



OFFICE OF THE ILLINOIS STATE TREASURER  
MICHAEL W. FRERICHS

September 21, 2020

Via regular mail and email to [jciboard@jci.com](mailto:jciboard@jci.com)

Juan Pablo del Valle Perochena  
Chair, Governance and Sustainability Committee  
Johnson Controls International  
P. O. Box 64874  
St. Paul, MN 55164-0856

Dear Mr. Perochena,

I am writing as a long-term investor seeking to convene a meeting on human capital management issues at Johnson Controls International PLC ("JCI") that have come to light in the wake of COVID-19.

Heightened risk exposures have come to our attention, and as a long-term investor, we seek a dialogue with you, Chair of the Board's Governance and Sustainability Committee, to better understand Board oversight and company management of fast-evolving challenges related to workforce health and safety, employee protections, and labor relations.

While we certainly respect the considerable challenges facing the company, this is a critically important moment for Board directors to exercise their responsibility to shareholders, actively oversee developing risk exposures, and provide robust, transparent disclosure to investors, employees, customers, and other stakeholders. Not only has the SEC called on companies to report on their COVID-19 response,<sup>1</sup> including efforts to protect the health and well-being of its workforce, but over 322 institutional investors with over \$9.2 trillion in assets under management have joined in urging companies to enhance worker protections, paid sick leave, and exercise financial prudence.<sup>2</sup> It is clear that regulators and investors are calling for such actions given the myriad of financial, operational, legal, and reputational risks facing companies like JCI.

Furthermore, we were pleased to note that in JCI's 2020 Sustainability Materiality Assessment, the company identified human capital management issues as material and necessary to inform business strategy and reporting. In particular, the company identified "employee health and safety" as one of the "sustainability-related issues of greatest importance," and further that employee health and

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<sup>1</sup> <https://www.sec.gov/news/public-statement/statement-clayton-hinman>

<sup>2</sup> <https://www.iccr.org/investor-statement-coronavirus-response>

safety is the number one most important sustainability issue to external stakeholders, and the number two most important sustainability issue to employees.<sup>3</sup>

There is no doubt that the onset of COVID-19 has dramatically increased the significance of effective human capital management, and the value of appropriate oversight and reporting practices at the board level. Given this increased importance, and the company's clear commitment to the well-being of its employees (as coded, for example, in its Human Rights & Sustainability Policy),<sup>4</sup> we were concerned with reports of COVID-19 outbreaks at JCI facilities, ongoing disputes between workers and management about health and safety procedures, and reports that JCI is lagging behind competitors regarding the provision of employee benefits and protections.

As a long-term investor in JCI, these reports signal new areas of concern, and we are eager to discuss the details of said issues directly with you and your Board counterparts given that unanswered questions and risk exposures remain.

## **Items for Consideration**

### **1. Workplace Healthy and Safety**

Investors are concerned with recent reports, both communicated in media stories and directly from workers, about incidents of COVID-19 among JCI employees and associated occupational health and safety concerns.<sup>5</sup> These issues clearly present questions about operational, compliance, and reputational risks for the company and its investors, and we are concerned about potential discrepancies between company communications and reports from front-line workers. Accordingly, we are interested to learn how the Board is monitoring these issues, what metrics, sight-lines, and reporting mechanisms are being utilized, and what enterprise risk management and business continuity plans are in place to manage this crisis and future threats.

### **2. Employee Protections and Benefits**

Second, we are concerned with reports that JCI is lagging behind peers and competitors regarding the provision of employee benefits and protections related to COVID-19. To strengthen the company's position and its response to COVID-19, we believe JCI should consider aligning its policies and practices with peer companies, including (1) the provision of adequate paid sick time to employees diagnosed or exposed to COVID-19, (2) the protection of health insurance benefits in the case of prolonged absence for employees diagnosed with COVID-19, (3) the addition of COVID-19 to short-term disability policy coverage to provide sick employees with a safety net during a prolonged absence, and (4) the provision of hazard pay to applicable employees.

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<sup>3</sup> Johnson Controls International. "Sustainability Materiality Assessment: Executive Summary 2020." Available at <https://www.johnsoncontrols.com/-/media/jci/corporate-sustainability/reporting-and-policies/gri/2019/jci-sustainability-materiality-assessment-2020.pdf?la=en&hash=C44BB2797CB27261F134AD5C3F92DEC953ACB479>.

<sup>4</sup> Johnson Controls International. "Human Rights & Sustainability Policy." Available at <https://www.johnsoncontrols.com/-/media/jci/suppliers/media-folder/corporate-responsibility/batteries/sustainability/conflict-minerals/human-rights-policy102017.pdf?la=en&hash=2AE227EA176EB6B9B2567D4EE93DF48B81D44124>.

<sup>5</sup> <https://www.industryweek.com/covid19/article/21133046/skilled-workers-union-calls-on-johnson-controls-to-provide-better-covid19-protection>

### 3. Communication with Senior Labor Representatives

Third, it is important that JCI continue to foster and maintain open lines of communication with senior labor representatives, including national representatives of the International Association of Sheet Metal, Air, Rail and Transportation (SMART). On this point, the Sustainability Accounting Standards Board (SASB) astutely emphasizes:

“Proper management of, and communication around, issues such as worker pay and working conditions can prevent conflicts with workers that could lead to extended strikes, which can slow or shut down operations and create reputational risk.... Companies need a long-term perspective on managing workers—including their pay and benefits—in a way that protects workers’ rights and enhances their productivity while ensuring the financial sustainability of a company’s operations.”<sup>6</sup>

Given the material importance of labor practices, especially during volatile times, it behooves JCI to continue open dialogue with national worker representatives to ensure active coordination and sustained productivity.

We recognize that JCI has taken steps to address human capital management and operational issues related to COVID-19, including new measures to activate business continuity planning, increase sanitary worker conditions, implement containment protocol, enhance compliance monitoring, and mitigate evolving risk exposures to investors, as detailed in the company communications.<sup>7</sup> We commend the company for these initial actions, but given conflicting reports from workers on the front-lines, ongoing labor and reputational challenges, shortfalls compared to peers, and the potential for adverse impacts on investors, we believe a robust discussion of the Board’s oversight activities is warranted.

Given the immediacy of these issues, we would sincerely appreciate an opportunity to meet with you at your earliest convenience. To that end, please address correspondence to Max Dulberger, Director of Corporate Governance & Sustainable Investment, at [MDulberger@illinoistreasurer.gov](mailto:MDulberger@illinoistreasurer.gov) or (217) 843-0132.

Thank you for your attention and we look forward to working together on these matters.

Sincerely,



Michael Frerichs  
Illinois State Treasurer

Cc: Jürgen Tinggren, Lead Independent Director  
John Donofrio, Executive Vice President and General Counsel

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<sup>6</sup> [https://www.sasb.org/wp-content/uploads/2016/03/IF0201\\_WasteManagement\\_Standard.pdf](https://www.sasb.org/wp-content/uploads/2016/03/IF0201_WasteManagement_Standard.pdf)

<sup>7</sup> Johnson Controls Inc., “Johnson Controls – Additional Customer Information regarding response to COVID-19.” Available at <https://www.johnsoncontrols.com/-/media/jci/corp/media/news/files/2020/zero-harm-covid-19-customers-or-suppliers.pdf?la=en&hash=E6E1BCF476DBEF581D22B4F18BF6AE9E44B1699E>.