March 31, 2020

Dear Marathon Petroleum Shareholders:

We are writing to urge Marathon Petroleum shareholders to VOTE FOR ITEM 6 on Marathon’s 2020 proxy.

As CEOs, including Marathon’s CEO Gary Heminger, commit to lead their companies for the benefit of all stakeholders-customers, employees, suppliers, communities and shareholders\(^1\) - we believe Marathon must demonstrate that it is taking prudent and meaningful steps to deliver value to communities where it operates.

Incorporating environmental, social, and governance (ESG) metrics in incentive pay is a clear action companies can take to attend to material ESG issues important to all of their stakeholders. In fact, 31 percent of S&P 500 issuers include ESG metrics in 2018 short-term incentive plans up from 29 percent in 2017 according to Goldman Sachs Research.\(^2\) In this environment of greater attention to measuring ESG in compensation, the least the Board can do is explore how to meaningfully integrate community stakeholder impacts and concerns into its annual cash bonus plan.

The shareholder proposal states:

**Resolved:** shareholders request the Board’s Compensation Committee publish a report (at reasonable expense, within a reasonable time, and omitting confidential or propriety information) assessing the feasibility of integrating community stakeholder concerns and impacts into Marathon’s executive compensation program which it describes in its annual proxy materials.

As described in greater detail below:


\(^2\) Goldman Sachs Equity Research “GS Sustain: ESG in the Compensation Conversation”, October 2018
• As a “new refining giant” with the Andeavor acquisition nearly doubling the number of refineries in operation (from 6 to 10), we believe it is in the company’s best interest to explore how it can fully incentivize executives to prevent negative impacts to people and communities where it operates.

• Despite Marathon’s belief that its current annual cash bonus plan (ACB) already incorporates several sustainability measures, we believe that there are flaws in these measures and that the Board is fully capable of assessing the feasibility of linking executive compensation to community concerns and impacts.

• The pressure from affected communities, elected officials and investors to address stakeholder value is strong – now is the time to demonstrate renewed efforts to protect community stakeholder concerns and impacts.

For the reasons provided below, we urge Marathon Petroleum shareholders to Vote FOR ITEM 6 on the company proxy.

While the company has management systems and oversight mechanisms in place, we believe it is prudent to explore additional mechanisms.

Noted in the opposition statement, the Board, in 2018, form a standing Sustainability Committee responsible for overseeing and evaluating health, environment, safety and security policies and programs. The Committee also monitors the company’s engagement with stakeholders on these important matters. Evaluation is a key responsibility of this Committee but no information is provided as to how the Committee’s findings are reviewed by the Compensation Committee. This would be important to know because we are aware that the company has significant and persistent community impacts and stakeholder concerns. It is apparent to us that a long history of noncompliance and excessive emissions at Marathon’s Detroit, MI refinery alone provides evidence that additional mechanisms should be explored.

At its Detroit facility in 2019, for example, the Michigan Department of Environment, Great Lakes and Energy (EGLE) issued at least nine violations for noxious odors and for exceeding legal limits on toxic emissions.4

A February, 2019 malfunction of the Detroit refinery coker flare gas system resulted in releases of hydrogen sulfide and mercaptan compounds into the

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3 MSCI ESG Research, LLC “Oil & Gas Refining, Marketing Transportation and Storage| January 2019
community according to state investigators.\(^5\) The release of strong odors caused residents to experience a number of illnesses.

Thirteen documented violations of air permits and the Clean Air Act over six years at this same facility were the focus of a Congressional field hearing in September, 2019. Releases of cancer causing chemicals into nearby neighborhoods prompted US Representative Tlaib to reprimand the company’s management for its inattention to safeguarding the health of its workers and nearby residents.\(^6\)

The management of the social and safety aspects of Marathon’s operations raise compliance cost concerns for ESG Research firm, MSCI. According to MSCI, among its peers, Marathon falls below average - in the 3rd quartile – on health and safety measures. MSCI states in its 2019 report “both Marathon and Andeavor have faced numerous controversies and fines for toxic emissions releases from their refining emissions, health and safety accidents and even oil spills through their pipeline network, suggesting poor management capacity of the environmental, social and safety aspects of their operation.” This analysis of Marathon’s history and impacts to communities points to worrisome trends, in our view.

A second problem we see is in the design of existing compensation metrics that are included in its ACB program. For example, a maximum 10% of the ACB program is available to executives if the enterprise wide performance does not exceed an annually set number of Designated Environmental Incidents or DEIs. DEIs are measures of internal environmental performance metrics set by compliance obligations. Because data across all refineries, gas processing and fractionation sites and pipelines is aggregated in one performance metric, very poor performance at one or two sites can be diluted by outperformance at other facilities. Therefore, we believe this metric fails to provide sufficient incentives for senior leadership to prioritize environmental performance at the facility level.

For example, in 2018, Marathon’s Compensation Committee set the maximum payout on the DEI metric if not more 36 DEIs occurred. Enterprise-wide, Marathon recorded 23 DEIs, so executives received the maximum payout or 200% of the target weight. In 2019, the maximum payout on this metric was set at 110. Marathon counted 85 DEI’s across all operations in 2019 - so again Marathon executives received the maximum payout on this metric. However,

\(^5\) [https://content.govdelivery.com/accounts/MIDEQ/bulletins/22d0012](https://content.govdelivery.com/accounts/MIDEQ/bulletins/22d0012)

despite the problems at its Detroit facility mentioned above and publicized across multiple media outlets,\(^7\) Marathon executives’ bonuses do not appear to have been impacted by any measure in its annual cash bonus program.

In many respects this raises the important point that simply having a link to environmental performance and safety may not be enough to fully incentivize senior leadership. Take for example, the deadly 2019 mine-dam failure at Vale SA’s iron-ore mine in Brazil. Vale’s executive compensation structure consisted of short term incentives of “health and safety targets, sustainability and accomplishments of strategic initiatives” \(^8\) demonstrating some linkage and prioritization of health and safety. But this linkage proved insufficient. According to an independent report commissioned by Vale and reported in The Wall Street Journal,\(^9\) “Conflict of interest, faulty information sharing and a compensation structure that prioritized financial returns” were identified as key culprits of the tragic collapse. In the wake of this disaster, Vale made changes to its compensation plan\(^10\) so that it now includes employee and community indicators in its long term incentive plan.\(^11\)

In its opposition statement, Marathon states that it ‘believes that our shareholders trust the Compensation Committee to design our executive compensation program in a way that is appropriate to drive the responsible long-term growth of our business.” But without understanding if the Board has examined metrics that go beyond compliance driven measures and has sought to take into account salient impacts to affected communities, we believe it is not reasonable to assume shareholders have all the information necessary to trust the Compensation Committee.

\(^7\) https://ejatlas.org/conflict/marathon-oil-refinery-in-detroit-michigan
\(^8\) https://www.sec.gov/Archives/edgar/data/917851/000104746919002391/a2238479z20-f.htm#dw77701_management_compensation
The proposal is not overly burdensome to implement and provides the company the appropriate flexibility to implement.

The proposal simply asks “the Board’s Compensation Committee publish a report (at reasonable expense, within a reasonable time, and omitting confidential or propriety information) assessing the feasibility of integrating community stakeholder concerns and impacts into Marathon’s executive compensation program”. As the proposal makes clear, it is providing the company full discretion to simply assess the feasibility of adopting these kinds of incentives. The proposal does not dictate any particular outcome or timeline. It does not seek to prescribe how a bonus plan would be constructed or how much weight community stakeholder concerns and impact would have in the program.

In addition, we believe the assessment will not be burdensome. We recommend the company do the assessment at reasonable expense and the company has already conducted an assessment of the feasibility of integrating factors such as safety events, greenhouse gas intensity reduction\textsuperscript{12} and many financial metrics into compensation plans. Therefore, this is not a unique or difficult process for the company to embark upon. Tools \textsuperscript{13} developed by subject experts are available.\textsuperscript{14} Given a reasonable allocation of resources, Marathon’s Board has the capability and analytical resources to do a useful assessment.

Not only does it have the capability, it, arguably, has an obligation as a signatory to the aforementioned revised Business Roundtable statement of the “Purpose of the Corporation”. A consideration of all stakeholders and their concerns for breathable air, drinkable water and a sustainable climate is a responsibility of Marathon Petroleum.

**Conclusion**

*For the reasons provided above, Trillium Asset Management is urging Marathon shareholders to support Item 6 on Marathon’s proxy.* We believe it is in the company's interest to explore how it can fully incentivize its executives to safeguard the health and livelihoods of the communities where it operates. As

\textsuperscript{13} https://www.ehn.org/researchers-hand-michigan-officials-a-tool-to-remedy-environmental-injustice-will-they-use-it-2639333250.html
\textsuperscript{14} https://www.peri.umass.edu/research-areas/environmental-and-energy-economics
the pressure from communities, elected officials and investors grows stronger, now is the time to demonstrate renewed efforts to protect the important interests of community stakeholders.

Sincerely,

Susan Baker
Vice President, Shareholder Advocacy

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