



MARY REYNOLDS BABCOCK FOUNDATION

Environmental, Social Governance Guidelines

<https://www.mrbf.org/content/environmental-social-governance-guidelines>

The Mary Reynolds Babcock Foundation is committed to aligning its investment and grantmaking strategies more completely. The Foundation advances its mission not only by supporting its grantees, but also by leveraging its dollars in sustainable, mission-based investments. This statement presents policies that detail desired best-of-sector criteria in achieving a mission-based investment strategy.

Environment & Natural Resource Use

Companies that are reliant upon the ecosystem or services provided by nature are particularly susceptible to the negative impacts of 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 avoids 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.

Understanding the link between carbon-intensive industries and the health impacts on communities, the Foundation specifically restricts 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](#).

The Foundation seeks to identify companies that are considered environmentally progressive for inclusion into the portfolio. Priority consideration goes to companies that research or market alternative energy sources such as wind, solar and hydrogen, significantly reduce waste streams through recycling or closed-loop technologies, and develop innovative ways to reduce the emission of toxic or chemical wastes. Other environmentally progressive characteristics include a long-term commitment to the reduction of negative environmental impact in business operations, waste reduction initiatives with clear phase-out target dates, organic products and/or products with a proven environmental benefit.

Labor Rights & Supply Chain Management

Company supply chains are increasingly comprised of component suppliers and 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.

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

- Significant worker involvement and participation in management decision-making.
- Benefits that help employees balance work and family concerns, including paid leave.
- Representation of women and minorities at all levels.
- Compensation based on performance.
- Employee stock ownership programs.
- Job training for employees at all levels.
- A living wage.

Human Rights

The Foundation considers investment in companies that have demonstrated positive leadership in the management of the human rights and community-impact risks when compared with industry/sector peers. The Foundation understands some companies operate in areas where human rights abuses are endemic, and operating in these areas can have a negative impact on a firm's productivity. Increased transparency of company operations in these areas may have a deleterious effect on company brand. Some companies may themselves be engaged in human rights abuses, including use of militia groups and/or local governments to intimidate, forcibly removing people from their lands, and cause physical harm. A company's operations can have a profound impact on the surrounding community. As such, a firm's ability to manage such risks responsibly is imperative to continued growth.

Community Impact

The Foundation seeks to invest in companies that support affordable housing initiatives, provide job training and placement for disadvantaged and low-wealth individuals, and exhibit positive corporate social responsibility. The criteria will also include companies that have generous corporate giving programs, defined as donations 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 also would 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.

Product Quality & Safety

The Foundation invests 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 restricts 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 positively or negatively affect future opportunities for growth.

Corporate Governance

Appropriate management of corporate governance risks has been shown to be essential to company profitability and subsequently shareholder value. 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, a diverse and independent board, independent audit committees and separation of CEO and board chair. Transparency in lobbying, trade association memberships and political donations is also an important indicator.

Animal Welfare

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

Concentrated Animal Feed Operations

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

Defense & Weapons

The Foundation avoids investing in companies that derive 5% or more of their revenue from the manufacture of firearms. Additionally, the Foundation avoids companies that derive 50% or more of their revenue from the manufacture of conventional weapons, unconventional weapons (i.e., cluster munitions, land mines and biochemical weaponry), nuclear weapons and products and services that are critical to the execution of military combat 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 manufacture or provide support for non-weapons-related combat vehicles or combat aircraft and components.

Tobacco

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

Gambling

The Foundation restricts companies that derive 50% or more of their revenue from gambling/gaming activities.

Shareholder Advocacy & Engagement

Under Securities and Exchange Commission rules, shareholders may engage in dialogue with companies to adopt more progressive environmental, social and governance practices. The Foundation supports shareholder resolutions related to environmental health, labor policies, civil rights/political freedoms and workplace diversity. The Foundation's full board must approve engagement in any shareholder campaigns.

Policy Adopted in October 2014