The start of a new decade creates an opportune time for both reflection and recommitment. As impact investors, the last decade has been one of growth, in some ways beyond our expectations, and in others frustratingly slow when compared to the capital commitment needed to address the challenges we are facing today.

In this issue of Investing for a Better World, we wanted to take a moment to reflect on the changes we have seen in the sustainable and impact investment space over the last decade or so, and to look forward to what may come next; to innovation and growth, and a future where all investments are made to value people, planet, and profit equally.

GROWTH OF ESG INVESTING

By most accounts, the 2010s was the decade that Sustainable and Responsible Investing (SRI) went mainstream in the United States. In 2010, US SIF (The Forum for Sustainable and Responsible Investment) estimated that $3.1 trillion was invested in US domiciled, professionally managed portfolios that followed sustainable and responsible investment strategies. By 2018, that number was estimated to be $12 trillion. Undoubtedly spurred by investor demand, there has been a proliferation of strategies purporting to include Environmental, Social, and Governance (ESG) criteria in their investment approach. Some of the world’s largest asset managers, including Blackrock, have made very public statements on the responsibility of corporations to all stakeholders, not just shareholders. Industry leading private equity firms, including TPG, KKR and Bain, launched impact-focused private funds, bringing new institutional dollars into impact and sustainable investing. According to Morningstar’s 2018 Sustainable Funds U.S. Landscape Report, in 2018 alone, 37 sustainable mutual funds were launched, and 63 existing mutual funds updated their prospectus language to include...
ADVOCACY ONE YEAR ROUNDDUP

BY JONAS KRON, DIRECTOR OF SHAREHOLDER ADVOCACY

One important thing that everyone should know about shareholder advocacy is that it operates on multiple time frames. Some engagements with companies happen quickly, while other take time. So as the corporate annual meeting “season” recedes into the past, it’s a good opportunity to provide updates on Trillium’s engagements since the middle of 2018. As you will read, some of the work moved quickly and resulted in visible and concrete changes at the companies we invest in. And other times we put our shoulder to the big and slow wheels of change — giving it a push in the right direction. In all cases, however, we deployed the tools we have as investors to leverage the power of stock ownership to promote social and environmental change.

Over the year, we engaged dozens of companies and filed 34 shareholder proposals on social, environmental and governance issues such as diversity & inclusion, plastic waste, food waste, sustainable agriculture, digital human rights impacts, economic inequality, political spending, sustainability reporting, toxic chemicals in consumer products, and many other issues. You can learn more details about those engagements in the periodic updates we post on our website www.trilliuminvest.com.

Below we wanted to call out a few representative pieces of work to give a better sense of what we do, how we do it, where we are going, and what the outcomes can be.

CLIMATE CHANGE

Over the past two years it has been quite noticeable that the broader investment community has come to the position carved out by SRI leaders since the 1990s — corporate America must step up and reduce our economy’s dependence on fossil fuels. For example, today, more than 320 investors (including Trillium) with more than $33 trillion in assets under management are engaging companies through the Carbon Action 100+ on improving climate change governance, curbing emissions, and strengthening climate-related financial disclosures. With this groundswell of activity, Trillium continues its multi-pronged approach to engaging portfolio companies where we have opportunities to help move fossil fuel producers, fossil fuel users, and governments to address climate change. Setting aside the dozens of climate change shareholder proposals we voted for, this meant engaging 15 companies and 4 state governments in dialogue, with shareholder proposals, and through other avenues.

But to provide a sense of what these engagements look like on the ground, consider our advocacy at EOG Resources. In 2012, we became aware of the potentially enormous climate change problem created by methane leakage from oil and gas companies like EOG. For our clients who have not divested from fossil fuels, we include EOG in our strategies because in addition to being financially attractive, the company has strong practices on water protection and commitments to safety. So beginning in 2013, through shareholder proposals and dialogues, on our own and with fellow investors, we pressed the company to increase their disclosures about their methane emissions and to make commitments to reduce their methane emissions. Some years, we were able to reach agreements and the company steadily increased their transparency. In other years, we reached loggerheads and had to take the matter to a vote at the company annual meetings. On those occasions we received strong support from investors with votes in the mid-30s — clearly articulating significant concern about how the company was handling the issue.

In January, however, we announced that we withdrew a shareholder proposal at EOG when it committed to reduce its methane emissions this year while establishing a quantitative methane emissions reduction goal for next year. Withdrawal of this proposal, which was co-filed by Miller/Howard Investments, marked the latest milestone in our ongoing dialogue that has contributed to EOG taking meaningful action to reduce its methane emissions. In the year to come, we will continue this engagement to press EOG to set strong, science based goals.

DIVERSITY

In 2018, Trillium implemented a comprehensive approach to corporate diversity by engaging companies in the three critical areas: board diversity, executive leadership team diversity, and workforce diversity. We did so out of recognition that each area needs focused attention to ensure that companies are addressing the issue comprehensively.

At the board level, since 2012 Trillium has worked tirelessly to persuade corporate boards to increase the number of women and people of color in their ranks and so far this year we added two more companies to the list. At
Turning to executive team diversity, Trillium filed what we believe are the first of their kind proposals that seek better performance on this issue where the gender wage gap is most pronounced. In January, we were able to withdraw our shareholder proposal when, following productive conversations, BNY Mellon agreed to expand its diversity and inclusion reporting with a focus on the executive team. The expanded report will discuss how BNY Mellon sets specific diversity goals for leaders, including the executive leadership team, to hold them accountable for improved workplace diversity, with particular emphasis on diversifying senior management. And at Newell Brands, which was in the middle of a CEO search, the proposal received a remarkable 56.6% vote in June. This vote came shortly after Trillium led an investor letter urging Newell to include diverse candidates in its CEO search.

We have also continued our decades long efforts on workforce diversity. For example, in May we withdrew our shareholder proposal at Xilinx when management committed to disclose diversity data on all EEO-1 identity categories for its entire workforce on four different job categories. And also in the spring, a 50.9% vote at Travelers in favor of full EEO-1 diversity disclosure was a ringing endorsement of our approach. Demonstrating the growing importance of workforce diversity to investors, this majority vote came after two years of votes at Travelers in the mid-30s and weak attempts by the company to produce minimal amounts of diversity data.

PRIVATE PRISONS

As concern over immigration and criminal justice reform steadily grows we have seen attention focus on the role of private prison companies and the sources of funding that support them. As noted in recent reports and lawsuits, allegations include inmate deaths, poor medical care, allegations of physical and sexual abuse of detainees and violence. Some of these risks are heightened due to the nature of the business model and practices of the private prison companies including crowded conditions, less programming for inmates and detainees than public facilities, low staff salaries, poor staff retention, lack of training on human rights, and inadequate staffing.

In February, Trillium joined a community of divestment, reinvestment, and socially responsible investment representatives to call on Boston city councilors to divest municipal pension funds and cash reserves from environmentally and socially destructive industries such as prisons, immigrant detention centers, and fossil fuels, sharing Trillium’s approach to sustainable and responsible investing, and citing ESG integration into the investment process may produce positive financial outcomes in the long term. That effort was followed in April, when the Boston Business Journal published an Opinion Editorial written by Trillium and Boston Common Asset Management, that discussed the need for Boston to divest from private prisons.

This spring, we also learned that one of the companies in Trillium’s strategies, PNC Financial Services, is one of ten leading financing partners of private prison companies CoreCivic and Geo Group. While we are invested in PNC in part because of its commitments to sustainable business practices and efforts to serve its communities, we were greatly concerned about this news; private prisons are rife with alleged human rights abuses. For Trillium, as a sustainable and responsible investor, we saw that profiting from these companies and generally being associated with them, created numerous financial and reputational risks for PNC.

So as members in the Interfaith Center on Corporate Responsibility, we joined their efforts to engage PNC and many other banks about these concerns. These engagements sought information regarding steps the banks were taking to review their relationships with private prison and immigrant detention companies, and expressed human rights and financial concerns. As a result of these engagements, SunTrust Bank, Fifth Third Bank, and BNP Paribas joined JPMorgan Chase, Bank of America, and Wells Fargo, announced over the summer that they would stop financing private prisons and immigration detention centers operators.

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1. A number of reports have highlighted the human rights abuses at these facilities, including:
Huffington Post: http://www.huffingtonpost.com/christina-fialho/geo-group-whistleblower-e_b_7309916.html
Impact Investing: Reflection and Recommitment, continued from page 1

ESG language. At the end of 2018, Morningstar identified 351 open-ended and exchange traded sustainable funds available to US investors, a 50% year over year increase. (Sustainable Funds U.S. Landscape Report, Morningstar)

Gone are the days that consultants and financial advisors can advise investors that institutional quality investment solutions that integrate environmental and social considerations are not available. No longer do we have to give strategies time to create performance track records to prove that competitive investment returns can be produced within an ESG integrated framework; early entrants to the space now have 30 year plus track records (the first SRI mutual fund, Pax World Balanced Fund, was launched in 1971).

The growth of the space, and the assets allocated to sustainable strategies, has allowed long-time sustainability focused investment managers to pursue new opportunities for integration across asset classes. Whether it be issue specific (fossil fuel divestment, gender equity, LGBT equality), thematic (climate solutions, economic empowerment), or new asset classes (private markets, fixed income), investors are not only being offered more choices, but increased opportunity to go deeper and more focused in their impact across asset classes. One of the biggest areas where we saw this growth over the last decade was in the green bond market.

GREEN BOND MARKET

The green bond market was just gaining traction at the beginning of this decade. Responding to investor demand, the World Bank issued the first green bond in November 2008, establishing a framework for project eligibility and impact reporting required of issuers seeking a green designation. With the establishment of the green bond market, investors had an important tool for evaluating opportunities to support climate solutions while receiving market rate returns.

Today, green bonds are issued by a variety of entities including sovereigns, development banks, local governments, corporations and government-backed entities. In 2018, 320 issuers in 44 countries issued $167.3 billion in green bonds. As issuers and investors have gained comfort with the structure of these bonds, other impact-focused designations have emerged, including social, SDG (Sustainable Development Goals), and sustainability bonds. Investors now have the opportunity to make meaningful allocations to impact oriented bonds in their market rate fixed income portfolios.

DIVESTMENT CAMPAIGNS

Divestment as a tool for change is nothing new. In fact, Trillium’s roots are in the South Africa divestment campaign to end apartheid, and religious investors have been excluding values misaligned investments for over a century. But the scale of the climate crisis we are facing today has catalyzed a global movement to divest from the fossil fuel industry. 350.org took a leadership position in organizing the movement over the last decade, beginning with their first mobilization ahead of the COP15 in Copenhagen in 2009.

By 2014, the People’s Climate March brought 400,000 global citizens to New York City to demand action, and in 2018 Rise For Climate Action saw 900+ coordinated actions on 7 continents, across 95 countries, mobilize over 250,000 individuals demanding real climate action from their leaders. And it’s working! We are seeing significant movement on college campuses, as students have been pushing endowment trustees to allocate dollars away from fossil fuels and into renewables. Large public foundations such as Rockefeller Brother Fund, have committed to moving to 100% divestment, and in 2018 Mayor De Blasio announced that New York City would be exploring ways to divest from fossil fuel investments within their $189 billion pension funds. According to gofossilfree.org, over 1000 institutions representing $11.48 trillion in assets have committed to some kind of divestment.

The success of the fossil fuel divestment campaign has spurred activists in other areas to see divestment as an important tool for change. Campaigns to divest from gun manufacturers and private prisons are also gaining traction in the United States.

LOOKING AHEAD

We are excited to think about how some of the work being done today will transform the investment markets in the next decade and beyond.

Globally, we have seen institutional focus on incorporating the UN Sustainable Development Goals (SDGs), 17 goals addressing the most critical global challenges we face today, into solutions oriented investment strategies. Significant focus has been given to gender equity, including the OPIC 2X Women’s Initiative, a commitment to catalyze $1 billion globally in support of women in developing countries.

In the United States, the creation of Opportunity Zones, and the associated favorable tax treatment on investments in these historically under-resourced areas, could create a huge opportunity for community-focused investment if managed with care and consideration.

On a local level, we are seeing exciting new models for community-focused investment, bringing in new and diverse voices, and focusing on ensuring that wealth
SUNDANCE FAMILY FOUNDATION IMPACT INVESTING STRATEGY

BY NANCY JACOBS, COFOUNDER/PRESIDENT | NANCY@SUNDANCEFAMILYFOUNDATION.ORG

The Sundance Family Foundation of St. Paul, Minnesota is a private family foundation whose mission is to “accelerate youth development and support family stability.” Sundance builds workforce development bridges and pipelines for underrepresented youth by supporting Youth Social Entrepreneurship (YSE) programs, and on ramp support programs to certificate training, and apprenticeship-to-career pathways. YSE organizations are youth-centric, offer underserved high schoolers after school paid job opportunities to run nonprofit enterprises that include community engagement, social/emotional learning, and provide workforce readiness/entrepreneurial skill building. www.sundancefamilyfoundation.org

IMPACT INVESTMENT STRATEGY
Targeting Global, Domestic and Local Impact Investing, Prioritizing ESG (Environment, Social, Governance) Indicators

IMPACT INVESTING

Impact Investing is an investment strategy which seeks both a financial return while accomplishing social good. Impact Investing considers Environmental, Social, and Governance criteria (ESG) to quantifiably measure sustainability and social impact on society through a company, business, or fund. Sundance utilizes industry-agreed ESG criteria to create a measurable assessment of true social impact over time.

DOING WELL WHILE DOING GOOD: SUNDANCE FAMILY FOUNDATION

Co-Founder and Sundance Family Foundation President and Cofounder Nancy Jacobs, along with an engaged Sundance Board of Directors, strives for portfolio investments that obtain a double bottom line return on investment (ROI). A double bottom line provides a market rate or better financial return and an equally clear and measurable social good return. Sundance welcomes the opportunity as well, to invest in funds that create a triple bottom line which provides positive financial, social and environmental impacts.

INVESTING APPROACH

Sundance adheres to a values-based, empowerment model of philanthropy. The Foundation’s supportive grant making is exemplified in its support of 501(c)(3) organizations providing Housing for Homeless Youth and Families and its Youth Social Entrepreneurial programming.

See www.sundancefamilyfoundation.org for guidelines and information.

Beyond its grantmaking, YSE research, and programmatic support, Sundance has activated its Foundation endowment to participate in investing toward the greater good. Sundance has used a four-phase process over five years to implement a robust global Impact Investment portfolio. Sundance has and continues to adhere to an endowment investment model which fundamentally ascribes to broad diversification and competitive market returns. This strategy was developed in the following manner:

Phase One/Year One: Sundance started with Equity Investments using Mutual Funds and Exchange Traded Funds

BENEFIT: Broad diversification with a focus on one or all of the ESG criteria was achievable using these vehicles.

Phase Two/Year Two: Sundance added Fixed Income using Mutual Funds and Exchange Traded Funds

BENEFIT: Broad diversification with a focus on one or all of the ESG criteria and special emphasis on areas such as Microfinance, Community Development and Housing.

Phase Three/Year Three: Sundance added professionally managed portfolios of Individual Stocks and Bonds

BENEFIT: Individual securities customized to the values of Sundance, and the ability to engage the board in Shareholder Advocacy to effect impactful change within publicly traded corporations was achieved.

>> Continued on page 10
FINDING ESG OPPORTUNITIES IN INDUSTRIALS

An interview with Trillium Portfolio Manager and Research Analyst Mitali Prasad, CFA, on trends she sees in the Industrial sector.

Q What is the role that Industrials play in addressing ESG (Environmental, Social, Governance) issues including energy efficiency and climate change? Can you provide some examples of companies that Trillium invests in?

A Companies in the Industrial sector are in a strong position to address a number of the ESG concerns that the world faces today, especially on the environmental front including climate change, carbon and greenhouse gas (GHG) emission reduction, and energy efficiency. Industrial companies often address these issues through their product and service offerings but they need to do so in a sustainable way to lower the impact of their own operations on the environment. They can do so by focusing on reducing their own greenhouse gas and air emissions; improving energy efficiency of operations; establishing better waste and water management policies; employing robust labor management practices; engaging proactively with local communities; understanding the environmental impacts of their supply chain; practicing strong business ethics in dealing with contractors and suppliers, and through focusing on diversity not only at the board level and the top echelons of their management team but through the entire labor force.

We have identified a number of these companies for inclusion in our portfolios. Examples include:

Tetra Tech, which is a leading provider of consulting and engineering services that specializes in enabling customers to optimize their water management activities and reduce their environmental footprints. Through the use of innovative technologies and creative solutions, the company works on varied projects—from recycling freshwater supplies to recycling waste products, reducing energy consumption, and reducing GHG emissions in developing countries — while using sustainable business practices.

Hexcel provides carbon fiber based composite materials that are lighter weight, stronger, and help make the larger airplanes more fuel efficient. These composite materials are also used in the wind turbine blades.

Wabtec, which recently merged with GE Transportation, provides critical electronic equipment, systems, and solutions to the transportation industry including locomotives, freight, and transit cars worldwide. Wabtec’s digital solutions make the trains run more efficiently and their mission critical controls, such as “Positive Train Control” braking systems, contribute meaningfully to the safety of rail traffic.

Q One of the biggest opportunities that the Industrials can address is the climate change risk. Can you give us an example of a company that is taking a leadership role in addressing climate change and energy efficiency?

A There are certain industrial leaders that are the forefront of addressing energy efficiency and facilitating our move towards a low carbon economy, through sustainable product offerings and by embracing sustainability at a more holistic level. These companies are proactively addressing some of the threats from carbon emissions and climate change and will be the beneficiaries of growth in the future. Leaders such as Ingersoll-Rand fully embrace sustainability and use it as an overarching strategy across their business units.

Ingersoll-Rand is a leading supplier of climate control solutions and services, with a portfolio of reputable brands that address energy efficiency and environmental sustainability in buildings and in transportation of food and perishables around the world. Nearly half of all global energy consumption takes place in commercial, industrial and residential buildings, with Heating Ventilation and Air Conditioning (HVAC) systems representing the greatest opportunity for improvement. In fact, HVAC efficiency is one of the most important determinants of green building certification status. The company stands out among peers for its strong position in energy-efficient systems with a large majority of its product portfolio directly addressing demands for greater energy efficiency with lower greenhouse gas (GHG) emissions. The company has also committed to reducing the GHG intensity of its own operations and since 2013 has reported over 45% reduction in its GHG intensity with clear targets to limit GHG emissions.

Q How has ESG disclosure changed over time, especially for small and mid sized companies? How does Trillium help with the process?

A Industrials were among the early reporters on ESG data. This is partly driven by regulations around carbon emissions and waste management, but also because many of the larger companies had global operations especially in countries in Europe that had more stringent reporting
standards. In early reporting the disclosures were often more qualitative and not very robust.

As per the Governance and Accountability Institute (G&A), sustainability reporting rose dramatically from 2011 when approximately 20% of companies in the S&P 500 index published reports to 86% in 2018. The S&P 500 index includes the largest 500 companies in the US capital markets. Smaller and mid-sized companies, given their limited resources to track and report on relevant data, have typically lagged in producing meaningful sustainability reports — i.e. reporting on their impacts in a way we think gives investors a clear understanding of how they are integrating ESG risks into business strategy and mitigating the most material ESG risks. Some of the smaller companies are potentially only reporting on some aspects of their environmental or health or safety policies but not giving much consideration to either transparency or how sustainability is integrated with their business and product strategy. In 2019, the G&A Institute team started tracking the sustainability reporting data for companies in the Russell 1000 index. They found that only 34% of the companies in the bottom half (and therefore smaller) of the index are publishing sustainability reports.

Q When looking at the most gender-diverse boards across sectors, the Industrial sectors does not lead the pack. How is Trillium approaching this issue and what can investors to do create positive change in addressing board diversity?

A It’s been well documented that the benefits associated with board and management diversity include a larger candidate pool from which to pick top talent, better understanding of consumer preferences, a stronger mix of leadership skills, and improved risk management.

In 2019 in the Industrials sector across Russell 3000 companies 20% of board seats were held by women compared to 17% in 2018. Change is happening but it’s gradual. Companies particularly in these sectors when expanding diversity need to tap non-traditional talent pools of candidates. We ask companies to embed a commitment to diversity inclusive of gender, race, ethnicity in governance documents; and commit to publicly to include women and people of color in each candidate pool for board and senior leadership seats.

Example: Subsequent to a shareholder proposal Trillium filed at Wabtec Inc. it’s Board made diversity an intentional part of the Board nominee search criteria in its governance guidelines. In 2016 the company elected Linda Hart, vice president and treasurer of Medtronic plc, to serve as its first woman director.

Q Have you seen a change in the attitude of company management towards ESG info and investors?

A There is no doubt that there is growing investor interest in ESG issues as well as the growth in ESG assets under management. Additionally, there have been some recent announcements by public funds, especially in Europe, of divestments or selling shares of companies that do not meet ESG criteria. Management teams are increasingly recognizing that they need to be able to address some of these issues proactively. At investor conferences some (still very few) management teams are now incorporating a brief discussion around the sustainability of their products and sometimes of their own operations. We as investors need to continue to question companies on their ESG strategies with the hope that ESG data will increasingly be integrated into the fundamental analysis for the company, which is how we at Trillium think about these names. In the long run, we believe that companies that are successful pay attention to all of their stakeholders including their shareholders, their employees, their community, and their impact on the environment. 

See back page for important disclosures.
IS WORKING IN THE GIG ECONOMY A GOOD GIG TO HAVE?

BY EMILY LETHENSTROM AND BETH WILLIAMSON, ESG ANALYSTS

For consumers, the proliferation of disruptive technology has enabled widespread access to a whole host of tailored, web-based services, from ride-hailing, to meal preparation and dependent care. This secular movement, commonly known as the gig economy, is a free enterprise system in which companies rely on independent contractors or freelancers as opposed to hiring full-time workers to fulfill customer demand. This employment model is utilized not only by app-based businesses, such as Uber, Lyft, Caviar etc., but also by more traditional multinational companies such as Wal-Mart and Amazon to lower labor costs.

The gig economy is not new, however the growth over the last 10 years has been exceptional, mainly given the rise of app based business models. Between 2005 and 2015, the number of self-employed individuals in the U.S. increased by almost 20%, from 10.1% to 15.8.1 By 2027, it is expected that more than 50% of the U.S. population will be self-employed i.e. part of the gig economy or self-declared freelancers.2

To some, especially millennials, the option to freelance is appealing as it provides independence, flexible work schedules, and the ability to travel or work from home. However, this flexibility often comes at a cost, especially for individuals without additional sources of income. For example, the Freelancers Union reports that 63% of freelancers dipped into their savings once a month.3

Trillium places significant value on a company’s labor management and human capital initiatives. As such Trillium has recently explored the pros and cons of labor in the gig economy across three different categories: ride-hail driving, food delivery and package delivery. More specifically, we analyzed how ride-hailing companies (Uber and Lyft), a Chinese food delivery company (Meituan Dianping) and the world’s largest consumer discretionary company — Amazon — utilize contract labor as part of their business operations. Despite their business model differences, the “gig” is clearly an important driver for each.

RIDE-HAILING (UBER/LYFT)

Companies like Uber and Lyft transported 2.61 billion passengers in 2017, a 37% increase from 1.90 billion in 2016.4 Drivers for ride-hailing companies are not considered employees of the company, but independent contractors and therefore are not protected by traditional labor or employment laws.

In the role of independent contractors, a 2016 Pew Report points out that “this arrangement allows these workers to offer services on a flexible or part-time basis — but also means that they do not qualify for many of the government-mandated benefits available to traditional employees under

1 https://www.naco.org/featured-resources/future-work-rise-gig-economy#after-related
2 https://www.forbes.com/sites/elainepofeldt/2017/10/17/are-we-ready-for-a-workforce-that-is-50-freelance/#15bf96f3f82b
3 https://www.forbes.com/sites/elainepofeldt/2017/10/17/are-we-ready-for-a-workforce-that-is-50-freelance/#4d79cdb83f82
TRILLIUM SUPPORTS TWO NATIVE ENERGY OFFSET PROGRAMS WITH 2018 CARBON OFFSETS

As Trillium seeks to influence businesses and policy to act on climate change, economic empowerment, human rights, and many other factors considered within our sustainable investment approach, we aim to look within to ensure that we are also embodying these practices. In an effort to offset carbon emissions from our business activities, we are working in collaboration with NativeEnergy, a provider of carbon offset programs.

NativeEnergy offers a program called Help Build™ which works with companies like us to customize carbon offset projects that are tailored to a company’s unique needs, values, and overall strategy. An offset program, in the most basic form, puts a dollar value on carbon emissions and allocates that money towards a project that will lower the same dollar value of carbon somewhere else, but in a value-added way. “It is important to ask if the project produces additional benefits. We focus on Native American, family farm, and other projects that help create sustainable economies for communities in need. Many projects also help protect watersheds, improve air quality, and maintain wildlife habitat.”

Some of the focuses of these Help Build™ projects include carbon reductions, renewable energy, clean water, ecosystem restoration, soil health, smallholder farmer development, wildlife and habitat protection, and carbon sequestration.

At Trillium, we calculated a portion of our 2018 company carbon footprint using employee surveys. In 2018, Trillium employee commuting and business travel generated 488 metric tonnes of CO2e valued at $7,500. For reference, a metric tonne is approximately 2200 lbs. of CO2 and one tonne can fill a 2400 sq. ft. house with approximately nine-foot ceilings. Trillium plans to offset our emissions annually in partnership with NativeEnergy.

With the money calculated from these offsets, we will support two projects designed to reduce carbon emissions. The first, Montana Improved Grazing Project, is a new carbon reduction plan designed to regenerate western grasslands. This project, which is organized by a partnership between NativeEnergy and the Western Sustainability Exchange, a local organization, enables cattle ranchers to improve ranch practices and soil health. While the project activity focuses on increasing productivity on the ranch and improving local economies, the benefits to Montana’s grasslands go well beyond the cattle industry; the project seeks to restore Montana’s ecosystem resilience to its full potential, to be in a position that sustains abundant and diverse species and livelihoods.

The second project we are thrilled to support is Honduras Clean Water. NativeEnergy has partnered with Honduran Association of Coffee Producers to spearhead this greenhouse gas-reducing water purification initiative. The project focuses on providing safe and effective household water filters which use slow sand technology to remove up to 99% of pathogens and will operate for 10 years or longer. Access to safe drinking water means communities reduce time absent from school or work due to illness and save money on medical expenses. This project presents a solution to the challenges of extreme poverty, poor health, and the high carbon dioxide emissions and poor air-quality associated with burning wood to boil water for drinking. 1,688 families are expected to be beneficiaries and the project is likely to have a total carbon reduction of 90,000 tonnes of CO2e. The project also is focused on achieving three UN Sustainable Development Goals: Good Health and Well-being, Clean Water and Sanitation, and Decent Work and Economic Growth.

Important Disclosure: This is not a recommendation to buy or sell any of the securities mentioned. It should not be assumed that investments in such securities have been or will be profitable. The specific securities were selected on an objective basis and do not represent all of the securities purchased, sold or recommended for advisory clients.

1 https://nativeenergy.com/for-individuals/faq
the strong 20-year track record of our Global Equity strategy demonstrates that there are companies across the globe that are meeting their obligations to their shareholders by delivering strong returns while adapting to the global need for new, resilient, and environmentally sustainable products and services. In addition to investing for positive environmental and social impact, Trillium has a long and proud history of active ownership. We leverage the capital of our clients by engaging in dialogue with companies we invest in to work toward improving their environmental, social and governance profiles. We had over 300 engagements over the past year with less than 50 needing a shareholder proposal to compel the management teams to address a serious ESG issue. Our objective remains the same since our founding in 1982; Provide for the financial needs of our clients while leveraging their capital for positive social and environmental impact in alignment with their values.  

*As of 03/30/2019, Trillium Asset Management Impact Report shows the strategy is 55% less Carbon Intense than its benchmark, the MSCI ACWI (All Country Work Index). The MSCI ACWI is a market capitalization weighted index designed to provide a broad measure of equity-market performance throughout the world. The MSCI ACWI is maintained by Morgan Stanley Capital International (MSCI), and is comprised of stocks from both developed and emerging markets. It is not possible to invest directly in an index. Past performance is not an indicator of future performance.

Thinking Capital, continued from page 1

Phase Four/Year Four: Sundance added High Impact/Semi-Illiquid Investments

**BENEFIT:** New frontiers of small and medium enterprises (SME)s served to further diversify the Sundance portfolio. Illiquid Impact Investments are often placed into emerging market funds that supply growing small- and mid-cap businesses run by experienced management teams with expansion capital. These entrepreneurial businesses are positioned for growth, evidence stable positive cash flows and positively impact their communities.

**BUILDING A COMMUNITY OF “GREATER GOOD” INVESTORS**

Sundance Family Foundation is an Impact Investment Foundation Leader by aligning its investments with its core values. Over a period of five years, the Foundation has transformed its investment corpus from a financial return model to one targeting financial and social good in equal measure, an ROI that results in a “double bottom line return. As a result, the current Sundance Family Foundation has an investment portfolio with 85% of its corpus investments in alignment with its values and mission.

In 2017, Sundance Family Foundation became one of the original 20 Impact Investor subscribers in a collaborative process with foundations-large and small-to become the “Minnesota MI3,” an Impact Investment Fund. This place-based $23.5 million Impact Investment Fund, under RGB, has targeted thematic initiatives in Minnesota and N. Dakota targeting the sectors of Neiborhood Rentals, Affordable Housing, Healthcare/Nursing, Small Business Loans and Clean Energy. The coordinated investment is focused on building capacity and scale. The investments are highly securitized loans and have become an excellent option for short to medium term fixed income investing. A current financial and social impact roll-up report is available by contacting www.Sundancefamilyfoundation.org or Susan Hammel, CEO Cogent Consulting PBC.  

Sundance Family Foundation Impact Investing Strategy, continued from page 5
TRILLIUM HOSTS THE WOODS HOLE RESEARCH CENTER AND THE ARCTIC INITIATIVE

At the Harvard Kennedy School Belfer Center to discuss global significance of thawing arctic permafrost

On October 17th at District Hall in Boston, Trillium hosted The Woods Hole Research Center and the Arctic Initiative at the Harvard Kennedy School’s Belfer Center for Science and International Affairs, for a night focused on discussion of the global significance of thawing arctic permafrost. The evening featured three speakers, introduced by our own Elizabeth Levy: Dr. Sue Natali and Dr. Brendan Rogers, both associate scientists at Woods Hole Research Center, and Dr. John Holdren, A Professor of Environmental Policy at the Harvard Kennedy School of Government, Belfer Center for Science and International Affairs.

As the talk unfolded, it became clear the intensity, relevance, and importance of this issue to the global human community. As the world grapples with rapidly accelerating climate change, many policy makers are overlooking the thawing permafrost, which is one of the most significant climate threats. This frozen Arctic soil stores a vast amount of carbon, and as permafrost thaws, it threatens to amplify global warming by releasing greenhouse gases into the atmosphere. Emissions from thawing permafrost, however, were not included in the climate models that underpinned the 2015 Paris climate agreement because of insufficient science.

Woods Hole Research Center and the Arctic Initiative at the Harvard Kennedy School’s Belfer Center for Science and International Affairs, are combining their science and policy expertise to develop an arctic carbon monitoring and prediction system. Together, they are developing the scientific research to include carbon emissions from permafrost in the next round of international climate commitments.

The topics may have not been light-hearted, but Trillium was delighted to be alongside such inspiring change-makers in an evening of learning and conversation. It is crucial as ESG investors to constantly adapt and learn about the issues that need to be considered when we choose companies in which to invest, engage with companies and governments to push for positive change, and decide which initiatives to support.

Find more information at http://whrc.org/project/arctic-permafrost/ and https://www.belfercenter.org/arctic-initiative/overview-arctic-initiative
Opportunity Zones have created a lot of buzz in the investing world. They are a relatively new addition to the world of tax incentives intended to promote economic development in low income areas. The Opportunity Zone program was created by the Tax Cuts and Jobs Act passed by Congress in December of 2017.

This new program follows on the heels of other programs including enterprise zones and urban empowerment zones, which attempt to meet similar goals. Typically we see this type of incentive offered every generation or so. According to McKinsey & Company, the past programs have had mixed results, and success was contingent on broad coordination between the public and private sectors.1 This new attempt at developing low-income areas comes with relatively few strings attached, ostensibly to encourage more capital to be deployed. To a sustainable and responsible investor, this presents a dilemma about the impacts these investments can have on a community, both negative as well as positive.

There are a number of questions that immediately come to mind. What exactly is an Opportunity Zone and what are the benefits associated with investing in one? Is this simply another tax break for the wealthy? Will the expected investment meaningfully and positively impact the lives of the communities targeted? Are there guardrails to insure that private investment and communities are aligned in development?

Let’s first examine the structure of the program. Each state had the ability to nominate economically-distressed census tracks for the Opportunity Zone Designation that met certain criteria set by the program. The nominated census tracks were then certified by the Secretary of the U.S. Treasury via the IRS. In terms of the tax benefits, investors in Opportunity Zone (OZ) Funds have the ability to defer capital gains taxes, get a discount on those gains, and also have their investment grow tax free. When selling appreciated assets, an investor has 180 days to invest in an OZ Fund. Gains can be deferred up to December 31, 2026. In addition, if the investor holds the investment for five or seven years before December 31, 2026, there is a 10% or 15% exclusion, respectively, of the deferred gain. The biggest benefit, however, is the ability to fully step up the basis of the investment after a ten-year holding period. That means all the appreciation over those ten years in the OZ investment can be redeemed tax free.2

In our view, this program will only be a success if state and local governments, as well as local stakeholders, are proactive to counter the potential negative impacts of accelerated development.

The biggest beneficiaries in the early days of the OZ program were the developers and investors that had shovel-ready projects in newly designated Opportunity Zones. These projects were likely to go ahead regardless of the tax benefits. For example, in the Boston area, a formerly industrial section of the city of Somerville, now Assembly Row, is a designated OZ. The area’s transformation had already begun pre-OZ program with a major development including commercial, residential and retail space well over one million square feet. More is on the way.

There have also been some less-than-savory stories about developers pushing the Treasury for OZ designations and lax rules to govern the program. If one wants to dig further into this topic concerning one of the more egregious examples, look no further than a New York Times article titled “Symbol of ‘80s Greed Stands to Profit from Trump Tax Break for Poor Areas.” This character from the ’80s is none other than Michael Milken. In short, Mr. Milken’s institute and business associates fought for bent rules and lax oversight in order to benefit from the tax break.1

Does this program have issues? Yes. Will it directly benefit wealthy investors? Yes. Could it lead to displacement and accelerate gentrification? Likely. If structured carefully and with stakeholders in mind, could it be used for positive impact? Absolutely. This is a tax break which is geared toward the wealthy, those that have the resources to engage in these types of capital intensive investments. Beyond the obvious shortfalls of potential misalignment of the goals of investors and residents of the disadvantaged communities, there is a tremendous amount of opportunity. With the right partners and a multi-stakeholder approach, investing in infrastructure and businesses in opportunity zones can help to extend the economic gains of the last decade into lower-income communities.

To that end, Kresge Foundation and Rockefeller Foundation announced in late 2018 their support of an Opportunity Zone Incubator. The program is intended to provide technical assistance to social impact enterprises and Community Development Finance Institutions exploring the OZ market. Kresge was clear in its press release that it saw “Opportunity Zones as a potential benefit for low-income communities, but only if early market movers prioritize community impact and measure and report on their outcomes.”2 In summer of 2019, Kresge provided two impact managers with commitments for OZ funds after the impact managers voluntarily agreed to adopt and make public data from a rigorous reporting and evaluation framework.3 We hope these efforts will push transparency in OZ investments.

Similar to investing in the public markets, one must take a holistic view of the opportunity and risk with a social and environmental lens. We at Trillium Asset Management don’t always agree with conventional asset managers and we certainly will not be aligned with many OZ Funds. However, we are seeing long-time partners, especially in the Community Development Finance Institution space, creating interesting funds to take advantage of this once-in-a-generation opportunity. At the same time, they are being creative about how this new capital can add to the social and economic fabric of communities. This is not easy work, but it is meaningful and necessary.

Trillium is currently looking for the right partner for our clients who have already expressed interest. If you are interested in learning more, please reach out to your investment manager at Trillium. This type of investment is best suited for individuals who have significant assets with very low cost basis. This is not a liquid asset and the holding period is at minimum ten years, so this is not for everyone.  

Alex is an investment manager at Trillium, working with our private clients

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In response to this flood of statements from some of the largest banks in the United States, we sent a letter to PNC CEO Bill Demchak in July expressing our concern, calling for action, and asking for a meeting with company representatives. At that meeting in early August, PNC executives told us that the firm will not extend any additional credit to companies operating private prisons. In doing so, PNC added to the isolation of CoreCivic and Geo Group by the banking and investing industries. As these private prison companies face credit downgrades, political approbation, and divestment efforts over human rights concerns, PNC’s public rebuke of the companies can have an important impact.

While in agreement that this step is positive and important, we are cognizant that PNC is not ceasing its relationship entirely. PNC will remain a lender, under existing agreements, to CoreCivic and GeoGroup for years. For that reason, we are urging them to focus time and attention on these two companies’ human rights practices. As lenders, PNC has the ability to press them to take concrete steps to improve conditions in their facilities — and should do so immediately.
the company's food delivery services require a large number of delivery personnel, whom it calls "delivery riders" to distribute food. Meituan’s delivery riders are not employed by the company, but are employees or contract workers of its delivery partners. A February 2019 profile of Meituan in FastCompany explained that the company currently utilizes 600,000 active motorbike riders (there are millions on the platform) to deliver food. Overall, the company reports riders are earning more than traditional manufacturing workers, along with a more flexible schedule.

However, the China Labor Bulletin, an NGO in Hong Kong, reports delivery riders are staging growing numbers of protests about poor treatment by their employers, including late payment of wages. In addition, an article describing the protests says “linking their pay to customer ratings has also made it easy for customers to demand more of them than they should: the purchase of groceries en route to their destinations, for example, or the disposal of household rubbish.”

MEITUAN DIANPING

Chinese food delivery company Meituan Dianping delivered 6.4 billion food orders in 2018, a 60% increase from 2017. The company’s food delivery services require a large number of delivery personnel, whom it calls “delivery riders” to distribute food. Meituan’s delivery riders are not employed by the company, but are employees or contract workers of its delivery partners. A February 2019 profile of Meituan in FastCompany explained that the company currently utilizes 600,000 active motorbike riders (there are millions on the platform) to deliver food. Overall, the company reports riders are earning more than traditional manufacturing workers, along with a more flexible schedule.

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AMAZON

Among other delivery approaches, Amazon uses Flex drivers; a program it launched in 2015 and now operates in about 50 US cities. Flex drivers are contracted by Amazon to deliver Prime packages and, in some areas, grocery orders from Whole Foods. These drivers drive their own cars, and pay for their own gas and insurance. They sign up for shifts or “blocks” that last anywhere from two to five hours through the Amazon Flex app. While seemingly easy enough, many Flex drivers report that the increase in the number of drivers has resulted in no work opportunities or many hours spent refreshing the app in hopes that blocks become available.

CONCLUSION

This brief snapshot of Trillium’s research supports the conclusion that the current gig economy model does not adequately support its workforce. Many gig workers find the lack of benefits, low pay and lack of guaranteed hours devastating to their earning ability. We are encouraged that these conditions are starting to be addressed. For example, in September 2019 California passed into law Assembly Bill 5, requiring app-based companies like Uber and Lyft to treat contract workers as employees. It is possible that worker protections like these may spread to other cities and states. The regulatory changes may put some businesses reliant on contract labor at risk or may create a better working environment for gig workers. Time will tell.

Impact Investing: Reflection and Recommitment

generated by local entrepreneurs largely benefits those entrepreneurs and their communities.

Here at Trillium, we are thrilled to support and lead new initiatives focused on building a more sustainable and just economy. In 2019 we furthered our commitment to leadership in the ESG space with the launch of our first private investment fund. Expanding on decades of experience making investments in impact oriented private equity, private debt and real asset investments, the fund was created to provide accredited investors with the opportunity to invest in a diversified portfolio of funds focused on private investments across three themes: Climate Solutions, Economic Empowerment, and Healthy Living. With the fund, we are committed to supporting new entrants to the sustainable investment community, including women and under-represented minority investors and entrepreneurs. We believe that there is an opportunity to participate in the private markets without subscribing to the extractive, predatory models that are often associated with the space. We are proud to partner with other socially and environmentally minded entrepreneurs and investors that believe you can indeed do well while doing good.

So what is our moonshot for 2030? I think we always go back to our founder, Joan Bavaria, and her commitment to growing the sustainable investment industry; we hope that our approach to investing, where environmental and social metrics are considered equal to traditional financial metrics, will simply be considered investing, no preamble required. And with that as our North Star, we will keep pushing, for as many decades as needed, once in a while taking a moment to reflect on just how far we’ve come.

Sada is an investment manager at Trillium, working with our private clients.
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Trillium Asset Management, LLC is a sustainable and responsible investment advisor. For information about portfolio management services, visit our website at www.trilliuminvest.com or contact Lisa MacKinnon at: lmackinnon@trilliuminvest.com.

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