issues among their corporate partners, “voicing their concerns in a setting of civility and mutual respect.”

“By adopting a strategy of awareness rather than persuasion,” the authors state, “shareholders can set in motion internal debate within the corporate polity that they can subsequently shape.” The internal debate leads to a second benefit of commitment, in that over time there develops a synthesis between shareholders and actors within the corporation itself. Referring to ICCR’s dialogue with Merck over access to medicine in developing countries, the authors note that one challenge for members was to initiate a discussion of the issue within the corporation. “By finding internal champions and echoing the concerns, ICCR helps a process of internal transformation.”

In the case of Merck specifically, and in many more instances as well, ICCR demonstrated what it refers to as its “convening power.” As ICCR’s Cathy Rowan described it, “We don’t have a personal interest to gain here. People recognize that.” What ICCR undoubtedly does have is a moral voice, based largely on its reputation as a faith-based organization. Yet, “much of their discussions were on the business merits of addressing the activist’s issue,” the authors found.

Reframing their argument in business terms, the success of which is owed in part to the status of ICCR members as shareholders, allows for actors within the corporation to consider the issues in a manner consistent with the goals of a largely profit-driven entity. Doing so also “gives ICCR members the chance to voice disagreement in a less tempered, more coordinated and better-targeted form than employee activists,” the authors observed.

Continued Berry, “When you use language around transformation and collaboration, it starts to leave the field of adversarial conversations and pushes us toward everyone having a stake in transformation.” One question that remains is, can the successful template developed by ICCR be duplicated by other investment organizations? Can such effectiveness be quantified to an extent, and thus be deployed by others as well?

One initiative seeking to do just that is the Impact of Equity Engagement (IE2), a coalition of institutional investors that includes several ICCR members. “IE2 seeks to develop a framework that can inform how the impact of public equity engagement activities are tracked and reported,” the coalition, which formed in 2013, states. “Engagement activities are not tracked in consistent ways,” IE2 stated in a recently published paper, The Impact of Equity Engagement.

IE2 describes a number of engagement strategies that ICCR members and other sustainable investors have employed that over time have accumulated definitive signs of success: “Impactful engagement seems to be characterized by 1) collaboration, not only with other investors but also with grassroots campaigns and civil society stakeholders; and 2) escalation, or deepening engagement over time.” An example of collaboration among investors and other civil society groups occurred following the collapse of a building with five garment factories in it in Bangladesh, killing more than 1,100 workers. The Rana Plaza building collapse was a tragic reminder of the responsibility of large corporations to monitor human rights conditions in their supply chains.

A coalition of institutional investors organized by ICCR released a statement in which 134 investors, representing more than $4 trillion in assets under management, stated, “While companies that haven’t met their human rights responsibilities face clear legal, financial and reputational risks, the moral mandate for increased human rights due diligence inherent in these principles transcends ordinary business concerns.”

“Engaged investors did not initiate or even lead the campaign asking American companies to sign on to the Accord on Fire and Building Safety,” IE2 reports. “However, by buttressing the efforts of grassroots organizations and labor unions in Bangladesh and their international NGO partners, engaged investors contributed towards the goal of sustainable and substantive change in working conditions for Bangladeshi factory workers.”

Acknowledging that “efforts to document the ultimate impact of engaged public equity investing have remained largely anecdotal,” IE2 has set out to develop a system that accounts for collaboration and escalation (described as a deepening of the engagement process over time). The standardized reporting framework being developed by IE2 will ultimately help shareholders monitor the progress of their own engagements while identifying best practices to increase effectiveness and maximize leverage.

When fully developed, the standardized reporting framework envisioned by the IE2 coalition is likely to demonstrate the positive impacts of shareholder engagement on environmental, social, and corporate governance (ESG) issues. It is also anticipated that the framework will help identify those factors that contribute to successful engagement. Given ICCR’s status as a respected pioneer in the art and science of long-term shareholder engagement, one can expect that the template for engagement issued by the IE2 coalition will expand even further the leadership role that ICCR has assumed for nearly half a century.
THE CORPORATE EXAMINER SPOTLIGHTS

The Hewlett-Packard Company

In each issue of the Corporate Examiner, ICCR features a corporation and its work to advance ESG issues. Following is a conversation with Zoe McMahon, Director, Global Social & Environmental Responsibility, regarding how Hewlett-Packard Company is responding to the emerging risks of migrant workers.

Zoe McMahon is Director of Global Social & Environmental Responsibility within HP’s Ethics and Compliance Office. She is responsible for a global team managing HP’s product and supply chain social and environmental responsibility policy and compliance programs including ethical sourcing of HP’s products and packaging materials; HP’s supply chain code of conduct and improvement programs for labor, health and safety, and environmental responsibility; and HP product recycling standards and assurance. She is also responsible for HP’s global human rights program.

HP has long been a leader in its sector on social and environmental supply chain responsibility. What do you see as the critical issues currently facing the electronics sector and how is HP addressing them?

Shifting socioeconomic and labor trends require us to be alert to new risks and innovative in our approach to managing them. Political and economic pressures as well as demographic shifts in some sourcing countries have led to higher costs and growing labor shortages, putting pressure on workers and companies. Also, in developing countries, weaker rule of law, opaque recruiting practices, and less institutional experience with social and environmental responsibility (SER) may create additional risks.

In order to protect workers’ rights, we continually refine our Supply Chain Responsibility program to address emerging risks. We remain focused on protecting vulnerable workers, reducing excessive working hours and improving health and safety in the workplace. We view workers as ‘rights holders’ and believe that the most effective solutions will be found by involving them directly. We have advanced this approach through worker interviews and surveys during supplier monitoring, and by designing our capability-building events to empower workers to be part of the solution.

In November 2014, the company adopted a new guideline for its suppliers related to foreign migrant workers prohibiting the payment of fees by workers to obtain employment, and requiring suppliers to hire workers directly instead of using labor brokers. How did HP come to this decision?

HP is committed to protecting all workers in our supply chain, but we recognize that certain worker groups need special protection. Seeking additional sources of labor, suppliers in some countries have turned to students, dispatch workers, young workers (16 and 17 year olds where legally permitted), and foreign migrant workers—groups which have distinct vulnerabilities to potential abuse. We introduced enhanced standards, more focused monitoring, targeted capability-building, and KPI tracking to provide additional protection for these groups. It is still early days in the implementation of these measures, and some suppliers will probably need more guidance to achieve conformance, but we will work together with them to advance their capabilities on this important issue.

As HP has moved to address the business and human rights risks posed by migrant workers, has the company encountered any unforeseen challenges?

The recruitment of foreign migrant workers is a complex topic that requires action not
just at the supplier or manufacturer facility level. We need to work closely with labor agencies to ensure that they understand our expectations on the responsible recruitment of these workers and we are starting to do that.

What role has ICCR played in the development of HP’s supply chain approaches through the years?

ICCR has been a great sounding board for HP’s supply chain responsibility program over many years. We stay in contact with ICCR representatives directly, as well as through multi-industry & multi-stakeholder forums. ICCR is a constant force for good in advising companies like HP and in recognizing and sharing good practice when they see it.

What monitoring, training, or remediation steps does HP take to ensure that its suppliers comply with its new Supply Chain Foreign Migrant Worker Standard?

The Standard marks a major step forward in the protection of foreign migrant workers in our supply chain and we are now focused on ensuring that the new protections are realized. Specialized forced labor assessments and regular monitoring will confirm supplier conformance. Suppliers that do not meet our requirements must correct their practices with urgency or risk losing our business.

Can you speak about the importance of cross-industry collaboration and multi-stakeholder engagement in promoting best practices within the electronics sector?

Many of the issues we face are large and complex and beyond the scope of any single company to solve. Because the electronics industry supply base is broadly shared—such as suppliers of optical disk drives, memory, power supplies, and other commodities—collaborating with others in our industry sends a powerful and consistent message to suppliers.

We believe a common and high set of standards across our industry provides the greatest protection for workers in our supply chain. When we see gaps in guidance to suppliers on pressing SER issues, HP often implements policies, standards, and programs ahead of industry standards. We then share our experience when advocating to raise industry standards in line with our own.

Soaring demand for electronics is fueling the worldwide growth of e-waste, which commonly wins up in the developing world where it is often treated without adequate controls to safeguard human health and the environment. Can you speak about HP’s product take-back and recycling program, and how it is addressing these risks?

HP is an industry leader in product take-back programs, which we began offering in 1987. Since then, we have recovered 1,683,000 tonnes (3.71 billion pounds) of computer hardware (for reuse and recycling) and HP supplies (for recycling), and we now offer take-back programs in 73 countries and territories. Our initiatives go well beyond providing take-back options for our own products. We also support the development of electronics recycling infrastructure around the world. In 2014, we expanded our product return and recycling network and launched new collaborations to capture end-of-life products, including in Brazil, Kenya, Mexico, and Panama.

We require our recycling partners (vendors) to adopt environmentally responsible processing techniques, and to fully comply with relevant regulations. We also require certification to third-party recycling standards (R2 and e-Stewards) in the many countries where they are recognized. We contract with Environmental Resources Management (ERM) to audit our recycling vendors. ERM’s audits assess our vendors’ environmental, health, and safety (EHS) practices and performance, and also check downstream material flows based on shipment and receipt records to certify no “leakage” of materials to facilities outside our approved vendor network.

Carbon tracking and reduction is a new challenge for many corporations, as public and regulatory pressure to measure, report, and reduce energy use and associated greenhouse gas (GHG) emissions increases. How is HP responding?

In 2011, HP was the first IT company to publish its global carbon footprint. For the past two years, we have also published a complete water footprint. We believe that understanding environmental impacts across our value chain is the first step towards taking meaningful action. In 2013, we introduced our industry’s first supply chain GHG emissions reduction goal: to decrease first-tier manufacturing and product transportation-related GHG emissions intensity in our supply chain by 20% by 2020, compared with 2010. We set the goal with input and endorsement from Climate Savers, a World Wildlife Fund (WWF) program that promotes aggressive private sector action to reduce GHG emissions.
Can you talk to us about Everence’s work with its various clients — about the role faith plays in their investing priorities?

**Mark:** Everence has been involved in some form of socially responsible investing for 70 years (as of this April). This emerged less as a strategy than as simply “our way of doing things.” Over the years there was an increasing formalization of our SRI policies leading to, in 2000, the adoption of our Stewardship Investing Philosophy. This philosophy, rooted in an understanding of Christian stewardship from our 500-year old Anabaptist faith tradition, seeks to hold in tension our responsibility for social and financial productively through company selection, corporate engagement, and community development investing. We’re deeply committed to all three of these SRI strategies, however we think that engagement and community development investing allow us to most fully reflect our care and concern for the planet and its people. We’ve also established six Stewardship Investing Core Values that guide our evaluation and development emerging social issues, new screens, and shareholder engagement opportunities. These values were shaped by a panel of theologians, academics and business people and seek to articulate our highest hopes for business’ impact and practice in our world.

When did Everence begin actively exploring shareholder engagement as a way to achieve its institutional mission?

**Mark:** Everence—then known as MMA—first became involved during the South African divestment movement. We were strongly influenced by some of the larger Protestant traditions and their leadership on this issue. As with others, this issue was one of great debate and raised many questions about what actions we were called to as faith-based investors. Our relationship with shareholder advocacy became more deliberate with establishment of the Praxis Mutual Funds, our family of publicly available, socially responsible mutual funds, in 1994.

What social or environmental issues are of greatest importance to Everence’s clients today?

**Chris:** Our clients and constituents represent a diversity of passionate interests. Clearly, climate change is near the top, as new and updated scientific reports document its accelerating threat. Everence has also collaborated with other Mennonite agencies on a denominational task force on modern slavery, which was tasked with developing a church action plan.

We are centering our advocacy program in these areas. For the past few years, our two main themes have been environmental sustainability and modern slavery. Climate change is our primary environmental focus, but we are also active on hydraulic fracturing and toxic chemicals in consumer products. Our key issues under modern slavery include child labor in the cocoa industry, conflict minerals, and a newly emerging focus on ethical recruitment practices.

Can you talk to us about your experience of using the power of shareholder engagement to address the climate change crisis?

**Chris:** Everence’s climate change engagement strategy seeks to impact companies on three key themes: acknowledgement of climate change and the development of emissions reduction plans, transparency of political funding and lobbying, and
examination of carbon asset risk.

We are focusing on oil and gas and utility companies on these key issues, but we also work on broader initiatives with our advocacy partners. Some of these actions have led to corporate policy changes, while others have not yet yielded fruit. But all of these opportunities send a vital message to the board, management, and other shareholders that climate change issues are critical to the future of both the company’s business and the future of our world.

We also look beyond engagement for impact on climate change. For instance, in 2013 we strengthened our long-standing environment screen to include newly available forward-looking climate risk data. Additionally, Everence and the Praxis Mutual Funds have become nationally-recognized leaders in the inclusion of green and other environmentally beneficial bonds in fixed income portfolios, contributing to the clean energy transition.

**Another social justice concern for the Mennonite Church is the scourge of human trafficking and slavery. How is Everence working with companies to identify and eradicate human trafficking risks in global supply chains?**

**Chris:** The companies we engage on human trafficking are often several supply chain steps removed from the worst human trafficking offenses. However, these companies usually have the most power in the supply chain and are best positioned to influence positive change. Additionally, they are typically well-known brands that face reputational and supply chain security risks if they fail to address human trafficking.

We have lead dialogues with Hershey and Mondelēz for many years on child labor in the cocoa industry. We have highlighted various risks related to inaction, such as reputation, regulation, and the sustainability of the cocoa bean supply itself. We have also lifted up potential opportunities that come with effective action, including better relationships with suppliers, a more stable cocoa supply, and positive press. In order to have a deep impact on reducing child labor, we have worked with these companies to encourage on-the-ground impacts at the farm level—where we feel the fundamental changes must take place—and the establishment of standards to measure those impacts.

*How does membership in the ICCR coalition help Everence enhance its impact?*

**Chris:** We value our membership in ICCR for many reasons. Membership helps us increase both the breadth and depth of our advocacy work. ICCR staff provide expert input on a number of issues, publish materials that highlight the work of members, and help us keep up with the latest developments in the faith-based and social investment industry.

ICCR also provides a forum in which we can convene with other like-minded investors. We can seek support for our advocacy initiatives within this network, and we also have the opportunity to join in initiatives led by other members.

*What would you say are the key distinctions between, and unique strengths of, SRI and ESG?*

**Mark:** I’m increasingly convinced that understanding these two approaches as related but distinct is critical for the long-term growth and progress of the responsible investment field. In short, SRI is about vision and ESG is about practice. You can see this in their very names. “Socially responsible investing” is a directional values statement with a goal of hoped-for impact. “Environment, Social, and Governance” are performance factors—like PE ratios and growth curves—and are increasingly monitored as such. The goal of ESG, however, remains the same as the investment strategies of yore—increased financial gain. So where SRI is the light shining on the path ahead, identifying and engaging issues and opportunities because of who we are as values-based and mission driven investors, ESG is a more modern, kinder, gentler take—sort of like a hybrid engine—on the existing and essential economic system we all depend on.

Both of these approaches are necessary if this movement is to continue to grow in scale and global impact. And for many faith-based investors, ESG’s mainstream acceptance and adoption allows them to integrate their values where they felt prohibited in the past.

*Faith-based investors are sometimes described as “prophetic”, able to see social and environmental risks ahead of the curve. Would you say that description is still accurate?*

**Mark:** Our “prophetic” role is sitting at the junction of environmental/social concern and the investing marketplace. We seek to translate these concerns into corporate actions and policy changes that drive lasting improvements for the planet and its people. This doesn’t change our fiduciary duty to those who depend on us, but by looking at the world of investing through a values-first lens, we discover new opportunities to integrate our values with the investments we manage.
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