

ROCKEFELLER
CAPITAL MANAGEMENT

ESG MID-YEAR REPORT

TWO DEGREES
OF SEPARATION

BRIDGING THE DIVIDE

2018



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ROCKEFELLER CAPITAL MANAGEMENT WAS ESTABLISHED MARCH 1, 2018 WITH FIVE FIRM PRINCIPLES

- 1. CLIENT STEWARDSHIP**
- 2. EXCELLENCE IS THE IDEAL**
- 3. INTEGRITY IS THE BASELINE**
- 4. EMPLOYEE GROWTH & DEVELOPMENT**
- 5. COMMUNITY CITIZENSHIP**

These principles reflect the values we have long sought in the companies in which we invest. When we first incorporated environmental and societal values in the 1970s, the philosophy was known as socially responsive investing. Today it has evolved to be more commonly known as environmental, social and governance (ESG) investing. We are fortunate to have a long, distinguished history in this field, an interest that has long been aligned with our clients, management, owners and directors. While we have many decades of experience, ESG investing is still evolving to meet new challenges across multiple dimensions. In this half-year update, our ESG research team takes a close look at many of these issues.

DAVID P. HARRIS, CFA

Chief Investment Officer



OUR ABILITY TO LEAD IS BASED
SO MUCH ON THE COLLABORATIONS
THAT WE CONTINUE TO FOSTER IN
ALL AREAS OF OUR WORK.

ROCKEFELLER CAPITAL MANAGEMENT

INTRODUCTION

Six months ago, when we wrote our Annual ESG Report for 2017, we talked about our pursuit of leadership. Leadership, however, is rarely piloted alone. The first half of 2018 has been a reminder for us that our ability to lead is in great part based on the collaborations that we continue to foster in all areas of our work.

We collaborate with non-profit investor organizations like Ceres and its Investor Network on Climate Risk and Sustainability, the Principles for Responsible Investment (PRI), the Council of Institutional Investors, the Interfaith Center on Corporate Responsibility (ICCR), the International Corporate Governance Network (ICGN) and other like-minded investors; with global partnership networks like the United Nations Environment Programme Finance Initiative (UNEP FI); and in many ways we view our engagements with our investment holdings as collaborations as well.

This is because we believe we will be living with greater regulatory constraints, fewer resources and a growing population. It is in our best financial interest, as well as that of our holdings, to be well-positioned for such a future.

As our flagship ESG listed equity strategy is a global portfolio, our collaborations must be global as well. We understand that greater globalization and an increasingly connected world mean that we need to share best practices not only across geographies, but across industries and sectors as well. We actively believe in sharing our intellectual capital with our holdings as we strive for a common goal and a more successful and sustainable future together.

In the first half of 2018, our collaborations have taken us to Japan to discuss corporate governance; to ocean summits in Mexico and Bermuda to identify the implications of rising sea levels and other ocean-related risks; to conference calls with investors around the world to discuss how to implement the Task Force on Climate-related Financial Disclosures (TCFD) requirements; and back home to work with our holdings in a range of industries as they try to eliminate harassment from their workforce.





JAPAN'S NEW GOVERNANCE PREMIUM

Mariela Vargova, Ph.D.

Senior ESG Analyst and Senior Vice President

Three years after the adoption of the 2015 Corporate Governance Code, the Tokyo Stock Exchange (TSE) made some important and well-publicized revisions. On June 1, 2018, it announced changes designed to boost capital efficiency and competitiveness of listed companies and to overcome the historically prevalent corporate governance “discount” in the market. The current governance revisions focus on unwinding cross-shareholdings, giving boards more responsibility in remuneration and nomination practices and encouraging greater diversity on boards. All these changes are hailed by both shareholders and stakeholders as important improvements for the long-term business prospects and sustainability of Japanese public companies.

As part of Prime Minister Abe’s “Abenomics” policy agenda to revitalize the economy, the regulators sought a long-term “growth-oriented governance” reform to enhance transparency and accountability of businesses.¹ Over the past five years, Japanese companies improved in the areas of independence and gender diversity. As of 2017, the number of independent directors on TSE-listed companies stood at 2.6 on average, an

increase from 2.0 in 2015 and 1.0 in 2011. Similarly, the representation of women on boards has improved. Currently, 3.7% of board directors are female, which presents an increase by 2.4 times from 2012.²

Today, Japanese companies are expected to appoint two or more independent directors and to seek the appointment of a sufficient number of independent directors based on their broader considerations of the industry, company size and business characteristics. The revised Code specifically spells out gender and international experience, as well as appropriate experience and skills, as factors to consider in appointing board directors and auditors. Promisingly, these regulatory developments are moving Japan’s corporate culture closer to leading international norms and governance frameworks.

THE ECONOMIC ARGUMENT FOR GOOD GOVERNANCE

At the heart of Japan’s new governance changes is the impetus to improve the economics and shareholder rights of Japanese companies. Cross-shareholding, or strategic shareholding, has long been the case in Japan where listed companies hold the shares of other listed companies, creating the so-called “allegiant” shareholders. Generally, cross-shareholding has been considered a poor governance practice, offering protection to management

¹ <https://www.bloomberg.com/professional/blog/japans-corporate-governance-overhaul-2/>

² “Corporate Governance Developments in Japan up to 2018 and Beyond,” March 2018, Sumi Trust, Sumitomo Mitsui Trust Bank.

while economically disadvantaging minority investors. Currently, about 35% of the voting shares of the Tokyo Stock Price Index (TOPIX) companies remain in the hands of “allegiant” shareholders who can always be expected to vote with management.³ Under the revised Code, companies are now expected to disclose corporate policies on how they are going to reduce cross-shareholdings. They are supposed to stop hindering the sale of crossholdings on the pretext of maintaining existing business relations with banks and other partners. The boards, on the other hand, are expected to annually assess the underlying economic rationale, the benefits and risks of each cross-holding and the impact they have on the company’s cost of capital.⁴

Another important trend in Japan’s evolving governance landscape is the effort to make boards more effective and responsible in their oversight of management, especially in the areas of CEO succession, nomination and executive compensation. Japanese boards have long been criticized for their lack of effectiveness and true independence from senior management. As of 2017, for instance, only 31.8% of TSE 1st Section companies had a nominating committee at the board level, of which only 3.2% deemed a committee mandatory versus 28.6% advisory.⁵ Today, Japanese boards are expected to proactively engage in the establishment and implementation of a succession plan for the CEO and other top executives and to design executive remuneration systems that are transparent and appropriate while linked to the mid-and long-term growth of the company.⁶ The boards are tasked with taking on a greater role in providing policies and procedures in the appointment and dismissal of senior management. Where independent directors do not compose a majority, the boards should establish independent advisory nomination or remuneration committees.

INVESTORS AS STEWARDS OF CAPITAL

The changes in Japan’s governance framework are well aligned with the newly promoted culture of investor stewardship and efforts to regain equality of shareholder rights. With the revision of the country’s new Stewardship Code in 2017, shareholders in Japanese public companies have become particularly proactive in monitoring their investments and more transparent in their voting decisions.

At the helm of Japan’s new investor stewardship movement is the Government Pension Investment Fund (GPIF), the country’s largest public asset owner. GPIF has been vocal in supporting shareholder stewardship to create long-term corporate and sustainability value. The Fund surveys publicly listed companies on the impact of shareholder activism on their business and corporate sustainability. According to the Fund’s 2018 survey,

40% of the respondent companies approve of increasing shareholder activism in the country while recognizing a decline in short-termism among their shareholder base. Regarding corporate disclosures, Japanese companies have been leading the way in the adoption of so-called “integrated reporting” and sustainability metrics. According to this trend, companies report on the combined market value added of their financial, intellectual, human, manufactured, social and natural capital.⁷ **Today, nearly 300 listed companies have adopted integrated reporting to disclose both financial and non-financial (ESG) information.⁸**

GOVERNANCE REFORM IN JAPAN IS AN ECONOMIC AGENDA THAT STRIVES FOR INCREASING CAPITAL EFFICIENCY AND VALUE CREATION THROUGH COLLABORATION BETWEEN INVESTORS AND COMPANIES

To discuss these new developments in investor stewardship, long-term value creation and corporate transparency, the International Corporate Governance Network (ICGN) convened its conference in Tokyo in March of 2018, gathering a large group of global investors, leaders and corporations. In the keynote, Professor Kunio Ito of Tokyo’s Hitotsubashi University, and Chair of Japan’s government project on Competitiveness and Incentives for Sustainable Growth, reiterated that governance reform in Japan is an economic agenda that strives for increasing capital efficiency and value creation through collaboration between investors and companies. He cited among the drivers of long-term growth the generation of higher return on equity (ROE) and return on investments (ROI), investing cash in the long term and making strategic investments in human capital. Professor Ito also highlighted that investing in intangible resources and what he calls “return on ESG” enhances management quality and operational efficiency of companies.

³ <https://www.ft.com/content/bdef4cdc-625f-11e8-90c2-9563a0613e56>

⁴ <http://www.jpix.co.jp/english/equities/listing/cg/tvdivq000008jdy-att/20180601.pdf>

⁵ Yoshiko Takayama, Japan Board Review, ICGN-IIRC Tokyo Conference, Board Evaluation and Director Nomination Panel, 2018.

⁶ <http://www.jpix.co.jp/english/equities/listing/cg/tvdivq000008jdy-att/20180601.pdf>

⁷ Ryohei Yanagi and Nina Michaels Kim, “Nonfinancials Bring Value in Japan,” SF Strategic, January 2018.

⁸ Ryohei Yanagi and Nina Michaels Kim, “Nonfinancials Bring Value in Japan,” SF Strategic, January 2018.

Mr. Osamu Nagayama, the independent Chairman of SONY Corp., spoke about the role of good corporate governance structures and independent directors for long-term value creation. SONY is one of the few Japanese companies with separated positions of CEO and Chairman, and 75% of the board directors are independent. The company presents a best governance practice in the Japanese context. SONY's nominating committee is composed of majority 80% independent directors, while both the audit and compensation committees are entirely independent. The board is composed of experts with international experience and diverse background. During Rockefeller's direct engagement with **SONY** in Tokyo, we learned about the company's plans to improve its executive compensation system by aligning it with mid-term goals and integrating ESG factors into incentive structures.

ROCKEFELLER VOICE IN THE JAPANESE MARKET

Human capital and diversity are at the core of Prime Minister Abe's agenda for economic reform and directly impact the way corporations are changing their governance and oversight of ESG and sustainability. At the ICGN conference, the Rockefeller ESG team participated in a panel discussion with Japan's Ministry of Economy, Trade and Industry (METI) and the U.S. pension fund CalSTRS. The discussion focused on making the business and investment case for good employee relations and how to measure human capital productivity and engagement to create long-term corporate value. METI presented a compelling case for the government's agenda to drive diversity in business, seeing diversity as a means for corporations to accelerate their competitiveness and acquire varied and skilled talent. **Businesses should roll out diversity and human capital management from the top by integrating them into corporate strategies and across all business lines.**

In Tokyo, the Rockefeller Asset Management ESG team had the opportunity to engage directly with several Japanese companies.

We discussed the issues of corporate governance, human capital, diversity and climate change and how they are embedded into business and corporate sustainability efforts. For example, **SONY Corp., Nippon Telegraph and Telephone (NTT), Tokyo Gas, Mitsubishi Electric and Kansai Electric** have well-developed and comprehensive ESG reporting that is demonstrated in their detailed assessment of the materiality of ESG issues to the businesses. For instance, NTT is leading its peers with an advanced integrated report on financial and sustainability value creation, while companies like Kansai Electric and SONY are making efforts to map their sustainability strategies to the UN-launched Sustainable Development Goals.

Increasingly, companies recognize the need to align their human capital and diversity policies with Prime Minister Abe's policy to integrate women into the workforce of the Japanese economy. Companies like NTT, SONY and Tokyo Gas, for example, report on women's talent development and promotion, setting targets for diversity advancement and aspiring to add more women on their boards. In 2016, for instance, Tokyo Gas appointed Ms. Chika Igarashi on the board as its first woman director and one of its three independent directors.

While the current governance reform in Japan has helped bring the issues of ESG and sustainability to the agendas of boards and senior management and has helped strengthen the economic argument for stronger shareholder rights, many challenges remain. Japan is still considerably lagging behind many of its peers in both developed and developing markets when it comes to board independence and diversity. Further, the seniority system, tax disincentives to work and absence of childcare support laws continue to exist and pose structural economic barriers to women's participation in the labor market. Overcoming those challenges is a much grander task, one that gives a renewed opportunity for investors to proactively engage with companies and the Japanese government alike.

GLOBAL GOVERNANCE INITIATIVES

Verdelle Cunningham

ESG Analyst and Vice President

Good governance has been debated ad infinitum after numerous corporate meltdowns and global financial crises. After each occurrence investors questioned whether there were warning signals and/or red flags which were ignored or seemingly deemed minor or unimportant. The eternal question is what does good governance look like across the globe? **As active investors, we consider good governance a hallmark of how a well-managed company controls its risk.** There is no clear road map but our dialogue and work with global organizations serve to carve out best practices that can be applicable across geographies.

STEWARDSHIP RESPONSIBILITY

Rockefeller Asset Management (RAM)'s ESG team places great emphasis on governance and early on took the position that poor governance almost inevitably leads to poor stewardship and, often, to financial ruin. We have been a part of global stewardship decision-making groups since the early 1990s in our efforts to promote evaluation metrics which we think will lead to better long-term outcomes for companies and which also take into consideration the complexity of different geographies as well as the nuances of different cultures.

We have collaborated with the Interfaith Center on Corporate Responsibility (ICCR) in its pioneering work on shareholder advocacy as well as with the International Corporate Governance Network (ICGN) in its efforts to create global standards of corporate governance and investor stewardship. We have worked closely with ICGN's Working Group on Integrated Reporting as well as the International Integrated

Reporting Council (IIRC) — a global coalition of regulators, investors and companies whose mission is to establish integrated reporting and thinking within mainstream business practice as the norm. Our involvement in the Council of Institutional Investors (CII) and commitment as a signatory of the Principles for Responsible Investment (PRI) ensures that we remain knowledgeable on evolving issues and trends in governance and undergirds our goal of being accountable stewards of our clients' capital.

FROM GOVERNANCE ON THE RADAR SCREEN TO ROLLBACKS

The Organization for Economic Cooperation and Development (OECD) introduced its Principles of Corporate Governance in 1999 as an outgrowth of the Asian economic crisis. These principles represented the first initiative by an intergovernmental organization to develop a core framework of a good corporate governance regime. Its common sense elements made clear that there was no single model of good corporate governance but that a high degree of priority had to be placed on the interests of shareholders. From this beginning emerged a number of corporate governance codes worldwide with the Korean Stewardship Code unveiled at the end of 2016 in line with the government's recent push for Chaebol⁹ reforms, and Investor Stewardship Group (ISG)'s U.S. Stewardship Code taking effect in January 2018.

The Basel Committee on Banking Supervision (BCBS), which was established to enhance financial stability by improving the quality of banking supervision worldwide, recently finalized its wide-ranging and comprehensive set of post-crisis reforms, which are expected to vastly improve the quality of regulatory capital, increase capital requirements, enhance risk capture and introduce international liquidity standards.

⁹ Chaebol refers to a South Korean company conglomerate that is family-controlled, often spread across multiple industries.

In contrast, the U.S. Congress recently passed legislation to roll back a variety of regulations that were originally imposed by the Dodd-Frank Act of 2010 after the financial crisis. This rollback will make life easier for smaller banks without endangering the wider financial system, however, it may also soften innovative measures introduced after the crisis to strengthen larger U.S. banks. The bill will weaken stress tests and capital requirements for big banks which may no longer be required to apply their own stress tests to their balance sheets annually but the Fed can instead demand these tests “periodically.” To date, the stress tests have allowed regulators to assess the quality of the largest banks’ risk management, but with less frequent tests, regulators may end up with no clear insight into how the most systemically important banks are preparing for shocks. One would hope, however, that banks will remember the aftermath of the financial crisis and practice good corporate responsibility and deem it necessary to continue this annual risk management exercise. We have raised this issue of risk management in our conversations with our financial holdings.

A SEAT AT THE TABLE

While efforts to diversify the boardroom often focus on gender, racial and technical factors, it is becoming increasingly important for many companies to consider geographic diversity. As globalization accelerates and international markets account for a meaningful percentage of S&P 500 company revenues, global risks and opportunities are present in the boardroom of companies regardless of where they operate internationally.

The natural progression of geographic diversity in the boardroom is limited and has not followed the increase in globalization. As board oversight stretches beyond borders, a director’s role becomes complicated as he or she must consider social and cultural issues and differences in governance frameworks.

Directors must be able to transcend their regional views and remain open to hearing contrasting views and perspectives.

While these qualities are important for all directors, they are critical for those who serve on global company boards. An improvement in geographic diversity in boardrooms in the global marketplace will likely lead to increased board effectiveness.

Considering the limited pool of experienced candidates with globally diverse backgrounds, and growing global competition for these candidates, nominating committees face challenges to find qualified directors. Additionally, language requirements may be a limiting factor for otherwise well-qualified director candidates; English tends to be the language for a large number of boardrooms.

While gender parity continues on an upward trajectory, some countries have mandated government-enforced quotas for boards in order to expedite progress. Conversations on gender diversity intensified in the U.S. in 2017, but discussions on its complexity and importance have gone on far longer across the globe.

Western Europe leads in female diversity on boards with women filling an average of 26% of board seats, while women on S&P 500 boards account for, on average, 22% of board seats.

Some of the world’s largest institutional investors and public pension funds publicly declared their intentions to vote against the governance chairs and nominating committees of companies with insufficient female representation on boards. Proxy advisor Glass Lewis has signaled that in 2019 it will recommend a vote against the governance chairs and nominating committees of companies without at least one woman on their boards or slates. The New York City Pension Funds launched its Boardroom Accountability Project 2.0, which calls on the boards of 151 U.S. companies to disclose the race, gender and skills of their directors in a standardized matrix format. This increased transparency and accountability would likely push more boards to be diverse and independent.

WHAT DOES GOOD GOVERNANCE LOOK LIKE?

Rockefeller Asset Management participated in the Thirty Percent Coalition’s semi-annual conference. The Thirty Percent Coalition is a global organization that advocates for greater representation of women in boardrooms. Rockefeller Asset Management generally votes in favor of resolutions supporting efforts for nominating committees to seek out qualified female and minority candidates and to pursue candidates with greater diversity of skills and competencies for nomination to a board.

Even after parsing all the governance codes and conversations on board composition and diversity, there is no clear road map or clear answers but the dialogue continues and signposts are pointing in the right direction. However, as global organizations with the capacity to influence corporate governance practices and standards across the globe collaborate, they drive progress. Better still, attitudes among senior company managements and board members are shifting; more and more companies are transitioning from corporate responsibility efforts based on fear of liabilities or penalties, to authentic ESG efforts that maximize investment returns through the pursuit of good governance.

WORKING TO ADDRESS HARASSMENT IN THE WORKPLACE

Armelle de Vienne

ESG Analyst and Senior Associate

The **#MeToo** movement, which launched at the end of 2017 following several harassment allegations against many high-profile individuals, has continued well into the first half of this year. We continue to hear of executives, government officials, movie stars, TV show hosts, etc., who have been accused of sexual harassment at the workplace. It should come as no surprise that this implies added costs to the organization involved due to settlements, lawyer fees, decline in productivity, absenteeism and often turnover. The exact extent of those costs is still unclear, however, Rockefeller Asset Management is exploring these in a separate white paper.

Regardless of that exact figure, though, this is a topic that has been a focus of our engagements in the first half of 2018 and we look to continue to collaborate with our holdings to find ways in which we can help solve this (often) systemic problem.

COMCAST

When Matt Lauer was terminated from NBC News at the end of last year and as the #MeToo movement was gaining traction, the

ESG team was initially concerned that this was an indicator for greater systemic problems at NBC News and perhaps even at Comcast.

Therefore, as one of our first company engagements of 2018, the ESG team spoke with Comcast, parent company to NBC, to discuss measures that they were taking, not only to address the Matt Lauer allegations but also to ensure that this was an isolated event.

What we heard from Comcast was that besides undergoing an internal review immediately following the Matt Lauer allegations, the company also conducts an annual employee survey to gauge culture and efficacy of current reporting channels. The survey has consistently received positive scores, which has helped to reassure Comcast that it is fostering a positive work environment and that harassment allegations seemed to be one-off issues.

Moreover, Comcast is typically known for its diverse workforce and significant diversity and inclusion programs. In fact, the company has an aspirational goal of employing 33% people of color and 50% women across all levels of their workforce. It is also one of the few companies to have established an external Joint

Diversity Advisory Council, which includes over 40 diversity and community leaders to push diversity and inclusion programs at management, supplier, community and general workforce levels. It is likely because of these reasons that the company has been ranked #1 on *Fortune's* list of The Top 100 Best Workplaces for Diversity in 2017. For the sixth consecutive year, the Human Rights Campaign also awarded Comcast a score of 100% on their Corporate Equality Index, naming the company a Best Place to Work for LGBTQ Equality.

However, it is apparent that regardless how high a company scores on various metrics, sexual harassment is pervasive and can impact any large institution. While we were reassured by Comcast's recent management of the issue and concluded that the company was taking sufficient steps to ensure that this was not a greater systemic issue that had previously been suppressed within the organization, we will continue to observe and engage the company on this topic going forward.

FORD MOTOR

Ford Motor came under fire at the end of last year for the systemic sexual harassment that dominated the work culture at two of its Chicago-based plants. Ever since, Rockefeller Asset Management has been actively engaging with Ford and recommending measures that we, as investors, expect them to implement to remediate this issue. One of the most fruitful discussions was through a Ceres-organized multi-stakeholder conference call, where we were asked to provide specific recommendations to the company. Some of these recommendations included the creation of a Chief Diversity Officer role that was independent of Human Resources; a separate Diversity Council (similar to what Comcast has); the removal of forced arbitration clauses from employee contracts so that employees have the option to bring disputes to courts, should they so choose; and an incident reporting mechanism with checks and balances that goes up the chain of command to the Board of Directors.

This feedback was very well-received and we continue to have positive and constructive discussions with the company on how they can best implement some of these suggestions. Incidentally, we will also be meeting with Ford in the second half of this year to continue these discussions. We remain confident that the company will overcome this issue and repair its culture across its workforce and we look forward to supporting it along the way.

NIKE

Nike is another company that has been in the headlines due to the high number of executives they have dismissed. While the company has not disclosed the specific reasons for the departures, a number of them appear to be tied to an internal investigation on harassment and gender-based discrimination within the company. While media typically focuses on the reasons for these resignations, it is important to recognize how the

company has handled the issue and realize that the company has prioritized addressing this concern.

For those unfamiliar with what has been going on at Nike in the past six months, earlier this year, a group of female employees who felt that the work environment at Nike was toxic to women circulated an unofficial survey to gauge the extent of sexual harassment and gender-based discrimination at the company. According to reports, this survey landed in the hands of CEO Mark Parker on March 5th and triggered an immediate internal investigation. This investigation led to the termination of Trevor Edwards, Nike Brand President and next in line for CEO, and Jayme Martin, Nike Inc. VP, on March 16th. The company terminated nine other executives up until May 8th.

We reached out to Nike immediately following the terminations of Trevor Edwards and Jayme Martin and spoke with investor relations in the midst of these layoffs. Through these discussions, we learned that Nike instituted a new "Respect Hotline," which is specifically for gender discrimination incidences and all issues relating to respect and is separate from their typical whistleblower hotline. While the Respect Hotline has a similar escalation process as Nike's typical whistleblower hotline, it also includes outside legal counsel. We also found out that managers are undergoing supplemental training on these "respect" issues and that Nike is trying to remove bias from its hiring process by making changes such as removing pay data for incoming candidates, reviewing the wording of job descriptions, implementing unconscious bias training for recruitment teams and diversifying the different channels from which it attracts applicants.

Nike's swift and decisive decision to act on this issue should not be overlooked. In fact, Nike has a history of learning from its scandals and coming out as a leader on the issue. We are confident that this situation is no different; however, we are offering our support and suggestions as Nike looks for new ways to address the situation. We look forward to continuing these discussions with the company and engaging more specifically with their head of Human Resources, as well as their newly appointed Chief Diversity Officer to identify additional measures to foster a more positive and equal work environment.

While we know that sexual harassment is indifferent to sector, industry, job function and class, we do not fully understand the extent to which it plagues corporations and its true financial implications. This is due not only to underreporting of harassment, but also a general lack of data and empirical research on the subject. It is here where we welcome greater collaboration, through conversations with companies, other investors, as well as non-profits, to identify best practices.



JOINING FORCES TO COMBAT CLIMATE CHANGE

Meredith Block, MPA

ESG Analyst and Vice President

At Rockefeller Asset Management, we believe that an increase of more than 2°C in the average global temperature poses a systemic risk to global financial markets. The Intergovernmental Panel on Climate Change (IPCC) predicts that temperatures above this threshold will destabilize the climate, making weather patterns unpredictable and shifting regional climates across the planet. The increased frequency and severity of extreme weather events, combined with microclimate volatility and sea level rise, will render certain areas of the planet uninhabitable and non-arable. The mass migration as a result of these changes will add additional stress on global markets. As a result, we think about climate change every day, about slowing its onset and exploring investable opportunities toward a low-carbon economy.

We believe that every company — and therefore every investor — has a part to play. These deliberations present us with the following questions within our process: Which entities have the agency and authority to affect change at scale? Which constituents in our global society can have an impact? Who does climate change impact and in what ways? How will the U.S. exiting from the Paris Climate Accord affect progress toward a 1.5 degree (climate stability) scenario? **Are we too late?**

We have come to the conclusion that there is no government, industry, or individual that will not be affected in some way by the changing climate. As a result, we believe that collaboration is the only path to move us toward mitigation, resiliency and a just economic transition.

The first half of 2018 has seen significant political movement on climate change as mayors, governors, comptrollers and council people across the country use their influence and budgets to reduce carbon emissions within their jurisdictions. The U.S. Climate Mayors Initiative, which includes approximately 404 mayors representing 70 million Americans, is using its procurement dollars and policy platforms to reduce the carbon footprints of its cities and towns across the country. The C40 Cities, which represents 96 major global cities representing 25% of global GDP, is taking similar actions to reduce the energy burden of public infrastructure.

Rockefeller Asset Management is proud to be a signatory to the “We Are Still In” campaign, a declaration by 2,826 leaders across all 50 states, representing 171.7 million people and \$6.4 trillion in GDP that U.S. stakeholders are still committed to the Paris Agreement targets.

WE HAVE COME TO THE CONCLUSION
THAT THERE IS NO GOVERNMENT,
INDUSTRY OR INDIVIDUAL THAT WILL
NOT BE AFFECTED IN SOME WAY
BY THE CHANGING CLIMATE.

ROCKEFELLER CAPITAL MANAGEMENT



In the last few years however, it is corporations that have taken a leading role to reduce emissions, procuring renewable electricity at scale and driving emissions performance throughout their global supply chains. Their employees, customers and investors have been demanding products and services that are more oriented toward sustainability and the low-carbon transition. So far in 2018, the “RE 100,” which includes companies such as **Fifth Third Bank, Alphabet, Facebook, ING, JPMorgan Chase, Visa, Microsoft, Nike and Schneider Electric**, have committed to hard targets for purchasing or generating 100% renewable energy for their operations. As a larger platform, the We Mean Business Coalition, which includes approximately 735 companies, representing about \$16.7 trillion in market capitalization, is recommitting to tangible climate action in 2018. Each member of the coalition has committed to take concrete, measurable steps to mitigate their climate impact by: adopting science-based reduction targets¹⁰, doubling their energy productivity, growing the market for sustainable fuels and lobbying to put a global price on carbon.

While consumer and regulatory pressure have contributed to this change in corporate behavior, the investor voice has also played a significant role in this shift. When members of the Rockefeller family filed the initial resolution at Exxon in 2008 to demand the company consider the effects of global warming on their business, it took a decade and a cross-sectoral collaboration of investors to push the vote over the line (with 63% in favor) during the company’s 2017 Annual General Meeting of Shareholders. Since then, investors have launched initiatives to both divest from fossil fuel companies and engage them on changing their business models toward renewables. Large institutional investors such as pension funds, university endowments and foundations have led many of these efforts.

Rockefeller Asset Management continues the tradition of collaboration through our work on climate change issues within the Ceres Carbon Asset Risk Working Group. Earlier this year, as a part of this working group, we also signed on to the Climate Action 100+, which is a five-year initiative and the largest shareholder collaboration on climate issues to date to directly engage the largest emitters of greenhouse gases to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures.

Piloting the Task Force on Climate-related Financial Disclosures Recommendations:

We speak with many of our portfolio holdings regarding the various risks and opportunities that a changing climate presents. A main focus of these engagements is on mitigating carbon emissions and developing products and services that will flourish in the low-carbon economy. Years of climate conversations have made us realize that it is also time to look within. Earlier this year,

we committed to assessing the climate risks and opportunities present within our portfolios in accordance with the recommendations put forward by the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). Chaired by Michael Bloomberg, the TCFD developed guidelines for companies to communicate the physical, transition and liability risks of climate change to their investors and other stakeholders. We have begun to demand TCFD-aligned disclosure from our holdings, so it only seems appropriate that we would also undertake this analysis.

To do this, Rockefeller Asset Management has joined a United Nations Environment Programme Finance Initiative (UNEP FI) pilot project, together with 13 other asset owners and asset managers. This project will work collaboratively across firms to identify the scenarios, metrics and indicators most relevant for a climate risk assessment of our business models. The intention is that the guidelines developed through this working group will enable other asset managers and owners (at a minimum the other 1,900 Principles for Responsible Investment signatories) to disclose the climate risks inherent in their portfolios. Ultimately, this project will give us insight on how our portfolio holdings are positioned to grow their businesses in the face of both the physical climate-related risk to assets and the opportunities that resiliency measures or demand disruption for fossil fuels might present.

Until very recently, discussions around mitigating climate change have mostly centered around, “How can people trust institutions?” Perhaps it is time to reflect on how institutions can trust their stakeholders: Can companies trust that, after investing in low carbon products and processes, we as consumers and shareholders will still purchase their products and invest in their business models? Can politicians with strong climate platforms rely on our votes if they take a stand — even if the rest of their platform does not align 100% with our own? Will we continue to hold ourselves accountable and see where we have an impact in our own lives? How do we motivate the climate-conscious individual to think beyond their consumer goods to their investment choices? Is there an opportunity to use our investible dollars, our retirement and savings accounts, to influence corporate change? Can this inspire a race to the top? As enumerated above, coalitions across sectors are coming together to move in one voice on climate issues. The trust that continues to grow among groups that used to be at odds shows that there is clearly a momentum that temporary regulatory setbacks cannot stop.

¹⁰ Science-based targets provide companies with greenhouse gas emission reduction pathways and targets based on the IPCC consensus by specifying volumes and timeframes. www.sciencebasedtargets.org

THE OCEAN AGENDA

Rolando F. Morillo

ESG / Equity Analyst and Vice President

The ocean agenda of addressing the most pressing challenges linked to ocean health — such as climate change, food security, economic stability and pollution — has expanded in the last few years to encompass various ocean-related events, campaigns and conferences that converge with the UN Sustainable Development Goal (SDG) framework. In our view, the emerging participation of the private sector, through partnership, engagement and collaboration, will be essential in the development of a sustainable blue economy that will provide the solutions needed for ocean governance and stewardship.

This past March, The World Ocean Summit, hosted by *The Economist*, gave us the opportunity to discuss our views and solution-oriented companies that we believe will support the blue economy through resiliency and stewardship. The summit brought together more than 350 leaders from business, government and academia to discuss the common concern of addressing the ocean's largest challenges and accelerating the sustainable use of its resources. A main focus of the summit was the dire situation of ocean plastic: it is beginning to permeate all stages of the ocean food chain and is projected to increase tenfold in the next decade. The summit launched the **#CleanSeas** campaign, which urges governments to institute policies reducing plastic usage and encourages consumers to change their habits. Since then, we have seen more than 50 nations take action to reduce pollution and broaden cooperation through the private sector by offering incentives to stimulate reuse and recycling.

At the World Ocean Summit, European Commission, the European Investment Bank, and the World Wildlife Fund (WWF) also launched the Blue Economy Finance Principles, as a voluntary framework for investment and development policy decisions. These principles seek to help investors support ocean sustainability and go beyond the avoidance of harm and towards the active promotion of social, environmental and economic benefits. Rockefeller Asset Management signed onto the principles, as they compliment existing frameworks in sustainable finance, as well as the portfolio's mandate in conjunction with the UN SDG 14 (Life Under Water).

AS CONCERNS FOR SEA-LEVEL
RISE INCREASE, THE SOLUTIONS
FOR CLIMATE MITIGATION
AND ADAPTATION WILL NEED
INNOVATIVE ECONOMIC
INCENTIVES THAT PLACE
FINANCIAL VALUE ON NATURAL
COASTAL ECOSYSTEMS



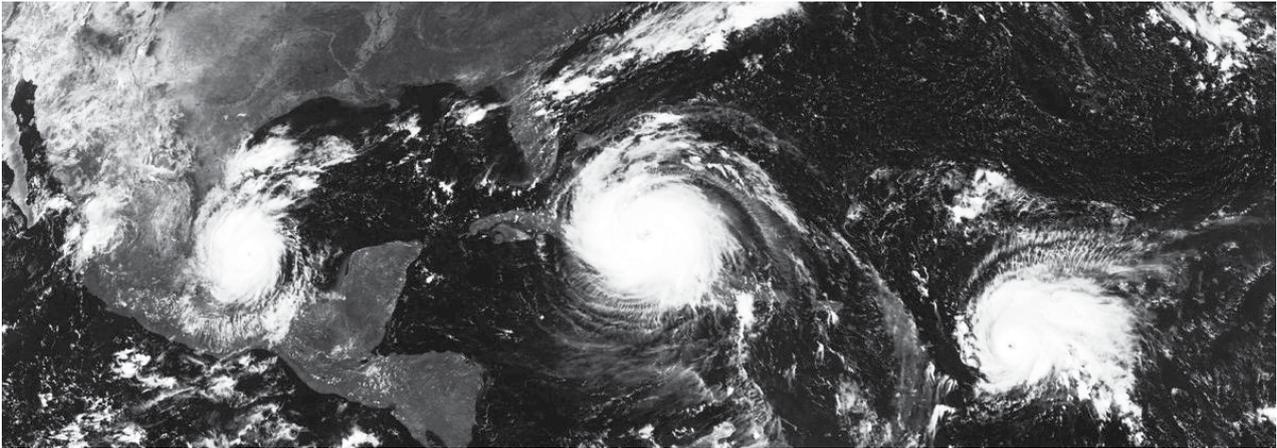
ESG/Equity Analyst Rolando F. Morillo participates in *The Economist's* 2018 World Ocean Summit
Photo source Rockefeller Capital Management

THESE PRINCIPLES SEEK TO
HELP INVESTORS SUPPORT OCEAN
SUSTAINABILITY AND GO BEYOND
THE AVOIDANCE OF HARM AND
TOWARDS THE ACTIVE PROMOTION
OF SOCIAL, ENVIRONMENTAL AND
ECONOMIC BENEFITS.

BLUE ECONOMY FINANCE PRINCIPLES

A MAIN FOCUS OF THE SUMMIT WAS
THE DIRE SITUATION OF OCEAN
PLASTIC: IT IS BEGINNING TO PERMEATE
ALL STAGES OF THE OCEAN FOOD
CHAIN AND IS PROJECTED TO INCREASE
TENFOLD IN THE NEXT DECADE.

— WORLD OCEAN SUMMIT —



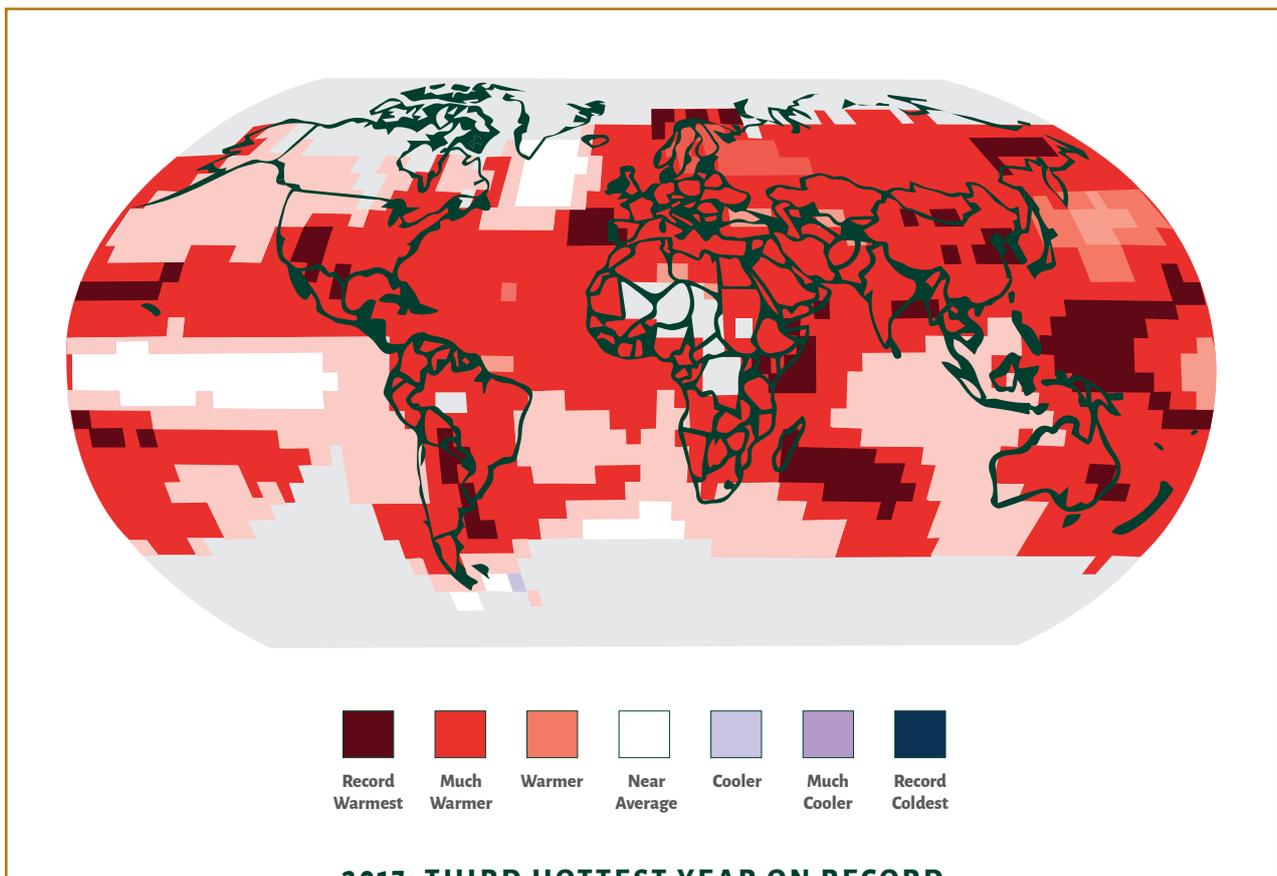
Source NASA/GOES-2017 hurricanes in the Atlantic

In 2017, the earth saw a new record for global ocean temperatures and the third warmest year ever for sea-surface temperatures without El Niño.¹¹ More recently, the World Meteorological Organization (WMO) confirmed that 2017 was the most expensive year in history in terms of losses from weather and climate-related events, costing the global economy an estimated \$320 billion.

It is likely that these warmer waters contributed to the severity of the 2017 Atlantic hurricane season in terms of cost and damage to

many Caribbean islands. If the business-as-usual scenario prevails, we'll continue to see adverse environmental impacts and losses in natural capital.

It is not surprising that the insurance industry is taking notice of both escalating threats linked to the ocean and the fact that risks are rapidly evolving. At the inaugural Ocean Risk Summit in Bermuda in May, we shared our firsthand perspective on emerging trends and new categories of ocean-related risk. Insurers and

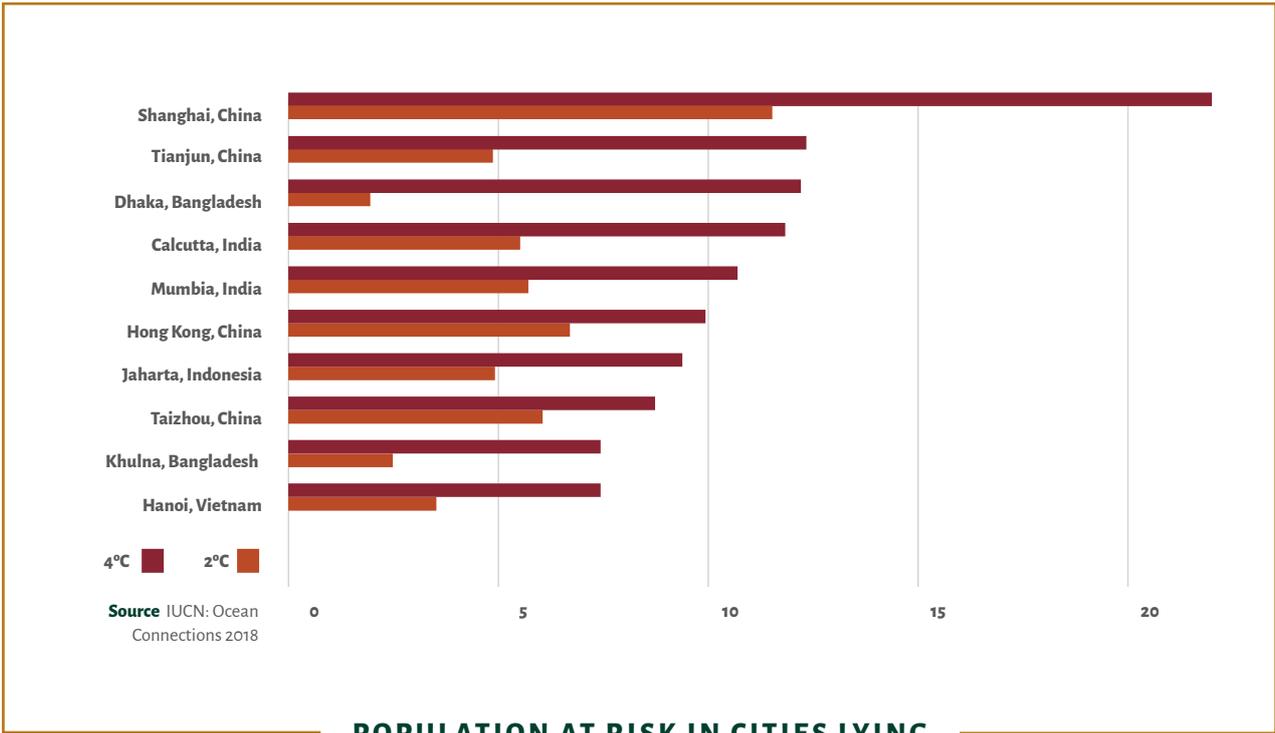


2017: THIRD HOTTEST YEAR ON RECORD

Source NOAA/NCEI

Hottest without El Niño

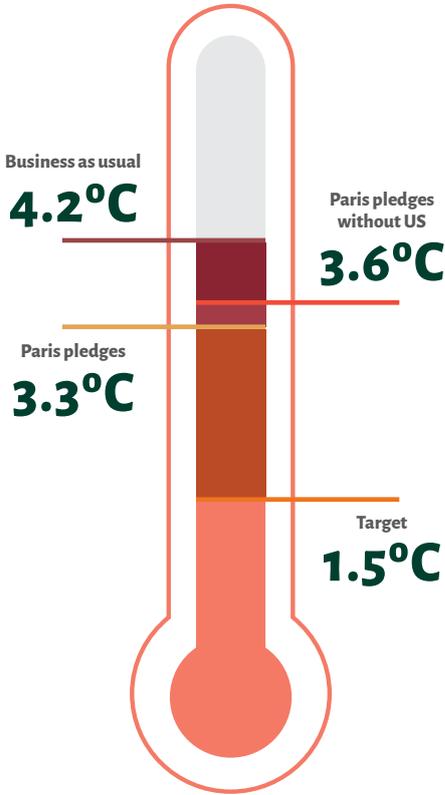
¹¹ 2017 was the warmest year on record for global ocean temperatures <https://link.springer.com/article/10.1007%2Fso0376-018-8011-z>



POPULATION AT RISK IN CITIES LYING BELOW THE LOCKED-IN SEA LEVEL RISE

Source IUCN: Ocean Connections 2018

Based on two differing warming levels



INCREASE IN GLOBAL TEMPERATURE BY 2100

Uncertainty range on US prediction is 2.1°C to 4.7°C

Source IUCN: Ocean Connections 2018

reinsurers are beginning to understand how innovative blue carbon credits can facilitate market values to coastal wetlands, mangroves and other natural assets that can mitigate the impact of severe hurricanes and storm surges. The blue carbon credits initiative highlights a vast opportunity to not only provide carbon mitigation and risk reduction benefits to vulnerable coastal areas but also provide lower-cost resiliency infrastructure in addition to seawalls and levees. **Also, as concerns for sea-level rise increase, the solutions for climate mitigation and adaptation will need innovative economic incentives that place financial value on natural coastal ecosystems.** Current sea-level rise projections point to the potential for mass displacement of coastal populations particularly in developing countries as temperatures continue to increase.

Ultimately, private sector participation can play a strong role in driving the change needed for society to get ahead of the curve and devise innovative and effective solutions to offset the consequences of being locked into the business-as-usual trajectory. Although nascent, the concept of a sustainable blue economy offers a vision of the ocean and coasts as a new source of economic growth, job creation and investment. Rockefeller Asset Management has adopted a broader interpretation of the opportunity set for responsible long-term investment defined by the intention of identifying the business models that will influence and thrive in the emerging global agenda for a sustainable blue economy.

ACTIVE STEWARDSHIP

Verdelle Cunningham

ESG Analyst and Vice President

In our role as stewards of our clients' capital, we exercise our voting rights and engage with companies on numerous ESG issues. Year-to-date ending June 30, 2018, we voted on 2,267 proposals: we voted in favor of 86% of management proposals and 71% in favor of shareholder proposals. The majority of the votes were for the election of directors: we voted 87% in favor of directors and 13% against. We voted against an entire board slate in a number of instances, due to concerns including: lack of independence, over-boarding and excessive familial representation.

Reasons for voting against director-related proposals also included:

- ◇ Combined Chairman/CEO role. We believe a clear separation of roles serves as a check and balance against the concentration of power at the top of a company
- ◇ Over-boarded directors whose service on multiple boards may impede them from giving their full attention to company matters
- ◇ Long-tenured/stale directors on a case-by-case basis. We prefer a mix of tenures in order to bring new perspectives and experiences to a board since long-tenured directors may align more with management
- ◇ Non-independent chair of the audit, governance or compensation committees

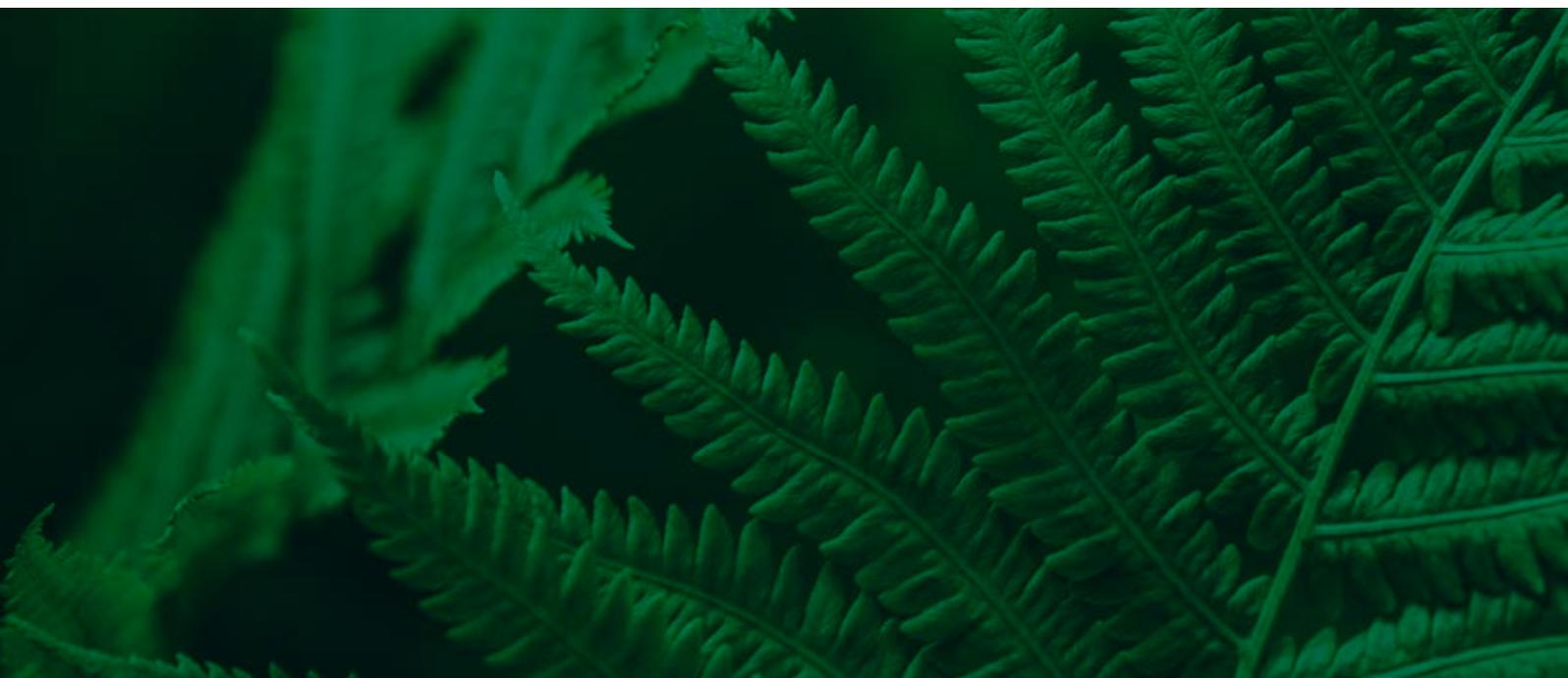
We voted against 39% of compensation proposals. Reasons for voting against compensation proposals included:

- ◇ Pay and performance disconnect
- ◇ Insufficient disclosure of performance targets for long-term incentive pay, which impedes our ability to assess both the robustness of the targets and over reliance on short-term performance targets
- ◇ Excessive dilution for investors arising from share-based incentive plans
- ◇ Excessive severance pay and/or excise tax gross ups in case of a company's change in control
- ◇ Lack of clawback provisions

We voted in favor of 35% of shareholder compensation proposals including some requesting clawback of unearned bonuses; race and/or gender pay equity reports. We voted against a number of shareholder proposals requesting linking executive pay to social criteria on the basis of being overly prescriptive.

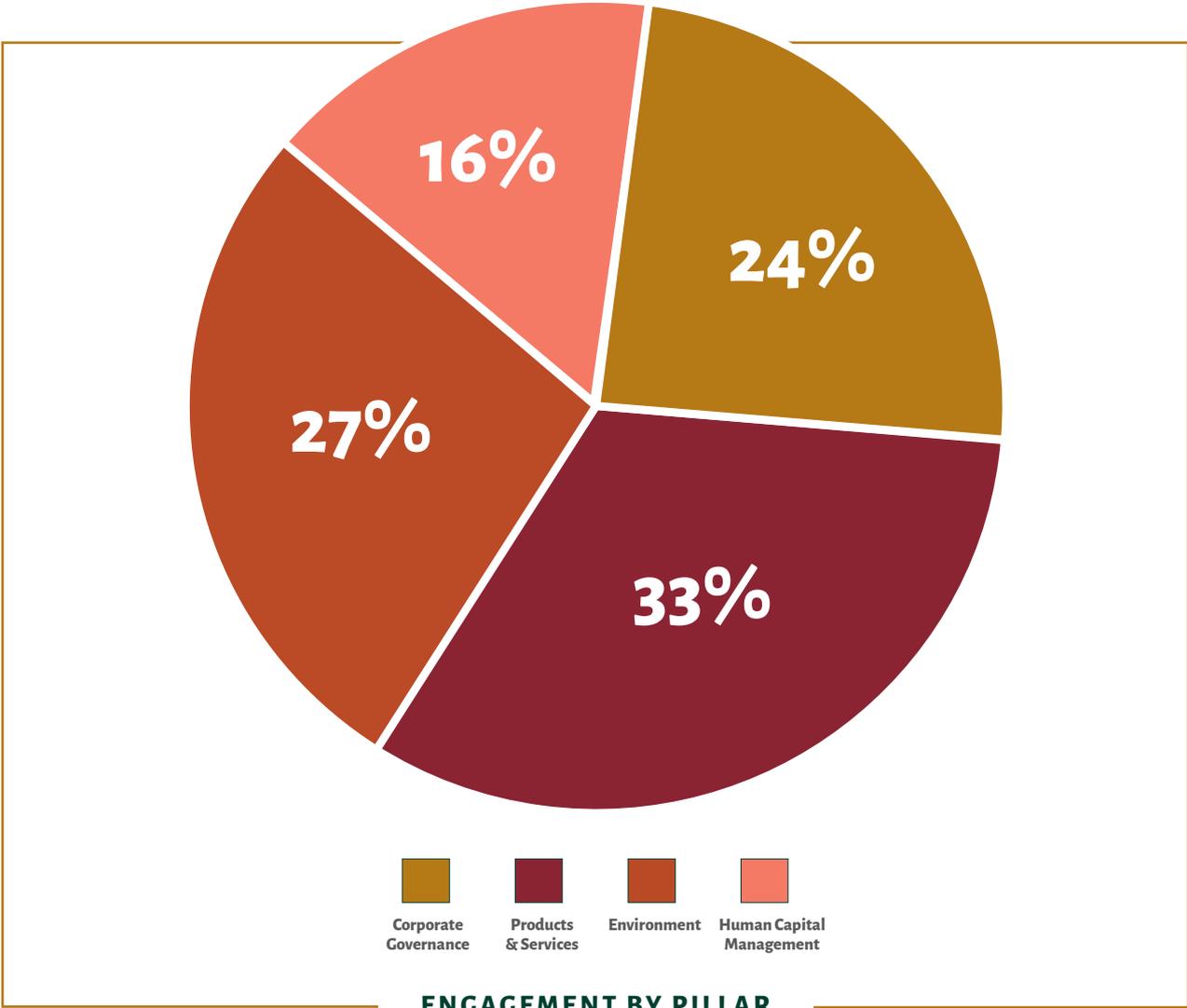
We voted in favor of 67% of shareholder proposals requesting sustainability information and action on climate change.

Investors have shown that aggregated voting power brings results and change.



OUR ENGAGEMENTS IN NUMBERS

For the first half of 2018



TOTAL COMPANIES ENGAGED
(includes current, past and potential holdings)

66

% OF THE GLOBAL ESG STRATEGY THAT WE'VE ENGAGED IN 2018

48%

TOTAL ENGAGEMENTS

76

NEW YORK, NY

10 Rockefeller Plaza
New York, NY 10020
T. 212-549-5100

WASHINGTON, DC

900 17th Street NW
Washington, DC 20006
T. 202-719-3000

BOSTON, MA

99 High Street, 17th Floor
Boston, MA 02110
T. 617-375-3300

THE ROCKEFELLER TRUST COMPANY (DELAWARE)

1201 N. Market Street, Suite 1401
Wilmington, DE 19801
T. 302-498-6000

ROCKEFELLER TRUST COMPANY, N.A.

10 Rockefeller Plaza
New York, NY 10020
T. 212-549-5100

ROCKEFELLER

CAPITAL MANAGEMENT

Front cover image: Getty Images

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