



NORTHSTAR ASSET MANAGEMENT

Progressive Wealth
Management Since 1990

Social Change and Activism
Annual Report

| 2019-2020 |

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Letter from the CEO on 30 Years of Creating Change



NorthStar was founded in 1990 on the premise that investors inherently have influence when they become shareowners of a publicly traded company, and with that power comes a responsibility to **hold companies accountable for wrongdoing, shortsightedness, and a focus on corporate profit over employees, communities, and the environment.**

As we celebrate our 30th year as one of the oldest and most established socially responsible investment firms in the now-booming “impact investing” field, we celebrate our successes as a firm that has consistently sought to go beyond the limits of what is expected – in client service, investment expertise, and shareholder activism. We are committed to **a culture of innovation and questioning society’s status quo** – qualities that have allowed us to become and steadfastly remain a leader in the field.

In 2019, we continued our groundbreaking work by engaging companies on a range of issues including corporate responsibility in prison labor, promoting LGBT rights, board diversity, political contributions, and better corporate governance. We also ignited new debates by asking companies to consider the benefits that rank-and-file workers could bring to the board of directors (if they actually had a seat on the board).

As we release this report in April 2020, the world is battling a pandemic that will surely change society forever. Millions of employees have been laid off across the country, governments are scrambling to protect their citizens, and some companies have found ways to help by transforming production to create critical supplies. While we all adapt and seek to support the frontline essential personnel working to keep us fed and safe, NorthStar will continue to engage companies, especially on labor issues and protections. We continue to believe that responsible corporate behavior can improve lives and communities and also provide greater long-term growth and stability to our clients’ investments.

In solidarity,

A handwritten signature in black ink that reads "Julie". The signature is written in a cursive, flowing style.

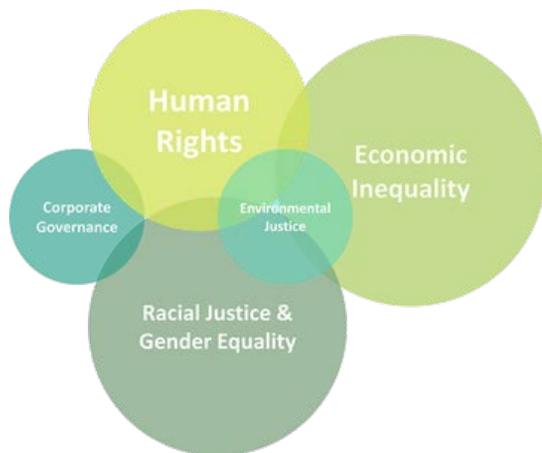
Julie Goodridge, CEO

Using Shareholders' Rights to Create Social Change

For decades, a shareholder owning at least \$2,000 in a company's stock for more than one year has had the right to present a shareholder proposal to the company's stockholders. While the Securities and Exchange Commission (SEC) has recently proposed potential changes to this rule, as of this report's publication this rule still stands. Nonprofit groups, pension funds, religious groups, socially responsible investment companies, and individuals owning shares of stock in the company can submit shareholder resolutions.

NorthStar has a long history of encouraging companies to use their power, influence, and policies to improve the well-being of employees, communities, customers, suppliers, and the environment. NorthStar has been filing shareholder proposals since 2000, when we first pushed Household International to consider the risks related to its predatory lending practices. Since that time, NorthStar has initiated over 200 company engagements, resulting in numerous policy changes and, we believe, protecting shareholder value.

In all the work we do – from activism to stock selection and working with clients on philanthropic decisions – NorthStar centers our research, thinking, and internal debates on five core tenets that inform how we look at the world: **racial justice and gender equality**, **human rights**, **economic inequality**, **environmental justice**, and **corporate governance**.



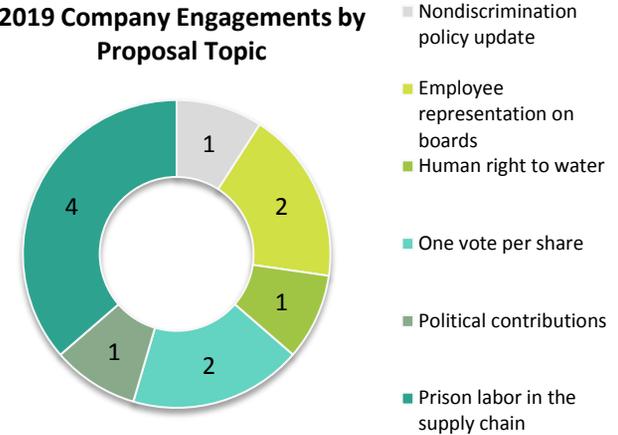
We have found that the work we do in these core areas nearly always intersects with **economic inequality**. From the more obvious, such as the worker rights and LGBTQ protections, to our work on political contributions and equal voting rights for shareholders, we find that the common thread tying all our work together is **the pursuit of economic equity**.

Engagements and Results Overview

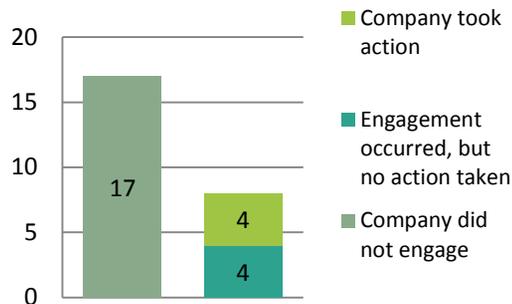
In 2019, NorthStar filed 11 shareholder proposals and wrote 25 letters to companies on a variety of issues. Outcomes are illustrated below.

As you can see, **NorthStar’s engagements by shareholder proposal continue to be highly productive – resulting in an engagement and/or successful negotiation for 72% of the shareholder proposals we filed this year.** Engagements through shareholder proposals are time-consuming, but are also highly effective at holding companies accountable and at allowing us to encourage positive change.

2019 Company Engagements by Proposal Topic

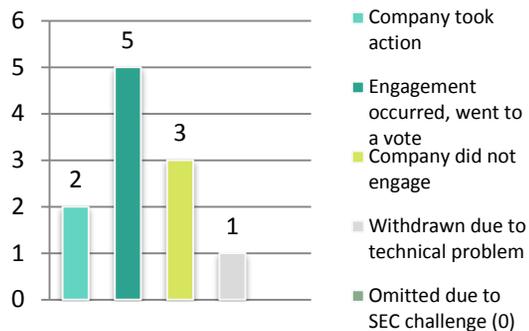


2019 Letter Engagements by Outcome



The shareholder proposal process allows investors to engage companies in their portfolios in a mutually beneficial dialogue. The right for all shareholders to participate in this dialogue with the company, as part owners of the company, is vital to maintaining a corporate democracy, especially at this time of runaway capitalism. The ability of all shareholders to weigh in on corporate missteps has been under attack in recent years.

2019 Proposals by Outcome



In addition to our shareholder proposal filings, **NorthStar invested significant time in 2019 to advocate for the protection of shareholder rights.** These activities involved letter-writing to elected officials and the Securities and Exchange Commission, participating in industry efforts to form response strategies, and scrutinizing the variety of challenges posed by organizations and business coalitions that seek to eliminate our rights.

Uplifting Employees as Vital Stakeholders

For nearly half a century, U.S. corporations have been driven by the notion of “shareholder primacy” – that a publicly traded company’s primary duty is to maximize return to shareholders at all cost. This perspective has played a major role in a focus on short term earnings, runaway CEO pay, failures to address the realities of climate change, and the ever-increasing wealth and income gap, especially for people of color.

Despite significant gains in employment protections, workers rarely have a “seat at the table” when company management makes decisions that affect their livelihoods. With a newly crafted shareholder resolution – “Employee Representation on the Board of Directors” – **NorthStar seeks to press companies to consider what benefits might accrue if employees had direct representation on the board.**

What may at first seem like an outlandish idea is in fact entirely practical. In many western European countries, employees often have a say in company decisions because they have a seat on the board of directors, and even a few U.S. companies have had employees on the board (particularly union representatives). NorthStar believes that employee representation on the board may reduce employee disenfranchisement and labor controversies, improve communication, attract and retain more top talent, and – perhaps most of all – play a role in reducing the ever burgeoning economic inequality that American workers are experiencing.

For 2019, we filed this resolution at **FedEx** and **Microsoft**, where the proposals both went to a vote and earned enough votes for us to consider re-filing. NorthStar has already filed this proposal at 6 other companies for 2020, and we look forward to reporting on those results in a future report.

Excerpt from NorthStar’s new proposal “Employee Representation on Boards”

RESOLVED: Shareholders of FedEx urge the Board of Directors to prepare a report to shareholders describing opportunities for the company to encourage the inclusion of non-management employee representation on the Board.

SUPPORTING STATEMENT: The report should be prepared within one year, at reasonable cost and excluding proprietary and privileged information. The Board is encouraged to assess:

1. Any legal, technical, practical, or organizational impediments to non-management employees gaining board nomination board;
2. Benefits and challenges associated with board membership by non-management employees;
3. Opportunities or procedures through which non-management employees could gain nomination to the board, such as: allocation of board slots for non-management employees; special board nomination processes for non-management employees; potential for building upon the company’s existing proxy access provision; any needed changes to corporate governance documents to accomplish such changes.

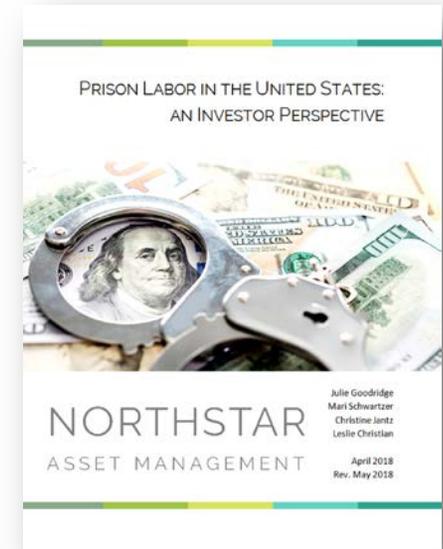
Pushing for Incarcerated Worker Rights

In 2018, NorthStar released our research paper [Prison Labor in the United States: An Investor Perspective](#) which laid the groundwork not only for our own engagements with companies but also for those of many of our peer firms. We are pleased to report that in 2019 we continued this work and achieved several landmark successes.

Prison labor is enabled in the United States by the 13th amendment of the U.S. Constitution which prohibits slavery “except as a punishment for crime.” In the U.S., nearly all able-bodied incarcerated people work in some fashion, including in maintenance of the prison as well as producing goods or performing services for private companies, nonprofit organizations, and state or federal agencies.

This year, NorthStar engaged four companies on this issue – **Costco Wholesale, TJX Companies, IBM, and Home Depot**. **Our proposal went to a vote at Costco, TJX, and Home Depot where we earned 29-37% of the vote**, dramatically increasing from single digits the prior year. This allowed for further engagement with **Costco**, a company that, as a result of our previous dialogues, had disclosed known usage of prison labor in its agricultural supply chain. In early fall 2019, **Costco agreed to the first-ever public reporting on supply chain prison labor**. Costco has committed to public reporting on this issue for a minimum of two additional years, at which time we intend to again engage again to encourage future reporting.

As we move forward in this work with additional original research and continue to seek answers in this opaque industry, we feel evermore committed to the belief that **blindly participating in an inherently coercive and racist system is wrong**. At a bare minimum, we push companies to verify that the work is voluntary, safe, and paid equitably to non-incarcerated workers, but we also encourage companies to consider what policies and procedures they can put in place that might have the ability to improve the lives of incarcerated workers. In a situation **where the work is inherently coercive** even when it’s voluntary, companies need to approach correctional industries with the understanding that such a connection poses a risk to shareholder value and that they should require the highest standard of care for incarcerated workers.



NorthStar remains a Leader for Engagements on Board Diversity

Since 2014, NorthStar has been part of a widespread effort to improve the abysmal rates of board diversity at U.S. public companies. In order to press companies to recognize that women and people of color remain *woefully* underrepresented on boards, NorthStar engages companies to commit to a policy of including women and people of color *in every search the company undertakes to identify new potential board members.*

Our perspective is that the board candidate “pipeline” must be intentionally expanded and that changing governance documents to *require* women and people of color in every board search also forces companies to:

1. Require that executive search firms seek out diverse candidates and expand the searches to include non-CEOs;
2. Recruit diverse employees into management training as demand increases for managers qualified for corporate “on-boarding”;
3. Hire women and people of color to positions that may eventually lead to a management track.

This year, NorthStar engaged with one company, **Safety Insurance**, to add specific language to governing documents to commit the company to seeking women and racially diverse candidates for each board search it undertakes. Safety Insurance agreed to our requests and updated its governing documents to commit to improving board diversity.

Since beginning our campaign on board diversity, NorthStar has successfully engaged with 17 companies to add concrete language to company governing documents related to increasing board diversity.

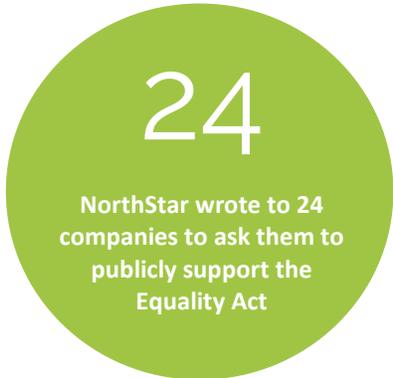
Excerpt from IDEX Corporation’s revisions to its Board Membership Criteria in the Corporate Governance Guidelines

The Board believes that maintaining a diverse membership with varying backgrounds, skills, expertise and other differentiating personal characteristics promotes inclusiveness, enhances the Board’s deliberations and enables the Board to better represent all of the Company’s constituents.

Accordingly, the Board is committed to seeking out highly qualified women and minority candidates as well as candidates with diverse backgrounds, skills and experiences as part of each Board search the Company undertakes.

Working Free from Harassment is a Human Right

Despite positive forward progress when the Defense of Marriage Act (DOMA) was struck down in 2015 and marriage equality became a nation-wide right, LGBTQ people continue to be denied federal nondiscrimination protections in work and in public. In many states, LGBTQ employees can be turned away from a restaurant or café while on their lunch breaks; in some locales, employees needing to use a gender-segregated public facility may face harassment and legal action; in many states, crimes based upon hatred for a person’s LGBTQ status are not considered hate crimes and cannot be prosecuted as such.



Excerpt from NorthStar’s letter on the Equality Act

On Oct 21, 2018 news broke that the Trump Administration would seek to legally define gender as male or female based on immutable biological traits identifiable at or before birth – erasing any federal recognition of transgender people. These intentions defy determinations by the medical community and science, existing law, and common decency. Moves like this risk bringing our nation backwards in time to when people had to hide themselves for the sake of their safety, and signals a new risk for all gender non-conforming people including our company’s employees and their families.

Clearly, broad protective legislation must be passed by federal lawmakers. In 2019, the bipartisan Equality Act was re-introduced in the House of Representatives and would amend existing civil rights law to explicitly include sexual orientation and gender identity as protected characteristics. The Act would provide consistent and explicit non-discrimination protections for LGBTQ people across key areas of life including employment, housing, credit, education, public spaces and services, federally funded programs, and jury service.

To encourage companies to voice their support for the Equality Act, NorthStar wrote to twenty-four portfolio companies to ask them to join the Human Rights Campaign’s Business Coalition for the Equality Act and/or to urge political candidates the company supported financially to support the Equality Act.

Nearly a Decade of Persistence Pays Off

Since 2011, NorthStar has pressed companies to improve their diligence processes for making political contributions to include a comprehensive view of the intended political recipient, including how candidates' policy stances align or contrast with the company's policies, values, and goals. For example, we believe that a company that touts the benefits of its climate change practices should not be financially supporting politicians who seek to weaken sound environmental policies. And we believe companies that have committed to their LGBTQ workforce with strong internal policies and even public statements of support should ensure that no company or PAC (political action committee) funds go to candidates that seek to undermine LGBTQ rights.

Excerpt from Intel's most recent CSR report regarding its revised political giving procedures:

... in response to stakeholder concerns with one of our IPAC contributions, we further enhanced our review process by adding reviews of public statements to our existing reviews of voting records to better assess alignment with our values. When we identify some degree of misalignment, we will communicate directly with contributions recipients. In cases of significant misalignment across our multiple key public policy issues, we will take action to realign future funding decisions.

With the critical 2020 U.S. presidential election looming, we again engaged with **Intel Corporation** on this issue in 2019. NorthStar had previously engaged Intel numerous times with limited results, even in the wake of a major misstep in which the company PAC gave to a representative that news sources described as having a documented history of "racist remarks and divisive actions."

Our shareholder proposal at Intel again went to a vote at the 2019 annual meeting, and follow up engagement revealed that **Intel had made robust changes to their process inspired by our years of engagement requests**. Intel's new procedures include an examination of a candidate's public statements, policy stances, and meaningful votes on key issues that affect stakeholders.

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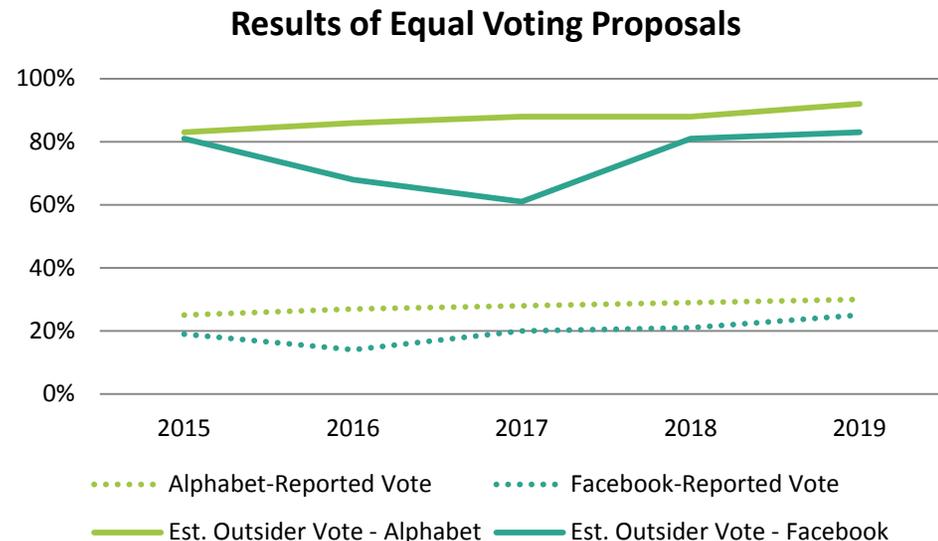
Since 2011, NorthStar has filed 35 proposals on political contributions alignment with company values

The Need for Responsible Governance at Powerful Companies

Large tech firms like Facebook and Alphabet continue to have outsized power and influence, which is heightened by their unequal voting structures. At both companies, governance is structured so that shareholders cannot have a meaningful say on *any* proxy item, including composition of the board of directors. Company insiders such as the CEO and founders own Class B shares that have ten votes each, while Class A shares the public can buy have only one vote per share (or, in the case of Alphabet, potentially zero votes if shareholders buy shares of a third class, Class C). Thus, company insiders control more than 50% of the vote at both companies while owning far less economic value. This concentration of control insulates the board and management from outside influence, oversight, and accountability.

Particularly in light of the vulnerability of the upcoming 2020 U.S. presidential election to the proliferation of fake news, NorthStar continues to push both Facebook and Alphabet to provide equal voting opportunities to their shareholders. We believe that **governance problems** and **board oversight** limitations at both companies put shareholders, consumers, and the general public at risk.

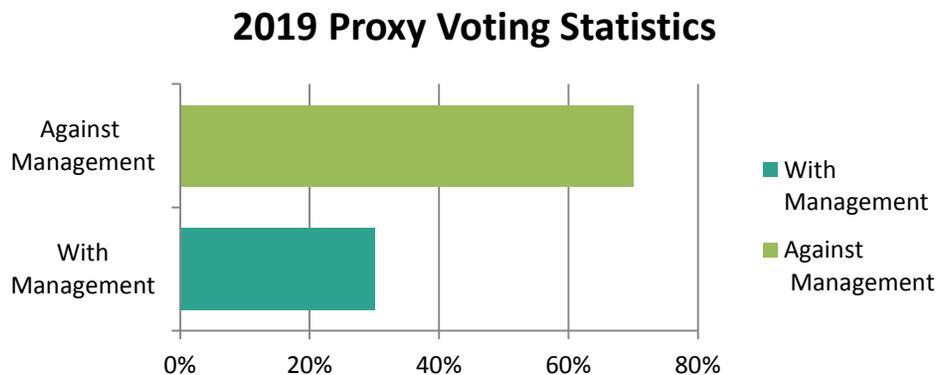
This year, NorthStar again filed shareholder proposals aimed at equalizing voting rights at **Alphabet** and **Facebook**. As you can see, our proposals continue to be well-supported by outside shareholders despite assertions from the companies that the proposals “failed” (did not receive more than 50% of the vote).



Proxy Voting: A Contrarian Approach

Each year, companies that are registered with the SEC hold an annual meeting and issue a proxy statement to all stockholders. NorthStar’s internal staff votes every proxy that its clients receive using our internally created [Proxy Voting Guidelines](#).

In 2019, NorthStar voted proxies for more than 800 annual and special meetings of companies in our clients’ portfolios. Overall, NorthStar tends to take a contrarian stance to proxy voting. **We seek to counter the “rubberstamp” approval of proxy issues** of many institutional investment firms by taking the perspective that we need a valid and clear reason to vote in favor of management’s request. As a result, NorthStar’s rate of voting in agreement with management is fairly low (shown at right).

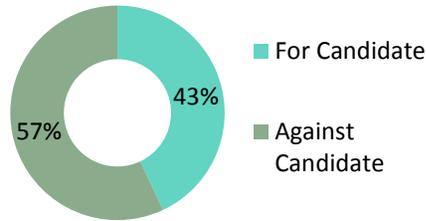


In addition to typical ballot items such as board of director elections, executive pay, and ratification of the auditor, many company proxies include one or more shareholder proposals on issues that stockholders have deemed worthy of fellow shareholder input. Just as with NorthStar’s activism, we take voting proxies very seriously. We believe that corporate democracy allows us to provide input to company management on behalf of our clients while also using our votes to help push forward a variety of social, environmental, and governance issues.

The next few pages of this document discuss NorthStar’s overall proxy voting philosophy, certain specific votes at various companies, and voting trends. Our detailed Proxy Voting guidelines can be found on the [Creating Change page](#) of our website and are updated regularly as voting issues evolve.

Voting on the Board of Directors

NorthStar Votes For/Against Board Candidates (2019)



In addition to NorthStar’s work of engaging companies to improve board diversity, we use our proxy voting rights to make a statement about the overall poor diversity in corporate America. Our staff adheres to a strict policy of calculating diversity as one of the first screens when considering voting for or against the board slate. **In order to consider voting for the entire board slate, we require a minimum of 40% women on the board and 30% people of color/racial and ethnic diversity.** Lacking these minimums, we consider voting for board members who we can reasonably determine are either women and/or diverse candidates (and voting against non-diverse, non-female candidates), taking into account individual characteristics and board suitability.

Board diversity has become a hot topic in recent years, though gains for women and people of color have been slow. Reports on board diversity statistics from 2018 reveal that “women accounted for 31% of **new** board directors at the country’s 3,000 biggest publicly traded companies” potentially due in part to the #MeToo movement.¹ However, we are far from reaching parity on board diversity. Earlier in 2018, the Alliance for Board Diversity pointed out that “with the current rate of progress, we aren’t likely to see the number of minorities and women increase to our target of 40 percent representation until the year 2026.”² As a result, boards of directors remain primarily white and male, and we vote in favor of a low percentage of candidates.

The statistics for NorthStar’s voting on boards changed moderately this year. Last year, we voted for only about 35% of board candidates, but for this reporting year (2019) we approved 43%. This is likely the result of efforts companies have begun to take to actively seek highly qualified women and people of color for open board seats.

Our work on this issue, as well as that of our other shareholder activist colleagues, is beginning to bear fruit.

¹ <https://www.wsj.com/articles/women-on-track-to-gain-record-number-of-board-seats-1529573401>

² <https://www.nytimes.com/2017/02/05/business/dealbook/fortune-500-board-directors-diversity.html?mcubz=0>

Voting on Executive Pay: Another Marker of Economic Inequality

According to a recent *Vox* article, “CEOs for the 350 largest US companies earned an average pay of \$18.9 million in 2018, a sharp 17 percent increase from the previous year... Meanwhile, wages for the average US worker grew a paltry 0.2 percent during that time.”³ Executive pay has been escalating for decades, enabled by board member and institutional investor support, while economic inequality between socio-economic groups and racial groups continues to widen.

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act mandated that public companies disclose the pay ratio between the company’s median employee and its CEO. Finally in 2018, shareholders and consumers began seeing these ratios disclosed in company proxy statements, allowing us to get a better sense of how employees are compensated and whether CEOs’ compensation appears in line with the treatment of their employees.

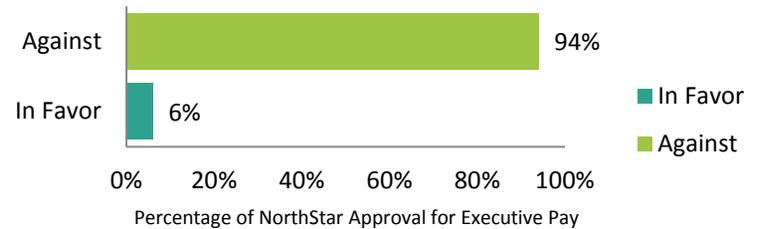
Given **NorthStar’s focus on seeking creative opportunities to lessen economic inequality**, we use a rigorous two-step process to determine compensation packages that we will support:

Step 1: We will only consider approving a pay package if it is at or below 100x the pay of the average American worker as analyzed by the AFL-CIO Executive Paywatch (\$39,888 for the reporting year). If the compensation package totals to under 100x this average American salary, we move to our second step.

Step 2: We examine the CEO to median worker pay ratio as disclosed in the company’s own proxy statement. We will only consider approving pay packages that have a 100:1 CEO to median worker ratio, in addition to also falling below the maximum pay package established in step 1.

As a result of this process, we approve an extremely low number of executive pay packages (illustrated above).

NorthStar Votes on Executive Pay Packages (2019)



³ <https://www.vox.com/policy-and-politics/2018/8/16/17693198/ceo-pay-gap-income-inequality>

Outside Investing: Directing Resources to Investments with a Clear and Positive Impact

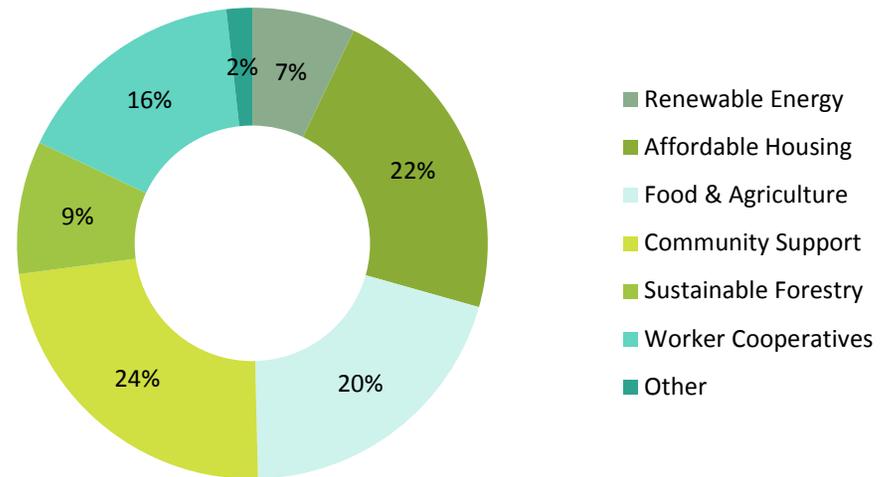
NorthStar rounds out its multi-faceted approach to integrated investing by pursuing investments **outside the public equity and fixed income markets** that can directly affect a variety of stakeholders. We call this “Outside Investing.” For decades, NorthStar has been vetting community loan funds and private equity investment opportunities in order to form relationships with organizations that have direct positive effects on marginalized populations, small businesses, local economies, and the environment.

NorthStar’s clients often join us in expressing **concern about the concentration of wealth and power in our world and reject the presumption that those with great wealth should be the most powerful** in economics, politics, and social policy.

We believe that wealth should be distributed fairly and equitably based on the contributions of all stakeholders (including the environment) to the success of an enterprise. Outside Investing allows us to select and recommend opportunities in which there are clearly delineated commitments to collaboration and distributed wealth and power.

These investments range from supporting worker coops and community loan funds focused on getting families back in their foreclosed homes to responsible forestry and sustainable farms.

NorthStar Outside Investments by Focus



Finding Creative Ways to Move Capital Out of the Mainstream Financial Markets

NorthStar views “outside investing” as a way to support organizations that are values-aligned with our clients. We believe in getting capital to organizations that infringe upon the dominant financial system in order to make change, including many that work hand-in-hand with local community organizations and businesses in order to ameliorate economic inequality. Below are brief profiles of two organizations that we believe are doing good work in their fields.



Vermont Community Loan Fund’s “Food, Farms and Forests Fund”

Vermont Community Loan Fund (VCLF) was founded in the 1980s in response to a financial strain being felt by Vermonters. As VCLF tells it: “It was the mid-1980s, so federal housing programs were being slashed. There was this feeling: ‘The federal government’s not going to step up and do the right thing here. If we want to get anything done, we’re going to have to do it ourselves.’” Since that time, VCLF has thrived as an organization that “think[s] about a new approach to housing, community development and social justice,” providing loans for affordable housing, community facilities, nonprofits, childcare centers, and many other local businesses. More recently, VCLF created the “Food, Farms and Forests Fund” that builds upon the existing strengths of the organization and seek to “consolidate, grow and sustain the capital and supporting services for small farms, food producers, and the working landscape throughout Vermont.”



Iroquois Valley Farms is a farmland REIT (real estate investment trust) that seeks to enable the next generation of young farmers to positively impact world health. In response to “conventional agriculture’s ecological and economic degradation and its impacts on public health,” Iroquois Valley was founded by two former college roommates who sought a more “sustainable answer to a broken food system and extractive economic policies.” Iroquois Valley Farms raises equity & debt capital through its REIT Equity Shares and Soil Restoration Notes, which the company uses to provide long-term land access for family farmers, and to support conversion of conventional farmland to USDA certified organic land, building healthy soils and restoring biodiverse ecosystems. Through those solutions, Iroquois Valley seeks to combat climate change, support clean air and water, improve public health, and provide stability and long-term financial health for farmers.



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