

APPENDIX I: MARY REYNOLDS BABCOCK FOUNDATION

ESG Investment Policy Statement

Updated June 2019

I. Introduction

The Mary Reynolds Babcock Foundation's (the "Foundation") mission is to help people move out of poverty and achieve greater social and economic justice. The Foundation supports organizations and networks that work across race, ethnic, economic and political differences to make possible a brighter future for all.

After extensive deliberations by the staff and the Trustees, the Foundation has committed to align its investment and grant making strategies more completely. The Board believes that the Foundation will advance its mission not only through supporting its grantees, but also by leveraging its dollars in sustainable, mission-based investments.

This Environmental, Social & Governance Investment Policy Statement ("ESG IPS") presents policies that detail the criteria in achieving a mission-based investment strategy. Below are reflected the desired criteria.

II. Environment & Natural Resource Use

The Foundation will apply a "Best of Sector" environmental screen to its investment portfolio. Companies that are reliant upon the ecosystem services provided by nature are particularly susceptible to the negative impacts from mismanagement of natural resources and climate destabilization. Therefore, a firm's ability to manage its resource use and environmental risks has an impact on company performance. The Best of Sector environmental screen, allows for investment in companies that have demonstrated positive leadership in the management of the environmental risks associated with their business activities when compared to industry/sector peers. The Foundation will avoid companies whose practices or products may pose significant threats to the environment and human health, and who are not leaders in addressing their environmental footprints.

a. *Sector Exclusions*

Understanding the linkage between carbon intensive industries and the health impacts on communities, the Foundation will specifically restrict the purchase of any security that is part of the 'Fossil Fuel 200,' that is, the top 200 publicly traded companies by CO₂ reserves, as identified by Carbon Tracker Initiative^{1 2}.

b. *Environmentally Progressive Companies*

In addition to the restrictions outlined by the Foundation above, the Foundation seeks to identify companies that are considered environmentally progressive for inclusion into the portfolio. Specifically, companies that research or market alternative energy sources such as wind, solar and hydrogen, significantly reduce all waste streams through recycling or closed-loop technologies, and develop innovative ways to reduce the emission of toxic or chemical wastes will be given priority consideration. Other environmentally progressive characteristics include: companies that demonstrate a long-term commitment to the reduction of negative environmental impact in their business operations, companies that have waste reduction

¹ Carbon Tracker Initiative, "[Are the World's Financial Markets Carrying a Carbon Bubble?](http://www.carbontracker.org/wp-content/uploads/downloads/2011/07/Unburnable-Carbon-Full-rev2.pdf)" 2011.

² Full list of companies found at 350.org. <http://gofossilfree.org/companies/>

initiatives with clear phase out target dates, and companies that manufacture organic products, and/or products with a proven environmental benefit.

III. Labor Rights & Supply Chain Management

The Foundation will apply a “Best of Sector” labor rights and supply chain management screen to its investment portfolio. The Foundation will invest in companies whose performance is considered best within their relative sector peers when it comes to managing labor risks. The Foundation will avoid companies who are not Best of Sector in their peer class. Company supply chains are increasingly comprised of component suppliers and product manufacturers with operations globally. Such vast networks come with varied regulatory environments and management systems. Adequate management of the risks associated with having a disparate supply chain is vital to strong company performance. Additionally, the appropriate management of labor and human rights concerns that are relevant to company employees (both direct and indirect) is integral to the efficient operation of the company. Increased global transparency has made it imperative that a company manages both domestic and international labor and supply chain risks well to avoid negative impacts on company performance and subsequently shareholder value.

a. High Performance Workplace

As an additional positive indicator, emphasis will be placed on companies that foster a high-performance workplace. Characteristics of this include:

- Significant worker involvement and participation in management decision-making.
- Good employee benefits that include programs to help employees balance work and family concern. This includes issues such as paid leave.
- Representation of women and minorities at all levels of the company.
- Compensation based on performance.
- Employee stock ownership programs.
- Job training for employees at all levels.
- Paying a living wage.

IV. Human Rights

The Foundation will apply a “Best of Sector” human rights screen to its investment portfolio. Specifically, companies that have demonstrated positive leadership in the management of the human rights and community impact risks associated with their business activities when compared to industry/sector peers may be considered for purchase. The Foundation will restrict purchase of companies who are not Best of Sector in their peer group. The Foundation understands that some companies operate in areas where human rights abuses are endemic. The Foundation also understands that operating in these areas can have a negative impact on a firm’s productivity, and increased transparency of company operations in these areas may have a deleterious effect on company brand. Some companies may themselves be engaged in perpetuating human rights abuses including; use of militia groups &/or local governments to intimidate, forcibly removing people from their lands, and causing physical harm. Independent of specific human rights abuses, a company’s business operations can have a profound impact in the community where its operations are located. As such, a firm’s ability to manage such risks responsibly is imperative to continued growth.

V. For-Profit Prison and Detention Industry

The Foundation will screen out any company with a business model that relies on mass incarceration. This screen will restrict companies from the portfolio that own, operate or manage prisons or detention centers and whose primary business is in the for-profit prison or detention industry. We acknowledge there are companies that provide ancillary services to the prison/detention industry. Given the lack of transparency with companies providing data on their revenues related to prisons/detention centers, this screen will not restrict those ancillary service providers at this time. However, as data becomes more readily available, we may amend this screen to incorporate additional criteria.

VI. Community Impact

The Foundation wishes to invest in companies that are Best of Sector in the community impact area. Companies that support affordable housing initiatives, provide job training and placement for disadvantaged and low-wealth individuals, and exhibit positive corporate social responsibility are desired. The criteria will also include companies that have generous corporate giving programs, which are defined as companies whose donations are equivalent to 2% of pre-tax earnings. Additionally, companies that make investments in the communities where the company has its operations are considered strong candidates for inclusion into the Foundation's portfolio.

The Foundation would also like to include investments in low-wealth and developing regions (domestic and international) to create jobs, strengthen local economies, empower underserved populations, and increase global access.

VII. Product Quality & Safety

The Foundation will apply a "Best of Sector" product quality and safety screen to the investment portfolio. This allows for investment in companies that have demonstrated positive leadership in the management of the product quality and safety risks associated with their business activities when compared to industry/sector peers. The Foundation will restrict companies with material violations in major product liability or product safety cases. Understanding the products that companies produce may be subject to regulatory standards to protect human health and safety, a company's ability to manage risks associated with its products has an impact on company brand and can impact positively or negatively future opportunities for growth.

VIII. Corporate Governance

The Foundation will apply a "Best of Sector" corporate governance screen to the investment portfolio. The Foundation will restrict purchase of companies who are not Best of Sector in their peer group. Appropriate management of corporate governance risks has been shown to be essential to company profitability and subsequently shareholder value. Specifically, firms involved in price fixing, antitrust and/or corruption violations may incur increased legal sanctions and significant fines from regulatory agencies. Such infractions necessitate the allocation of capital to pay for fines and divert from monies available for investment in the company and human capital investment.

Positive indicators include, executive compensation tied to long-term company and executive performance metrics, independent board members and independent audit committees and separation of CEO and Board Chairman. Additionally, transparency in political disclosures; e.g., lobbying, trade association memberships and political donations are considered important indicators. All of these factors and others are considered when evaluating a company's corporate governance performance.

IX. Animal Welfare

The Foundation wishes to avoid investing in companies that conduct animal testing for non-medical purposes. This selection will screen out companies that conduct animal testing for products such as cosmetic, personal care, and household cleaning products. Companies for whom animal testing is mandated by law will not be excluded under this category.

a. CAFOs

The Foundation has elected to screen out companies that are considered Concentrated Animal Feed Operations (CAFOs). CAFOs are agricultural operations where large numbers of animals are kept and raised in more confined situations than traditional pasture operations. The concentration of the wastes from these animals increases the potential to negatively impact air, water and land quality. This category does not include restaurants or other food establishments (e.g. grocery stores) where meat products are sold.

X. Defense and Weapons

The Foundation will avoid investing in companies that derive 5% or more of their revenue from the manufacture of firearms. Additionally, the Foundation will avoid companies that derive 50% or more of their revenue from the manufacture of conventional weapons, unconventional weapons, nuclear weapons, and products and services that are critical to the execution of military combat operations. The defense and weapons category is divided into 5 sub-categories: (1) firearms, (2) conventional weapons, (3) unconventional weapons (i.e., cluster munitions, land mines, and biochemical weaponry), (4) nuclear weapons, and (5) products and services that are critical for military operations. This screen does not include companies that are involved in non-weapons related defense business segments (e.g. technology, infrastructure). This screen also does not include firms that only manufacture or provide support for non-weapons related combat vehicles or combat aircraft and components.

XI. Tobacco

The Foundation wishes to avoid investing in companies that derive 50% or more of its revenue from the manufacture of tobacco and nicotine products. This screen does not include retailers or distributors.

XII. Gambling

The Foundation will restrict for purchase companies that derive 50% or more of their revenue from gambling/gaming activities.

XIII. Shareholder Advocacy & Engagement

Under Securities and Exchange Commission (“SEC”) rules, shareholders may engage in dialogue with companies to adopt more progressive, environmental, social, and governance practices. The Foundation is interested in supporting shareholder resolutions that relate to environment and environmental health; labor policy/union relations; civil rights/political freedoms and workplace diversity. The Foundation would like to be informed on such shareholder engagement opportunities as they arise. Once informed, the Foundation will then discuss internally if it should support such resolutions moving forward.

The Foundation desires to engage in Proxy Voting. It will utilize ISS Social Guidelines, unless managers have their own ESG proxy voting policies that are acceptable to the Foundation.