



PROXY MEMORANDUM

To: Pilgrim's Pride Corporation Shareholders

Subject: Shareholder Resolution on Water Impacts of Business Operations

Date: March 2019

Contact: Anna Falkenberg, Socially Responsible Investment Coalition, 210.344.6778 or afalkenberg@src-south.org

Shareholders Encouraged to Vote FOR Shareholder Proposal #5 at Pilgrim's Pride Corporation (PPC): Water Impacts of Business Operations

Executive Summary

Lead filer Oblate International Pastoral Investment Trust and co-filers: Friends Fiduciary, Adrian Dominican Sisters, and Mercy Investment Services, Inc., seek your support for **Proposal #5**: Shareholders of Pilgrim's Pride Corporation ("Pilgrim's") request a report on how the company is responding to increasing regulatory, public and competitive pressure to significantly reduce water pollution from the company's owned facilities; facilities under contract; and suppliers.

Proponents of this resolution share a common concern regarding the financial and reputational risks associated with water contamination from the company's operations and its supply chain.

The Proposal will be included in the Proxy Statement for the Annual Meeting of the Company on May 3, 2019:

RESOLVED: Shareholders of Pilgrim's Pride Corporation ("Pilgrim's") request a report on how the company is responding to increasing regulatory, public and competitive pressure to significantly reduce water pollution from the company's owned facilities; facilities under contract; and suppliers. This report should omit proprietary information, be prepared at reasonable cost, and be made available to shareholders by December 1, 2019.

Supporting Statement: Examples of topics the report could cover include whether the company has considered:

- A responsible manure management policy that prevents water pollution, including not locating new or expanded CAFOs in already-polluted watersheds;
- Sustainable feed sourcing policy (e.g. from farms with practices that reduce water pollution and greenhouse gas emissions); or
- Diversifying into plant based protein production systems.

Overview of Water Risk and Resolution

PPC has a history of water contamination incidents at its facilities and among suppliers and contract farmers and its business is exposed to significant water risk. The company's disclosures on water related risks are inadequate to be able to construct a full picture of how our company is managing water-related

risks and opportunities. PPC has no policy to **comprehensively manage water stewardship**. We therefore ask the company to assess **water quality-related risks** associated with the company's direct operations as well as in its supply chain (including contract growers and feed suppliers), and publically report on how the company is responding to increasing regulatory, public and competitive pressure to significantly reduce water pollution from the company's owned facilities; facilities under contract; and suppliers.

Pilgrim's Pride Does Not Sufficiently Manage Water Risk

Pilgrim's Pride Corporation, one of the largest chicken producers in the world, operates in 14 U.S. States, the U.K., Mexico, Puerto Rico, France, and the Netherlands. As of 2017, Pilgrim's Pride holds market share of US chicken production is 17.3%. According to a June 2016 analysis by Environment America, Pilgrim's Pride released 544,790 pounds of toxic pollutants in U.S. waterways in 2014, as reported in U.S. EPA's Toxic Release Inventory. Given the reputational, litigation and regulatory risk of being a large polluter, Pilgrim's needs to describe how it is working to further minimize effluent discharge beyond compliance levels. For example:

Non-compliance at facility level

The company has, in the past, been exposed to detrimental impacts due to water quality violations and noncompliance. For example, in March of 2015, the Atlanta Journal-Constitution found that "since 2006 Pilgrim's Pride has regularly dumped more pollutants into Flat Creek than the state allows... State officials have found shortcomings in Pilgrim's Pride's pollution control practices since at least 2006, state records reviewed by the Atlanta Journal-Constitution show. In 2016, Pilgrim's Pride was issued a \$65,850 fine by the EPA as a result of violations to the federal Clean Water Act. This enforcement action mandated that the company implement a suite of corrective actions to control its stormwater discharges. To address its stormwater, Pilgrim's hired a full-time Complex Environmental Manager, who conducted a comprehensive site assessment of the company's stormwater system. In 2016, Pilgrim's invested more than \$500,000 to upgrade its stormwater infrastructure, including installing a 70,000-gallon storage tank and a pump station, which will capture the critical first flush of a rain event from the facility and store the water until it can be pre-treated onsite before being sent to the city's sewage treatment plant. A 2016 analysis by the Atlanta Journal Constitution noted that Pilgrim's has failed one of every two stormwater quality tests it has submitted to the state of Georgia since 2006.¹

PPC was recently required to pay a record \$1.43 million in penalties to reduce pollution in the Suwannee River watershed in Florida.³ In November 2017, Pilgrim's Pride settled this lawsuit by agreeing to pay a fine of over \$1.43 million, and to conduct a study on eliminating the plant's wastewater discharge to the Suwannee River. The fine is believed to be one of the largest Clean Water Act penalties in a citizen enforcement suit in Florida's history. The complaint alleges that the company violated standards for:

- nitrogen, which can cause excessive algae growth;
- "specific conductance," which can indicate high levels of chloride, nitrate or sulfate;
- "whole effluent chronic toxicity," which is an indication that wastewater is toxic to, and can harm, aquatic life.

The bulk of that money went to fund a new sustainable farming program at Stetson University to reduce pollution. The settlement terms required Pilgrim's Pride to:

- Conduct a comprehensive study on eliminating the plant's wastewater discharge to the Suwannee River;
- Conduct a toxicity identification evaluation to address the cause of the plant's toxicity violations;

- Conduct a water use and reuse study, an analysis of the plant's water supply system, and various upgrades to the wastewater treatment plant; and
- Pay \$1.43 million, of which \$1.3 million would be used to create a Sustainable Farming Fund designed to improve soil, groundwater, and surface water quality in the Suwannee Basin, and \$130,000 would be paid to the U.S. Treasury as a civil penalty.

On February 2018, the Guardian published an article revealing that previously unseen government records detail 'deeply worrying' incidents in pork and poultry plants, raising fears of 'dirty meat' entering the UK.² Frequent failings were identified at 24 plants operated by Pilgrim's Pride. More than 16,000 non-compliance reports on Pilgrim's Pride operations detail 36,612 individual regulatory violations - an average of 1,464 a month - at the 24 plants during a 25-month period between 2014 and 2016.

Animal Waste Management

Pilgrim's Pride has both owned animal operations, and also procures livestock through a network of contract growers. This supply chain generates an enormous volume of animal waste; in fact manure runoff from concentrated operations is a significant source of water pollution in the U.S.

Minimizing Fertilizer Runoff from Feed Growers

Runoff from the acres of crops needed to feed livestock is a major source of pollution in critical waterways like the Chesapeake Bay and the Gulf of Mexico. In particular, nitrogen run-off from cornfields - the major ingredient in animal feed - is the single largest source of nutrient pollution to the Gulf of Mexico's "dead zone," an area the size of Connecticut that is essentially devoid of life.⁴

Summary

As concerned investors, we recognize the company has made some efforts related to water use reduction; however, investors remain concerned about the lack of disclosure that clearly outlines how the company is managing water contamination related risks. The proposal is not duplicative of the company's current practices and procedures as those focus mainly on water use reduction, versus a clear analysis of how the company is working to significantly reduce water pollution from the company's owned facilities; facilities under contract; and suppliers.

Therefore, we urge shareholders to vote FOR proposal #5 calling on Pilgrim's Pride to:

- Report on how the company is responding to increasing regulatory, public and competitive pressure to significantly reduce water pollution from the company's owned facilities; facilities under contract; and suppliers.
- The report could cover include whether the company has considered:
 - A responsible manure management policy that prevents water pollution, including not locating new or expanded CAFOs in already-polluted watersheds;
 - Sustainable feed sourcing policy (e.g. from farms with practices that reduce water pollution and greenhouse gas emissions); or
 - Diversifying into plant based protein production systems.

For questions regarding this proposal, please contact Anna Falkenberg, Socially Responsible Investment Coalition at 210.344.6778 or afalkenberg@src-south.org.

¹“State favors self-regulation over fines for chicken processors. EPA finds multiple Clean Water Act violations at one plant.” The Atlanta Journal-Constitution. March 21, 2015.

<https://www.ajc.com/news/few-penalties-lax-oversight-for-chicken-plants-that-pollute/hnTan9iaRzIXFIRazjc6ol/>

²“Dirty meat: Shocking hygiene failings discovered in US pig and chicken plants”. Guardian. February 21, 2018.

<https://www.theguardian.com/animals-farmed/2018/feb/21/dirty-meat-shocking-hygiene-failings-discovered-in-us-pig-and-chicken-plants>

³<https://environmentamerica.org/news/ame/environmental-groups-reach-major-clean-water-settlement-pilgrims-pride>

⁴“Water and Climate Risks Facing U.S. Corn Production: How Companies and Investors Can Cultivate Sustainability.” *Ceres*. June 2014.