



# INVESTING FOR THE NEXT GENERATION

## A World That Works for Everyone

The ultimate goal of engagement is to encourage action on matters that are important to investors. AJF's engagement style is collaborative, we work with fund companies and shareholder advocacy groups to push our agenda for material ESG issues, but we may choose to divest from a company if progress cannot be achieved by engaging management on material issues.

While the companies we invest in are sustainable in their processes there is still yet a long journey for them ahead. Companies like Apple, Amazon, and Alphabet that are constantly growing and expanding experience challenges on their environmental, social, and governance policies that sometimes have an effect on the value of the company. As part of our effort, we report on the companies that have made headway in their efforts to better processes:

**New York Deforestation Bill:** As fiduciaries, we recognize the material systemic and specific risks posed by deforestation to companies, our portfolios, and markets broadly. Forests play an essential role in combatting climate change, reversing biodiversity loss, and protecting human health and human rights. Deforestation is linked to an increased risk of infectious diseases like the COVID-19 pandemic, which only reinforces the urgency of reversing the persistent trend of deforestation. Deforestation is also one of the largest drivers of climate change: currently, an estimated 15% of all greenhouse gas emissions result from deforestation and forest degradation. AJF Financial has signed onto a bill with Domini Impact Investments to aid in the passage that, after its effective date, state and municipal government bond issuances would offer investors a new way to manage deforestation in their debt portfolios. The market has demonstrated strong growth in demand for sustainable debt products like green bonds. More broadly, "environmental, social, and governance investing" has become increasingly mainstream for investors in the fixed-income markets. States implementing such legislation could be a leader in issuing sustainable government debt in the United States.

**Microsoft:** Shareholders request the Board of Directors take steps necessary to amend the certificate of incorporation and, if necessary, to become a public benefit corporation contingent on Class B stockholders converting sufficient Class B shares to Class A or Class C to ensure that at least 60% of the Company's voting power is not beneficially owned or controlled by the holders of Class B Shares.

**Microsoft's supporting statement:** These threats matter to the vast majority of our diversified shareholders: the top five holders of the Company's shares were mutual fund companies with indexed or otherwise broadly diversified portfolios. Diversified shareholders lose when companies harm the economy because the value of diversified portfolios rises and falls with GDP. While the Company may profit by ignoring costs it inflicts on society, its diversified shareholders ultimately internalize those costs.

The shareholders deserve an opportunity to vote on an amendment that will align Microsoft's governance with shareholder interests and the global community in order to create meaningful accountability.

However, our multiclass structure, which vests control in individuals with wealth concentrated in our stock, could limit the efficacy of PBC status, because their concentrated ownership means they benefit when the company sacrifices social good for its own profit. Thus, the board resolution should provide that the amendment will only be affected if these individuals convert a number of high vote shares to low or no vote shares sufficient to provide meaningful accountability to diversified shareholders.

This engagement was resolved based on the statement made by Microsoft. We expect to see this shareholder proposal in their proxy statement or a statement made about this proposal.

**Apple:** Shareholders request the Board Compensation Committee prepare a report assessing the feasibility of integrating sustainability metrics into performance measures, performance goals, or vesting conditions that may apply to senior executives under the Company's compensation incentive plans. Sustainability is defined as how environmental and social considerations, and related financial impacts, are integrated into corporate strategy over the long term.

**Apple's Supporting Statement:** "Effectively managing for sustainability offers positive opportunities for companies and should be a key metric by which senior executives are judged. Linking sustainability metrics to executive compensation could reduce risks related to sustainability underperformance, incentivize employees to meet sustainability goals and achieve resultant benefits, and increase accountability. Metrics relevant to our Company could include indicators related to pressing issues such as environmental impacts and waste, human rights, supply chain labor standards and risk management, worker health and safety, diversity and inclusion, and data privacy and security."

In 2021, Apple is adding an ESG “bonus modifier: to its cash incentive program which can add a total bonus payout by 10%.

**Sterling Capital:** AJF Financial had a call discussing Sterling Capital’s “Common Sense” ESG Approach, in the discussion was Conoco Phillips, a holding in the Equity Income Fund. AJF Financial inquired about an \$11.5m environmental violation fine in which Sterling Capital was not aware of because it did not trigger a certain percentage of the bottom line. It became alarming that the only consideration Sterling Capital focused on was the effect in which fines had on the bottom line of a company. AJF Financial determined that the best we can do for our clients and shareholders is to engage Sterling about their ESG approach. We have since written an article asking Sterling’s representative and portfolio manager for comment. Please see attached.

## This Quarter in Stakeholder Capitalism:

- **Tesla** offers a \$100 million prize for inventors to develop ways to remove carbon dioxide from the atmosphere or ocean.
- **Walmart** is shown to have significantly more Black and Latino representation in its upper management than rival Amazon
- **Amazon** is raising pay for 500,000 warehouse workers and delivery drivers, between 50 cents and \$3 an hour.
- **Amazon** issued its first sustainability bond on Monday, raising \$1 billion to invest in renewable energy, clean transport, greener buildings, and affordable housing.
- **Apple** commits over \$430 billion in U.S investments over the next five years.
- **Chipotle** is raising its average hourly wage to \$15 to combat labor shortages while the company works to add another 20K employees to its ranks.



## What's Happening at AJF

We are proudly celebrating 30 years of serving our clients. We promise to continue providing exceptional service to you and continue to align our services with your values. Thank you for trusting us!

AJF is excited to announce that after 30 years of sole ownership of AJF Financial Services Inc., Steve Brennan and John Romano, Jr. has become new partners of the firm. As the business continues to grow this is a step our CEO/President has decided to take in the best interest of not only the business but also to each of you, our valued clients. Having two trusted partners ensures that AJF Financial Services has a continuity plan in place enabling us to serve you and your best interest well into the next generation



We would like to extend our congratulations to Timothy Kazachkov for passing the Certified Financial Planner examination and attaining the CFP® certification. The exam demonstrated the knowledge and competency necessary to provide comprehensive financial planning advice to clients. Once again, congratulations Tim!

## AJF’s Transitioning Companies Watchlist:

Exxon & BP Are two of the leading energy providers trying to transition from an oil and gas focused company to a renewable energy company As they make this transition we continue to monitor the company’s management strategies and its external changes to shift to a renewable energy company.

Walmart: Walmart’s environmentally sustainable practices have made them stand out from the crowd, coupled with their

employee and stakeholder engagement and responsiveness to concerns has made Walmart a prime company to look at. We continue to monitor this company.

We would be grateful if you could follow AJF Financial update here:

[Website](#) | [Facebook](#) | [LinkedIn](#)

If you have any questions or concerns please contact our Shareholder Advocate Holly Nahar  
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