



## J.M. SMUCKER COMPANY NYSE: SJM

When you first think of Smucker's you may think of the company's folksy commercials for jam.

You may not know that the J. M. Smucker Company (Smucker's), which got its start selling fruit spreads almost 120 years ago, also owns well-known brands including Jif, Crisco, Pillsbury, Eagle Brand, R.W. Knudsen Family and Hungry Jack.

In 2008, Smucker's bought the Folgers coffee brand from Procter and Gamble in a deal worth approximately \$3 billion dollars, roughly doubling the company's size. Smucker's coffee brands, including Folgers, Dunkin' Donuts, Medaglia D'Oro, and Millstone, represent over 40 percent of the company's overall revenues and a significant portion of the company's recent growth. The company is currently one of the top five largest coffee buyers in the world.

Coffee is a fragile crop that is vulnerable to fluctuations in the weather and requires a great deal of labor. Erratic weather can have a huge impact on the sustainability of the supply chain and the millions of families who rely on coffee farming for their livelihoods.

In 2010, Trillium and Calvert Asset Management began a dialogue with the company on the issue of climate-related risks to the Folgers coffee brand and to farmers in the company's supply chain.

The company made a number of very high-level representatives available to discuss our concerns and seemed prepared to engage in discussion about our concerns. We were also very encouraged by the company's commitment to us to participate in the Carbon Disclosure Project and commitment to issue a sustainability report — both the direct result of our engagement.

However, when Smucker's issued its 2011 corporate responsibility report — which ran 38 pages — it contained only one page devoted to coffee and none to climate change. In contrast, Smucker's competitors in the coffee business, Nestlé, Kraft Foods, and Sara Lee, had been open their efforts to address coffee sustainability and had made public commitments to sourcing coffee in a more sustainable manner.

With Smucker's lagging so far behind its competitors, we decided to raise the pressure on the company to address its sustainable coffee failures by filing a coffee sustainability shareholder resolution with the company in 2011.

The Trillium/Calvert shareholder proposal requested that within six months of the 2011 annual meeting, the Board of Directors provide a report describing how the company would manage the social and environmental risks and opportunities connected to the company's coffee business and supply chain. In addition, the resolution asked that the Board conduct and make public a concise discussion of how it will address temperature changes, changes in rainfall patterns, and the company's responsibility for its impact on the coffee-farming families in its supply chain.

"Coffee growing supports tens of millions of people around the world and is the second largest export of developing nations. In addition to being an important element of economic development, coffee has a significant environmental footprint when it comes to water, agricultural chemicals and deforestation," said Trillium's Director of Shareholder Advocacy Jonas Kron in a statement. "We are concerned about both maintaining the financial success of Smucker's coffee business in the face of climate change and taking responsibility for the social and environmental impacts of its supply chain."

The 2011 proposal received a remarkable 30% of the vote.

In order to maintain the pressure on the company, Trillium and Calvert filed another, similar, shareholder proposal with Smucker's the next year. The proposal specifically requested that within six months of the company's 2012 annual meeting, the company provide a report establishing quantitative goals for quantities of certified coffee purchases and a method for evaluating the success of the plan in addressing the challenges of climate change to the company and the farmers and ecosystems in its coffee supply chain.

Responding to this steady pressure and clear concern from shareholders, the company announced a new coffee sustainability initiative in its 2012 corporate responsibility report. Those initiatives, which allowed us to withdraw our shareholder proposal, included:

- A goal for certified coffee purchases to reach 10 percent of its total retail purchases by 2016.
- A partnership with the Hanns R. Neumann Foundation to focus on agronomy training, organizational development, and climate change adaptation strategies in order to

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improve the farming conditions, yields, and incomes of small-scale coffee farming families.

- A partnership with World Coffee Research with a focus on the science of coffee in order to develop hybrid varieties using classic breeding techniques.

In response to the new initiatives, Jonas Kron, said, “We believe the company has begun to recognize its responsibility to address the climate change risk to its Folgers coffee and other brands, and accordingly we have withdrawn our proposal. Smucker’s actions, however, represent only a first step. The company must do more to address investor concerns through greater disclosure, performance improvements, and accountability mechanisms. The prosperity of the people and ecosystems in the company supply chain, which provide a reliable supply of green coffee, as well as its own financial performance depend on it.”

Our engagement with Smucker’s on these issues is not yet over.

As long-term investors concerned with the company’s sustainability, Trillium and Calvert continue to encourage Smucker’s to:

- Provide additional information about the company’s goal for purchasing certified coffee, including how it selected that goal and how it can make continuous performance improvements and increase that target so it can have a greater impact and further reduce risk.
- Provide additional disclosure regarding suppliers, industry organizations, outside experts, and non-government organizations that the company is working with; and the nature of that work.
- Perhaps most importantly, the company must articulate how these initiatives are beneficial, not only to some of the

ecosystems and communities in its supply chain, but also how they are linked to the long-term financial prosperity of the company.

Most recently, Trillium has approached the company about issues related to bee die-offs which have the potential to impact the company. Bee die-offs attributed to colony collapse disorder (CCD) pose serious threats to our food supply and significant financial implications for food producers and food retailers.

We have asked Smucker’s about how it is monitoring the science related to pollinator decline, how it is assessing exposures to bee-toxic pesticide classes in its supply chain, what, if any, options are being explored to reduce bee-toxic pesticide classes including neonicotinoids in the company’s produce supply chain, what technical assistance, incentives, or other positive encouragement does it provide its growers to reduce the toxicity and amounts of pesticides used, and what might be the potential financial risks to Smucker’s from prospective restrictions, regulations or shifting consumer demand resulting from growing public concern around bee population declines.

According to a US Department of Agriculture report that was published in May 2013, “Bee pollination is responsible for more than \$15 billion in increased crop value each year” and, “[a]bout one mouthful in three in our diet directly or indirectly benefits from honey bee pollination.”

Moving forward we are working to build upon our successes at the company. Through dialogue, and additional shareholder proposals if necessary, we will press Smucker’s to have more robust and strategic policies and practices on these important sustainability issues.

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