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Parnassus Investments and Wells Fargo & Co.: Balancing Morals, Metrics and Materiality

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ESG INITIATIVE CASE STUDY SERIES

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It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'lldo things differently.

– Warren Buffett, Chairman, Berkshire Hathaway

The emails and calls chiding Parnassus Investments about Wells Fargo just kept coming.

Wells Fargo, a San Francisco-based bank holding company, was embroiled in a scandal over its creation of more than 2 million bogus accounts. To meet performance goals, staffers in its branches had created fake savings and checking accounts in the names of customers. They had also signed up customers for unwanted credit and debit cards. They had transferred funds without authorization. The misdeeds had brought regulatory penalties, congressional scrutiny and countless headlines decrying the bank.

Throughout 2017, financial advisers who had steered their clients to invest in Parnassus's mutual funds called and emailed to ask why Parnassus was still holding Wells Fargo's stock. With every major headline, more complaints arrived. One angry adviser threatened to pull out his clients unless Parnassus sold the Walls Fargo shares. A branch manager for a brokerage firm wrote: "I cannot recall ever asking a mutual fund company why they have a certain stock in a portfolio … But with all the nasty news on Wells Fargo the last couple of years, I think it is a valid question."[i]

Ben Allen, Parnassus's CEO and co-manager of the Parnassus Core Equity Fund, understood the frustration, even as he disagreed with the certainty that the scandal-tarred bank was a bad long-term investment. Parnassus evaluated stocks based on both their financial promise and their environmental, social and governance (ESG) performance. The controversies surrounding Wells Fargo weren't trivial — Allen and members of the Parnassus investment team had met repeatedly with Wells Fargo executives to discuss them.

But Allen believed that Wells Fargo's longer-term strengths endured. The bank had more than 5,000 branches spread across 37 states and was based and dominant in California; the state accounted for about 15 percent of U.S. GDP. Wells Fargo's financial might had enabled it to emerge unscathed from the Great Financial

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Crisis. What's more, it had an exemplary record of promoting women and doing business with people, like Native Americans, who had traditionally been underbanked.

Allen knew, too, from his two decades in the investment business, that the best time to buy into a company was often when it had stumbled into temporary trouble and its stock price had sagged. Problems could be remedied — just as Wells Fargo executives had repeatedly told Allen and the Parnassus team they were doing. But the earning power of a bank with nearly $2 trillion in assets was hard to replicate. Still, he wondered, "Are we making a mistake? Should we sell this stock?"

A new way of investing

Parnassus had a ground-level knowledge of Wells Fargo that many investment firms lacked. Its office, in San Francisco's business district, was just eight blocks from the bank's headquarters. Many Parnassus staffers had accounts with Wells Fargo, and one member of the investment firm's executive team had worked there for 15 years. Wells Fargo's commitment to the communities where it operated wasn't an abstraction to the people at Parnassus. They had seen it first-hand.

Jerome Dodson, Parnassus's chairman and the manager of its Endeavor Fund, had founded the firm in 1984. In doing so, he pioneered what was then a new way of investing: he evaluated not just a company's finances, operations and competitive advantage but also its social and environmental impact. He was convinced that companies that treated their people, communities and environment well and were fair and forthright with shareholders would thrive in the long term, outdistancing competitors that focused solely on the shorter-term financial gains.

In creating Parnassus, Dodson had foreseen what would become, by the second decade of the 21st century, one of the fastest growing segments of the investment world — ESG, investing. His firm grew along with the market's enthusiasm. By 2020, Parnassus ran five mutual funds with combined assets of more than $30 billion. Several of those funds owned stock in Wells Fargo, including Dodson's Endeavor Fund; Core Equity, which was managed by Allen and Todd Ahlsten, Parnassus's chief investment officer; and the Parnassus Fund. (The third fund is now known as the Parnassus Mid Cap Growth Fund.)

For Parnassus to buy a stock, its fund managers had to believe a company was both fundamentally sound, with capable management and a durable competitive advantage, and was a solid ESG performer.

Solid wasn't the same as perfect. Companies, like people, are never perfect, and stocks that approach perfection are often priced accordingly. To find attractive ones, Parnassus's fund managers and analysts assessed the totality of a company's ESG performance and sometimes were willing to bet on the ability of companies to improve. "The very essence of being an active fund manager is that you have to be, kind of by definition, somewhat contrarian," Allen said. "You have to be willing to go left when other people are going right to get that outsized return."[ii]

Some ESG issues were automatic disqualifiers. Parnassus's funds would not own any company that derived more than 10 percent of its revenue from alcoholic beverages, fossil fuels, gambling, nuclear power, tobacco or weapons.

Assuming a stock passed these screens and a portfolio manager regarded it as financially attractive, Parnassus's team of ESG analysts would assess its ESG risks. They aimed to determine the risks' relevance in the company's particular industry and their significance to its stock value. (Investment professionals refer to "significance" as "materiality.") Parnassus explained the approach in a brochure about its process: "ESG research on an industrial company may emphasize employee health and safety and environmental impact, relative to others in the same industry, whereas ESG research on a technology company may emphasize workplace positives and data security. An important consideration is whether the company is moving in a positive or negative direction on these issues."[iii]

Parnassus's team of ESG analysts, led by Iyassu Essayas, would dig into every company the firm's portfolio managers were considering buying. They would do their own research into the major controversies pertaining to a stock and examine ESG metrics compiled by data providers such as Sustainalytics and MSCI. The ESG analysts were tasked with determining what was most material to a company's value. A material ESG risk, whether a record as a polluter or repeated accusations of discrimination, could threaten a stock price just as much as a financial stumble.

> *"Our tagline is principles and performance, and we're always trying to find that balance," Allen said. "If we feel like the ESG materiality is significant enough or if the fundamentals are deteriorating enough, we'll divest."*

Once Parnassus bought stock in a company, the company's direction of ESG change — its improvement or deterioration — was monitored through ongoing engagement with the executives and investor-relations staff. Rather than waging public fights over proxy votes, as some activist investors did, Parnassus's engagement took the form of frequent meetings and calls with management and suggestions about how to improve. "In our experience, building positive relationships with management … is an impactful way to effect corporate change," Parnassus explained in its brochure.

When ESG controversies did arise, as they inevitably would, Parnassus did not automatically sell. Rather, the firm's fund managers and analysts would engage with company executives to understand the extent of a problem, why it happened and how management was working to prevent recurrence. "If we had to sell a large-cap stock every time there was a negative story written about in it the newspaper, I don't know what we could own," said Ian Sexsmith, a Parnassus portfolio manager and senior research analyst.

From stagecoaches to "stores"

Parnassus's investment in Wells Fargo was rooted in the conviction that Wells Fargo could emerge stronger from its fake-accounts scandal as well as a belief that engagement could help accelerate that process. If Wells Fargo could clean up its problems and install better internal controls, what would remain was one of the largest banks in the United States. The fund managers at Parnassus weren't the only sophisticated investors who believed that. Among the bank's shareholders was Warren Buffett, chairman of Berkshire Hathaway, widely acknowledged as one of the world's canniest investors. Berkshire held about 10 percent of Wells Fargo's shares.

Wells Fargo had started in San Francisco in 1852.iv In the beginning, the company was also, famously, a stagecoach operator. It stored and transported gold for the miners who took part in California's Gold Rush, and its transport network grew as settlers surged into the American West. The U.S. government nationalized express transportation as part of its World War I mobilization, and Wells Fargo was left with its San Francisco bank.

The modern Wells Fargo didn't take shape until 1998, when the bank merged with Norwest in Minneapolis, and Richard Kovacevich, of Norwest, became chairman and chief executive of the merged firm.

Kovacevich was a charismatic manager who had passed up a chance to play professional baseball to attend Stanford University as an undergraduate. He wasn't content to just take deposits and loan money, as traditional banks did. He aimed to turn his company into a financial supermarket, where clients could satisfy all of their money needs.

Under Kovacevich, Wells Fargo didn't call its retail offices "branches"; it called them "stores."[v] Branch personnel were implored to sign customers up for at least eight accounts or bank services, because, as Kovacevich liked to say, "Eight is great." Cross-selling, as the practice was called, worked: the more products a person had with a bank, the more profitable that person tended to be and the more likely they were to remain a customer.[vi]

Kovacevich also believed in a decentralized corporate structure that pushed decision-making closer to customers. Executives who led Wells Fargo's divisions, including the branch network, known as the Community Bank, were instructed to "run it like you own it."[vii] Functions like risk management, which were often centralized at other large banks, resided at the divisional level.

Kovacevich retired from being CEO in 2007 and was replaced by John Stumpf, who'd also arrived via the Norwest merger. Upon his retirement, Kovacevich was feted for building a bank perceived to be one of the best in the United States.

At that point, Wells Fargo had more than $600 billion assets and earnings of $2.38 a share. Its return on equity was 17.12 percent, and its efficiency ratio was 57.9 percent.[viii] (Efficiency ratio is noninterest expense divided by total revenue and is a key indicator of how well managed a bank is.) Even more important, it had the financial wherewithal to sail through the Global Financial Crisis of 2008 and 2009. Due to its financial muscle, it was able on Jan. 1, 2009, to acquire Wachovia, a large North Carolina bank that had flirted with insolvency on account of troubled mortgages and other real estate loans.[ix] After the two banks combined, Wells Fargo had about $1.4 trillion in assets.[x]

Long after Kovacevich had stepped away from daily management, his retailer's mentality continued to animate Wells Fargo. That zeal for treating credit cards like a clearance rack at a discount retailer was part of what landed the bank in trouble.

Bogus accounts and bill collectors

For years, Wells Fargo endured an occasional news story about how its branch personnel pushed products customers didn't want or need. None of those amounted to much until Sept. 8, 2016.

On that day, the U.S. Office of the Comptroller of the Currency and the Consumer Financial Protection Bureau — both federal regulators — as well as the Los Angeles City Attorney announced that, as part of a settlement, the bank would pay a $185 million fine and refund customers about $2.6 million in inappropriately charged fees. The regulators said Wells Fargo employees had opened about 2 million bank accounts and credit cards without customer authorization. Some customers had noticed the bogus accounts when they received credit and debit cards in the mail or when they were contacted by bill collectors. In some cases, bank employees closed the accounts soon after opening them, and, in others, they signed up their own family members. The ruses helped them meet their sales goals.

As part of the announcement, the regulators said that, over the prior five years, the bank had fired about 5,300 employees, out of a total staff of about 270,000, because of improper sales practices. Wells Fargo would soon end one of its management practices that had motivated its employees' dishonesty: branch-level sales goals. Carrie Tolstedt, the executive in charge of the branches, was already slated to retire at the end of the year.

The settlement was just a ding for a bank with a stock market capitalization of about $240 billion. It amounted to about 3 percent of Wells Fargo's second-quarter profits.[xi]

Still, September 2016 became a slog for the bank. Within days of the settlement, members of the U.S. Congress were calling for hearings. Those happened later in the month. There, senators from both parties lambasted CEO Stumpf, with one Republican accusing Wells Fargo's executives of being "completely out of touch."[xii]

During this period, Parnassus personnel spoke with Stumpf and his head of investor relations. The discussion focused on "what they were doing to address the root of the problem, which was the compensation practices for their sales force," said Sexsmith of Parnassus. "And they had answers that they were making changes." The bankers stressed that the problems had been concentrated among branches in Southern California and Arizona and that, at any given time, only about 1 percent of the bank's employees were involved. They couldn't explain why the misconduct was so prevalent in that region.

A very noticeable change to Wells Fargo's compensation practices came at the end of September, when the bank's board announced that Stumpf and Tolstedt, the former branch chief, would forfeit some of their pay. Stumpf would relinquish about $41 million worth of unvested equity, his 2016 bonus and part of his salary, while Tolstedt would sacrifice $19 million worth of unvested equity and her bonus. The board also said Tolstedt had left the company and wouldn't receive severance pay.[xiii]

The following day, more bad news arrived when U.S. Justice Department announced that Wells Fargo had illegally repossessed the cars of 413 members of the U.S. military and would pay a $41 million settlement. Within three weeks, Stumpf had retired and was replaced as CEO by Tim Sloan, who had headed Wells Fargo's wholesale banking group and hadn't been implicated in the scandal. The bank's board of directors also announced that it was splitting the roles of CEO and board chairman — both wouldn't be occupied by Sloan.

That December, several of Parnassus fund managers and analysts met with Sloan and Wells Fargo's CFO, John Shrewsberry. The Parnassus team wanted to know why Wells Fargo's top executives had been seemingly blind sided by the fake-accounts scandal. Sloan and Shrewsberry said lower-level personnel had tried to fix the problems without notifying their managers. They stressed the mistakes had largely been remedied: all checking account customers had been reimbursed any improperly imposed fees and credit card customers soon would be, along with having downgrades to their credit scores corrected.

Environmental risks and sacred sites

One topic broached in that meeting had been overshadowed in the media by the fake-accounts scandal. That was Wells Fargo's participation in the financing of the Dakota Access Pipeline, which would carry oil from North Dakota to Illinois. Parnassus's ESG analysts were monitoring the pipeline because of its impact on the environment and on sites Native Americans regarded as sacred, including Lake Oahe, straddling the border of the Dakotas. The Standing Rock Sioux Tribe, whose reservation the pipeline would skirt, had sued to block it.

The Wells Fargo executives defended the bank's role, saying their bank was one of 18 funders and the pipeline would traverse an existing easement. The new pipeline, they said, would be built atop an old one.

Through the end of 2016 and the beginning of 2017, a period of relative quiet arrived for Wells Fargo. Regulators continued their investigations, and the media continued to report developments in the bank's ongoing efforts to reform, but no major news burst forth.

Things changed in April 2017.

On 10th of that month, the Wells Fargo board of directors released a long-awaited report, prepared by an outside law firm, on the extent of the fake-accounts scandal and the failures of the bank's internal controls. Mostly the report reiterated what was already known, though it did concede the scandal had done "extraordinary damage to Well Fargo's brand and reputation."[xiv] Tolstedt, former head of the Community Bank, was repeatedly singled out for criticism.

The report said the culture and pay practices in the Community Bank created excessive sales pressure on branch employees and that top managers of the division had downplayed problems, refusing to acknowledge they might be systemic. "Tolstedt and certain of her inner circle were insular and defensive and did not like to be challenged or hear negative information," the report said.

Sales goals were sacrosanct within the Community Bank. Rather than modify them, managers fired employees caught cheating. That led to high turnover in the branches, which was accepted because it was common in retailing. Wells Fargo's decentralized structure meant no one above Tolstedt delved into what was happening.

The board also revealed that four more executives, all from the Community Bank, had been fired, including the chief risk officer, and that more pay was being clawed back from Tolstedt and Stumpf. Together, the two former executives would lose an additional approximately $75 million.

The board's report wasn't the only exegesis of Wells Fargo's misdeeds that arrived in April.

Later in the month, Glass Lewis, a proxy advisory firm, published its voting recommendations for Wells Fargo's annual meeting.[xv] Firms like Glass Lewis guide shareholders on votes on proxy ballot items, which include such critical matters as board membership and executive compensation.

Glass Lewis rebuked the Wells Fargo board, calling for rejection of six of the 15 members. Four members had served long enough that their tenures overlapped with the years of the worst sales abuses, and two were deemed to serve on too many boards. Glass Lewis also evaluated the bank's overall ESG performance. It noted that, while the fake-accounts scandal had "severely harmed" Wells Fargo's reputation, a paradox of it was the "immateriality of any gains"; so far, investigations had identified only $3.2 million in bank income from bogus accounts.

Overall, Glass Lewis rated Wells Fargo as an average ESG performer — middle-of-the- pack on environmental and social matters but lagging on corporate governance. The adviser said the board had been inattentive to the Community Bank and lax when its problems first arose, but had, since the regulatory settlement, stepped up: "We believe that, after a somewhat clumsy start that was perhaps reflective of a lack of awareness of how seriously news of the settlement would impact the company, the board has taken robust steps to hold senior management accountable for its failures and restructure the company's risk reporting."

In advance of the annual meeting, a group from Parnassus, including Dodson and Allen, spoke via phone with the bank's board chair, to review the board nominees. When the vote arrived at the meeting on April 25, Parnassus would end up voting against five of the seven members of the board's risk committee. In conversations with the bank, the Parnassus team had also urged settlement of a class-action lawsuit that had come in response to the fake accounts. On April 21, Wells Fargo settled that suit, agreeing to pay $142 million to customers who had had accounts improperly opened as far back as 2002.

Even that payout didn't manage to put the bank's problems behind it and silence its critics. Throughout the rest of the spring and into the summer, media reports and the bank's own internal investigations kept uncovering problems. None alone was especially significant, but the hot light of public skepticism stayed aimed at Wells Fargo. The bank, for example, was accused in a lawsuit of improperly modifying mortgages. It also admitted that it had charged about 570,000 customers for auto insurance they didn't need.

An eye-popper emerged on August 31 when Wells Fargo revealed it had identified another 1.4 million improper accounts, bringing the total number to about 3.5 million. With that announcement, the bank claimed its investigations of fake accounts were complete. In a telephone call with reporters, CEO Sloan called the day "an important milestone to rebuild trust."[xvi]

Parnassus team members had their own conversations with Sloan and his deputies around this time. The CEO told them the bank had erred on the side of caution and included both definite and possible bogus accounts in the updated fake-accounts number.[xvii] He said, too, that reforms within the Community Bank were showing results, with turnover falling to its lowest level in four years. Branch employees were now being compensated based on service quality, not sales quantity.

Overall, the portfolio managers at Parnassus believed that the bank was making progress on restructuring and repairing its damaged reputation and that, as shareholders, they would have to access to top management and the ability to continue to press for improvements and accountability. But they also knew that reputation lags reality and that financial advisers and their fund shareholders might continue to second-guess them.

> *"We felt like Wells Fargo was contrite, that it was taking responsibility in terms of firing Stumpf and clawing back a bunch of money from him and a bunch of other folks that were let go," Allen said. "But we knew it was a controversial decision to be patient with the company."*

The pipeline and protests

As the bank was making progress on repairing its reputation vis-à-vis the accounts scandal, the Dakota Access Pipeline burst back into public view.

The Standing Rock Sioux Tribe, who had argued their water supply was threatened by potential oil spills, asked a federal court to shut down the pipeline, pending a full environmental review.[xviii] The Standing Rock Sioux were joined in the complaint by the Cheyenne River Sioux. An earlier proposed pipeline route, which had passed close to North Dakota's capital, had been rejected because of concerns about spills.[xix]

The Standing Rock Sioux had come to personify opposition to Dakota Access. To block construction, they had set up an encampment in its proposed path. Mass protests had ensued there, drawing Native Americans and environmental activists from across the country. The Obama administration had halted the pipeline in late 2016, but the Trump administration had restarted it in early 2017. That led to the razing of the camp, the arrest of protestors and the resumption of construction. The pipeline began operating in mid-2017.

As part of its engagement, Parnassus had asked Wells Fargo to return, in the form of a charitable contribution, all profits from the pipeline to the Standing Rock Sioux. In November 2017, Parnassus's effort bore fruit when the bank announced a $50-million, five-year plan to assist Native America nations.[xx] As part of a raft of measures, Wells Fargo committed to improve Native Americans' access to loans (including funding for affordable housing), assist with environmental sustainability by financing renewable energy and clean water projects and hire a business-relationship manager for Native American nations.

In late November, Essayas, Parnassus's director of ESG research, sent what he termed a "bittersweet email" to Allen, Ahlsten and Sexsmith about the announcement. "Wells Fargo finally came through with their charitable contributions to the Native American community," he wrote. "You should feel good about this. Contending for the little guy actually worked."

As with so much with Wells Fargo over the prior 18 months, the good news had come only haltingly. That left Allen reflecting on what Parnassus had accomplished with its patience and engagement and whether the efforts had been worthwhile. "All of us joined the firm because we believe in the values and we believe there doesn't have to be a trade-off — you can invest according to values and, at the same time, use ESG for materiality to benefit your returns," he said.

Was Parnassus's investment in Wells Fargo still advancing the financial welfare of the firm's investors and the ESG values that were so important to many of them and to the staff of the firm? Had Parnassus, in this case, succeeded in integrating its analyses of company fundamentals and ESG performance?

Appendix 1: Parnassus Fundamental Analysis for Wells Fargo

Ticker	WFC	Stock Price	$50.66	Beta (5-year)	1.13x	Analyst	IS
Company	Wells Fargo & Company	Market Cap (millions)	$251,474	Tier 1 Common	11.6%	Date	9/12/2017
Last Fiscal Year	12/31/2016	Dividend Yield	3.1%	S&P Credit Rating	A-	Last update	9-Aug-17

Valuation

Price to NTM EPS

	Current		5-Year Range		
	Amount	Multiple	Average	High	Low
P/ NTM EPS	$4.35	11.6x	11.7x	14.0x	8.8x
EPS Growth		3.9%	3.5%	16.8%	(2.6%)

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Avg / CAGR / St Dev 10-Year	5-Year
GAAP EPS	$2.49	$2.38	$0.70	$1.75	$2.21	$2.82	$3.36	$3.89	$4.10	$4.12	$3.99		
GAAP gap	0.0%	(0.1%)	(6.7%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	(0.7%)	0.0%	(0.7%)	(0.1%)
Company EPS	$2.49	$2.38	$0.75	$1.75	$2.21	$2.82	$3.36	$3.89	$4.10	$4.15	$3.99		
Growth	*10.7%*	*(4.3%)*	*(68.5%)*	*133.3%*	*26.3%*	*27.6%*	*19.1%*	*15.8%*	*5.4%*	*1.2%*	*(3.9%)*	*4.8%*	*7.2%*
EPS Estimate at Start of Year	$2.50	$2.74	$2.80	$1.82	$1.88	$2.85	$3.20	$3.61	$4.02	$4.24	$4.40		
Beat/Miss	(0.5%)	(13.1%)	(73.3%)	(3.7%)	17.3%	(1.1%)	4.9%	7.7%	2.0%	(2.1%)	(9.3%)	23.6%	6.7%

Price to Book Value

	Current		5-Year Range		
	Amount	Current	Average	High	Low
P/ BV	$36.53	1.4x	1.5x	1.8x	1.2x
Forward ROE		11.9%	13.1%	14.2%	11.4%

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	CAGR / Average 10-Year	5-Year
Book Value	$13.47	$14.31	$16.02	$19.95	$22.37	$24.48	$27.47	$29.27	$31.95	$33.54	$34.89		
Growth	*12.1%*	*6.2%*	*12.0%*	*24.5%*	*12.1%*	*9.4%*	*12.2%*	*6.5%*	*9.1%*	*5.0%*	*4.0%*	*10.0%*	*7.3%*
Forward ROE	20.7%	17.7%	5.2%	10.9%	11.1%	12.6%	13.7%	14.2%	14.0%	13.0%	11.9%	13.2%	13.4%

Key Financial Drivers

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	CAGR/ Average 10-Year	5-Year
Average Earning Asset Growth	7.9%	7.2%	17.4%	109.5%	(3.0%)	3.6%	6.1%	9.9%	11.3%	10.0%	8.8%	15.2%	9.2%
Net Interest Margin	4.83%	4.74%	4.83%	4.28%	4.26%	3.94%	3.76%	3.39%	3.11%	2.95%	2.86%	3.90%	3.21%
Provision for Loan Losses	0.72%	1.43%	4.01%	2.63%	2.04%	1.04%	0.93%	0.29%	0.17%	0.28%	0.40%	1.27%	0.41%
Efficiency Ratio	58.4%	57.7%	54.1%	55.3%	59.2%	61.0%	58.5%	58.3%	58.1%	57.8%	59.3%	58.0%	58.4%

Wells Fargo & Company

Sensitivity Model

		Last Fiscal Year	Base		Bull		Bear	
Target Date		31-0ec-191						
Hold Period		2.3 years						
		last Fiscal Year	CAGR	31-0ec-20	CAGR	31-Dec-20	CAGR	31-Dec.-20
		12/31/2016						
Average Loans		$949,901	6.0%	$1,199,228	8.0%	$1,292,330	2.0%	$1,028,203
Average Earning Assets		$1,710,856	6.0%	$2,159,916	s.0%	$2,327,601	2.0%	$1,851,886
Net Interest Margin *(differs from stated NIM due to tax)*		2.79%		3.10%		3.30%		2.80%
Net Interest Income		$47,754	8.8%	$66,957	12.6%	$76,811	2.1%	$51,853
Fee Income		$40, 13	1.0%	42,158	2.0%	$43,853	0.0%	$40,513
Revenue		$88,267		$109,115		$120,663		$92,366
Efficiency Ratio		59.3%		57.0%		56.0%		59.0%
>';£lenses		($52,377)	4.4%	($62,196)	6.6%	($67,572)	1.0%	($54,496)
Pre-provision earnings		$35,890	6.9%	$46,920	10.3%	$53,092	1.4%	$37,870
Provision for Loan Losses as% of Loans		0.40%		o.60%		a.so%		1.20%
Provision for Loan Losses		($3,Z.70)	17.5%	,!$7,195)	14.4%	($6,462)	34.5%	($12,338)
Income Before Taxes		$32,120	5.5%	$39,724	9.8%	$46,630	(5.6%)	$25,532
Income Tax Rate		31.4%		31.4%		25.0%		31.4%
Income Taxes		($10,075)		($12,460)		($11,658)		{$8,008)
Net Income		$22,045	5.5%	$27,264	12.2%	$34,973	(5.6%)	$17,523
I_nority Interest d Preferred Divi ends		($1, 72)		,!$1,672)		($1,672)		($1,672)
Net Income to Common		$20,373	5.9%	$25,592	13.1%	$33,301	(6.1%)	$15,851
_e uted Shares Ou!_standing		5,!_08	(3.0%)	4,522	(3.0%)	4,522	(2.0%)	4,712
EPS		$3.99	9.1%	$5.66	16.6%	$7.36	(4.2%)	$3.36
Book Value		$34.89	3.0%	$39.20	2.3%	$38.18	2.6%	$38.66
Forward ROE		11.9%		14.4%		19.3%		8.7%
Valuation	Price to NTM EPS	11.6x	0.8%	12.ox	2.8%	13.ox	(0.3%)	11.5x
Implied Valuation	Price to Book Value			1.7x		2.5x		1.Ox
Target Price	*Bear uses Book Value*	$50.66		$67.91		$95.73		$38.69
Stock Return			10.3%		23.6%		(8.6%)	
Share Buyback as% of Net Income				37.8%		40.0%		24.5%
Payout Ratio		38.0%		30.0%		40.0%		45.2%
Dividends per Share		$1.52		$1.70		$2.95		$1.52
rage Dividend _!ie ld		3.1%	3.2%		4.4%		3.0%	
Total Return			13.4%		28.0%		(5.6%)	

Appendix 2: Competitor / Peer Comparison for Wells Fargo

COMPETITORS / PEER COMPARISON

	WELLS FARGO & COMPANY	BANK OF AMERICA CORPORATION	JPMORGAN CHASE & CO.	U.S. BANCORP
Company Data (MCD)				
Ticker	WFC	BAC	JPM	USB
Closing Price	$55.85	$25.22	$91.64	$52.69
Shares Outstanding (mm)	5,003.4	10,011.9	3,571.5	1,693.2
Market Capitalization (mm)	$279,438.1	$252,501.2	$327,291.1	$89,215.9
Enterprise Value (mm)	$601,446.1	$580,521.2	$941,454.1	$131,606.9
Latest Filing (Fiscal Period End Date)	12/31/16	12/31/16	12/31/16	12/31/16
Financial Strength (LTM)				
Current Ratio	-	-	-	-
Debt-Equity Ratio	0.00x	0.00x	0.00x	0.00x
Profitability & Margin Analysis (LTM)				
Revenue (mm)	$84,541.0	$80,104.0	$90,307.0	$19,360.0
Gross Profit Margin	-	-	-	-
Operating Income Margin	40.8%	33.8%	37.9%	42.8%
Net Income Margin	25.9%	22.4%	27.4%	30.4%
Return on Equity	11.2%	6.8%	9.9%	12.5%
Return on Assets	1.2%	0.8%	1.0%	1.4%
Valuation Multiples (LTM)				
Price/Earnings Ratio	14.0x	16.8x	14.8x	16.3x
Total Enterprise Value/Revenue	7.1x	7.2x	10.4x	6.8x
Total Enterprise Value/EBIT	-	-	-	-
Growth Rate* (LTM)				
5 Year Revenue Growth Rate	3.0%	0.3%	0.1%	4.3%
5 Year EPS Growth Rate	7.2%	182.8%	6.7%	5.7%
Stock Performance (MCD)				
1 Year Stock Performance	10.2%	89.5%	55.5%	27.3%
3 Year Stock Performance	13.7%	50.1%	61.3%	22.5%
5 Year Stock Performance	64.2%	157.3%	105.6%	67.1%

Source: Capital IQ

MCD (Market Close Date): Calculations are based on the period ending on the market close date, 03/21/17.
LTM (Last Twelve Months): Calculations are based on the twelve-month period ending with the Latest Filing.
*Growth rates are calculated based on a compound annual growth rate method.
A dash ("-") indicates a datapoint is either not available or not meaningful.

Appendix 3: Glass Lewis / Sustainalytics ESG Profile for Wells Fargo

ENVIRONMENTAL, SOCIAL & GOVERNANCE PROFILE

All data and ratings provided by: SUSTAINALYTICS

OVERALL ESG SCORE

Average Performer

Comparative Industry: **Banks**

Board oversight for ESG Issues: **Yes**

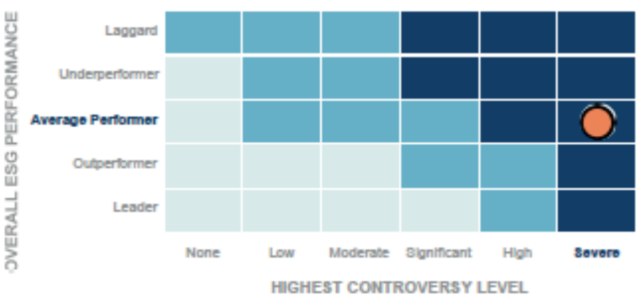
Last Update: **April 03, 2017**

ANALYST COMMENTARY

"Wells Fargo (WF) is one of the largest US-based banks with total assets of USD 1.93 trillion. It is almost exclusively a retail bank, with wholesale and community banking revenues accounting for 94% of net income of USD 21.9 billion in FY2016. The bank's wealth, brokerage and retirement segment accounted for the remainder. The bank is a leader in a number of lending markets, including auto and student loans. The bank averages six products per family, representing a high product cross-selling rate. The company's large size, retail focus, many product offerings, and operations in the US expose it to very high regulatory oversight. Regulatory risk is high for the financials sector overall, especially for issues related to Business Ethics and Product Governance, and it is especially high in the US. Related fines have reached billions of dollars for individual firms, and infractions can, in extreme cases, result in criminal charges. ESG Integration also presents a growing area of reputational risk for the company, as it is a large global lender. NGOs and media continue to regularly cite banks, including WF, for financing controversial industries and products. Therefore, Business Ethics, ESG Integration and Product Governance are the bank's key ESG issues. Its management of Business Ethics is poor considering it is implicated in a highly sensitive scandal involving opening up to two million retail customer accounts without their knowledge or authorization, as a result of high product cross-selling targets. While some reactive mitigating steps have been taken in the ensuing public outcry, it will take time to fully address business ethics cultural issues, and disclosure on policies and programmes still needs to be improved. ESG Integration, particularly in WF's lending standards, is also of concern. It has been singled out for its co-lead role in financing the Dakota Access Pipeline, and this raises questions about the strength and extent of disclosure of existing lending standards. For Product Governance, the bank continues to resolve legacy mortgage issues. It has proactively managed both its pay-lending exposure and subprime auto loan exposure, however a March 2017 downgrade by the OCC on community lending standards to ""needs to improve"" reflects that more work needs to be done. Overall, Wells Fargo's management of ESG issues is still insufficient considering the intense scrutiny it is under for various controversies, leading us to a negative view. "

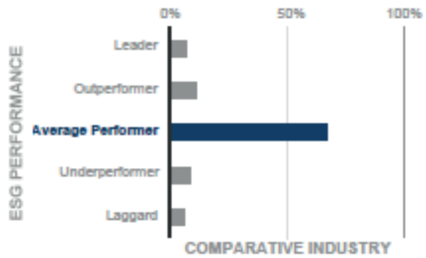
ESG RISK PROFILE

The graph below compares the Company's ESG performance to its involvement in controversies in order to provide an assessment of the Company's ESG risk profile.



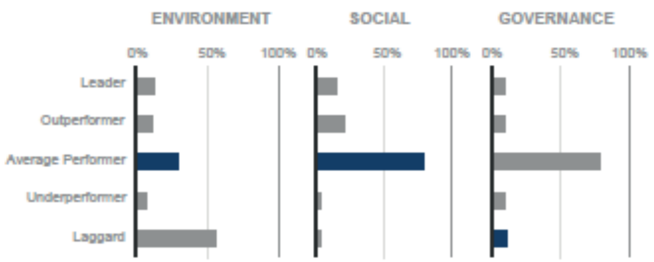
OVERALL ESG PERFORMANCE

The graph below indicates the percentage of companies in the comparative industry that fall within each ESG performance category.



ESG PILLAR PERFORMANCE

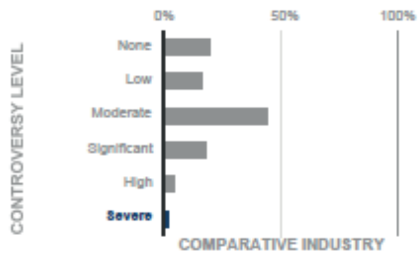
For each pillar, the graph below indicates the percentage of companies in the comparative industry that fall within each ESG performance category. The governance pillar shown below is measured by Sustainalytics based on the Company's governance of sustainability issues.



Rows and categories shown in dark blue or bold represent the Company's category for the relevant assessment.

HIGHEST CONTROVERSY LEVEL

The graph below indicates the percentage of companies in the comparative industry that fall within each controversy level.



NOTEWORTHY CONTROVERSIES

SEVERE

Severe controversies are the most serious controversy level. They have the greatest negative impact on stakeholders and generate the greatest risk to a company's financial performance. Such controversies are highly exceptional. They indicate egregious practices and generally reflect a pattern of gross negligence, with the Company refusing to address the issue and/or concealing its involvement.

Business Ethics Incidents:
- Bualn&88Ettllea

HIGH

High-impact controversies are those that have major negative sustainability impacts and typically generate significant business risk to the Company. Such controversies are generally exceptions within an industry. They typically involve a pattern of negative events or impacts and indicate a lack of company preparedness to properly manage key sustainability issues.

No high controversies

SIGNIFICANT

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DISCLAIMER

Appendix 4: Glass Lewis Detailed Analysis on Wells Fargo

GLASS LEWIS ANALYSIS

We believe it is important for shareholders to be mindful of the following:

OVERVIEW

The revelations of fraudulent sales practices at the Company's community bank have severely damaged the Company's reputation and exposed the Company's leadership to intense scrutiny. It also is a shining example of the importance of incentives throughout an organization and a stark reminder for institutions presumably more focused on stress tests, living wills and Basel ratios that "reputational risk" should be more than a tertiary consideration.

While the Company's traditionally conservative and prudent financial risk management practices helped it emerge from the 2008 financial crisis relatively unscathed and in far better standing than most of its peers, a cultural failure led to arguably the most negative media coverage of any company in the business world during 2016. The effects are likely to continue for the forseeable future, with February credit card applications at the Company's community bank reportedly down 55% from a year prior.

The behavior of community bank employees was egregious, but perhaps the most startling figure of all is the dollar amount of income associated with the fraudulent accounts: a paltry $3.2 million was returned to consumers for the period of May 2011 through June 2015, according to the Company's most recent annual report. For comparison, the Company's community banking segment alone reported net income of $13.5 billion in fiscal year 2015. While the immateriality of any gains leads us to be dismissive ofpolitical grandstanding claiming that the Company's executives enriched themselves at the expense of consumers and low-level employees, it makes the behavior in question (and the Company's failure to treat customers fairly) even more vexing.

The board has launched a comprehensive investigation into its retail banking sales practices which includes the establishment of a special committee of independent directors and the retention of independent counsel to assist. A recent presentation regarding the various initiatives the Company has taken in response to the public outcry, including the elimination of product sales goals in its retail bank, can be read here. The board expects to publicly disclose the findings of the investigation in the coming weeks, shortly prior to the Company holding its annual meeting.

Overall, it appears to us that the board has taken robust actions to improve its risk reporting structure, hold executives accountable for their actions, increase the strength of its independent board leadership and begin rebuilding the trust of the general public. A lengthy discussion of the various actions taken by the Company can also be read in our analysis of Proposal 5 (a shareholder proposal requesting a special report regarding the Company's retail banking sales practices).

Based on the available information—including the listed responsibilities of the Company's committees during the years in which the fraudulent sales practices took place—we believe shareholder opposition to several long-serving members of the Company's corporate responsibility committee is warranted at this time.

SALES PRACTICES AND FRAUDULENT ACCOUNTS

CFPB Settlement

On September 8, 2016, the Consumer Financial Protection Bureau ("CFPB") fined the Company $100 million for the widespread illegal practice of secretly opening unauthorized deposit and credit card accounts. An additional $35 million penalty was paid to the Officer of the Comptroller of the Currency and another $50 million to the City and County of Los Angeles. The Company has since been named in a series of related class-action lawsuits, one of which was settled for $110 million at the end of March.

The CFPB stated in its review that the bank managers had set aggressive sales targets and compensation incentives which encouraged employees to boost sales figures by covertly opening accounts and funding them by transferring funds from consumers' authorized accounts without their knowledge or consent, often leading to accumulated fees or other charges. According to the bank's analysis, employees opened more than two million deposit and credit card accounts that may not have been authorized by consumers.

Since the announcement of the settlement, dozens of former employees have come out to the media to say they were fired for raising red flags; a recurrent theme of the reporting on this topic is that calls to the Company's old ethics hotline were not properly investigated or escalated outside of the community banking unit (Stacy Cowley. "At Wells Fargo, Complaints About Fraudulent Accounts Since 2005." *The New York Times*. October 11, 2016).

Mass Layoffs and Political Scrutiny

In announcing the settlement, the Company also stated that it had fired approximately 5,300 employees beginning in 2011 for their involvement in opening unauthorized accounts (Kevin McCoy." Wells Fargo fined $185M for fake accounts· 5 300 were fired" *USA Today.* September 9, 2016). A few weeks after the disclosure of the settlement and firings, the Company was in full-blown crisis mode, with Mr. Stumpf called to testify in front of Congress. Mr. Stumpf apologized to customers for the oversight lapses and breach of trust, denied accusations that any of the practices were coordinated at a high level, and like many major bank CEOs before him was aggressively criticized by a bipartisan group of politicians (Jeff Cox. "Wells CEO John Stumpf Says He is 'Deeply Sorry' But Denies 'Orchestrated Effort." *CNBC.* September 29, 2016). Mr. Stumpfs written testimony can be read here.

Multiple members of Congress attempted to pin down Mr. Stumpf about how much he knew about about the fraudulent accounts and when. Allegations of an aggressive sales culture that lead to the account openings have been public since at least 2013, when the *Los Angeles Times* ran this article. Then-CFO Tim Sloan told the newspaper that he was "not aware of any overbearing sales culture."

The mass firings led three U.S. Senators to raise questions with the Financial Industry Regulatory Authority ("FINRA"} in November regarding the Company's disclosures about its dismissals of employees, which the Senators believe may have been due to the employee's reporting or refusing to engage in allegedly fraudulent account-opening activities.

Later in November, the Office of the Comptroller of the Currency ("OCC"} announced that it had placed new restrictions on the Company. The new restrictions require the Company to provide the OCC 90 days' notice before hiring senior executives or changing their responsibilities. The OCC can now limit severance payments to departing executives, and the Company's decisions regarding matters such as opening and closing branches will no longer receive "expedited treatment" by the OCC (Matt Egan." Feds 'tightening the straitjacket' around Wells Fargo." *CNN Money.* November 21, 2016).

Changes in Management and Governance

On October 12, 2016, the Company announced in a press release the early retirement of its CEO John Stumpf. Tim Sloan, previously appointed as the Company's president and COO pursuant to the Company's succession plan in 2015, now serves as president and CEO. The board separated the roles of chair and CEO and elected Stephen W. Sanger, previously the Company's lead director, as independent chair of the board. The board also elected an independent vice chair, Elizabeth A. Duke (who the Company notes has strong regulatory and financial services expertise} and amended the Company's bylaws to require that the chair and any vice chair of the board be independent directors.

During 2016 the Company engaged with shareholders representing more than 30% of the Company's outstanding common shares. Discussion topics included recent events relating to sales practices, board composition, director tenure, board oversight of risk, and the Company's executive compensation program. Some of these actions were based, in part, on input received from investors and other shareholders.

In this year's proxy statement, the board further disclosed details about its investigation into the Company's retail banking sales practices. The investigation is being overseen by a special board committee which is chaired by independent chair, Mr. Sanger, and includes three other independent directors (Ms. Duke, Vice Chair; Mr. Hernandez and Mr. James}, working with the board's human resources committee and independent counsel.

While the investigation was pending, the board took several actions based on its investigation, including the termination of four senior managers in the community banking segment and executive compensation actions to reinforce accountability of leadership for issues arising from the community bank's sales practices.

Impact on Operations

The quarter following the announcement of the false accounts, the Company's new credit card applications and n ew checking account openings were down 43% and 40% percent from 2015 numbers, respectively; however, the Company stated that its reported loss for the quarter had little to do with the account scandal and was caused by an accounting quirk in the way that it hedges (Michael Corkery. "Wells Fargo Struggling in Aftermath of Fraud Scandal." *New York Times.* January 13, 2017).

Community Reinvestment Act Rating Downgrade

On March 28, 2017, the Company released the results of its most recent Community Reinvestment Act ("CRA") Performance Evaluation, which covers the years 2009 to 2012. The CRA and its implementing regulations require Federal financial institution regulators to assess the record of each bank in fulfilling its obligation to the community and to consider that record in evaluating and approving applications for charters, bank mergers, acquisitions, and branch openings.

Despite citing the Company's overall "Outstanding" performance on the exam's components, the OCC downgraded the bank's final rating to "Needs to Improve" due to previously issued regulatory consent orders. The OCC noted the findings of the orders reflect "an extensive and pervasive pattern" and practice of discriminatory and illegal credit practices across multiple lines of business within the bank, resulting in significant harm to large numbers of consumers. The OCC stated the Bank failed to implement an effective compliance risk management program designed to properly prevent, identify and correct violations. It added, bank management instituted policies, procedures and performance standards that contributed to the violations for which evidence has been identified. As a result of the "significant extent and egregious nature" of these findings, the CRA Performance Evaluation overall rating was lowered.

DAPL CONTROVERSY

The Company is one of several banks targeted by environmentalists for playing a role in funding the Dakota Access Pipeline ("DAPL"), a controversial pipeline project, the construction of which has raised significant issues concerning the consultation of affected Indigenous Peoples. The occasional protests at the building site have generated considerable national media attention, and several local governments have cited the Company's funding of DAPL when pulling more than $3 billion from the Company after deciding not to renew their contracts (Bill Chappell. "2 Cities To Pull More than $3 6 billion From Wells Fargo over Dakota Access Pipeline" *NPR.* February 8, 2017).

For more in-depth information on DAPL and its effects on the Company, please refer to our analysis of Proposal 10 (a shareholder proposal requesting that the Company adopt a global policy regarding the rights of indigenous communities).

ONGOING LIVING WILL DEFICIENCIES

The Federal Deposit Insurance Corporation ("FDIC") and the Federal Reserve Board, (collectively, "the agencies") through the Dodd-Frank Act requires bank holding companies to have resolution plans, commonly known as "living wills", which describe a company's strategy for rapid and orderly resolution under bankruptcy in the event of material financial distress or failure of the company. In April 2016, the Company's "living will" was one of five 2015 plans of major banks which were not approved by the agencies; the Company is required to remedy its plan by October 1, 2016. The Company was instructed to address deficiencies in the categories of legal entity rationalization and shared services.

The agencies announced in December 2016 that the Company is subject to certain restrictions as it had not yet adequately remedied the deficiencies, and the Company was expected to file a revised plan by March 31, 2017. If the plan is not approved, the agencies will further the restrictions on the Company by limiting the size of its non-bank and broker-dealer assets to levels that were in place on September 30, 2016.

Appendix 5: Parnassus ESG Profile for WFC

Stock price $50.66, Mkt Cap $258.76B
Sector, Industry: Financials, Banks
Rachel Tan

ESG Recommendation: *Investable.*
PARWX Recommendation: *Yes.*

	Alcohol	Tobacco	Gambling	Defense/Weapons	Nuclear	Sudan
Fails screen						
<10% involvement						
No involvement	x	x	x	x	x	x

	Governance	Workplace	Community	Customers	Environment
High Risk					
Medium Risk					
Low Risk					

ESG Positives

- 2020 goals for community investment, financial inclusion, workplace diversity and environmental initiatives
- Diverse customer and employee base
- Extensive community investment and philanthropic programs

ESG Negatives

- Continues to face lawsuits for discrimination in lending practices
- Involvement in payday lending, weapons and private prisons industries

Relevant industry risks for the company: Ethical and responsible lending practices, data privacy and security

CBI Detail:

Alcohol: No involvement.

Gambling: No involvement.

Tobacco: No involvement.

Military/Firearms: No involvement.

Nuclear: No involvement.

Sudan: No involvement.

Peer ownership: Calvert Equity Portfolio, Calvert Balanced Portfolio, Calvert Large Cap Core Portfolio, Calvert Equity Income Portfolio, CVS Calvert Social equity Portfolio, Green Century Balanced Fund, Walden Equity Fund, Norges Bank.

Sustainability indices: FTSE4Good

Workplace indicators: Human Rights Campaign – 100% score on Corporate Equality Index
DiversityInc. – Best Companies for Diversity

Sustainability reporting: WFC publishes an annual sustainability report, although its 2014 final report is delayed as of January 2016.

Business Description
Wells Fargo & Company provides retail, commercial, and corporate banking services to individuals, businesses, and institutions. Its Community Banking segment offers checking, savings, market rate, individual retirement, and health savings accounts, as well as time deposits and remittances; and lines of credit, auto floor plan lines, equity lines and loans, equipment and transportation loans, education and residential mortgage loans, and debit and credit cards. This segment also provides equipment leases, real estate and other commercial financing, small business administration financing, venture capital financing, cash management, payroll services, retirement plans, and merchant payment processing and private label financing solutions, as well as purchases retail installment contracts. Its Wholesale Banking segment offers commercial loans and lines of credit, letters of credit, asset-based lending, equipment leasing, international trade facilities, trade financing, collection, foreign exchange, treasury management, investment management, institutional fixed-income sales, interest rate, commodity and equity risk management, insurance, corporate trust fiduciary and agency, and investment banking services, as well as online/electronic products. This segment also provides construction, and land acquisition and development loans; secured and unsecured lines of credit; interim financing arrangements; rehabilitation loans; affordable housing loans and letters of credit; loans for securitization; commercial real estate loan servicing; and real estate and mortgage brokerage services. The company's Wealth, Brokerage and Retirement segment offers financial advisory, wealth management, brokerage, retirement trust, and reinsurance services. As of February 25, 2015, it operated through approximately 8,700 locations and 12,500 ATMs; offices in 36 countries; and wellsfargo.com Website. The Company was founded in 1852 and is headquartered in San Francisco, California.

Qualitative assessment of the five ESG factors are below:

Environment

Reporting and Management
WFC discloses its environmental performance in annual CSR reports and through the Carbon Disclosure Project. WFC's EMS incorporates ISO 14001 core elements, but does not appear to be certified to this standard.

Initiatives & Programs
WFC had a goal to provide $30B in financing to environmentally beneficial business opportunities by 2020. It achieved this goal in 2014 with a total of $37B in environmental loans and investments since 2012. WFC has a set of Environmentally Responsible Lending principles, which address risks associated with sensitive industries such as coal and metal mining, power, and utilities. It is also one of 6 signatories (along with JPM, Citi, MS, and BAC) to the Carbon Principles, a set of guidelines to help financial institutions assess the risk in financing electric power projects.

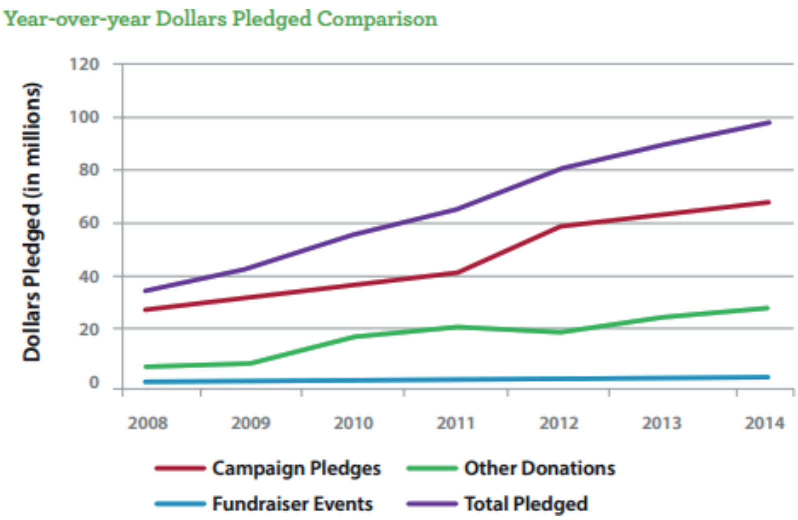
WFC's environmental policies extend to its community giving initiatives as well. WFC gave $8M in grants to environmental nonprofits in 2012, through two grant programs: Clean Tech and Innovation, and Environmental Solutions for Communities.

Products
Oil & gas loans account for 2% of WFC's total loans outstanding and 3% of total commitments. 56% of loans are to the Exploration & Production sector.

Community & Society

Philanthropy
WFC has several community investment and philanthropic programs through at least two foundations. In 2014, WFC recorded $281.2M in total corporate giving to 17,100 nonprofits and schools, achieving its $1.1B goal ahead of the 2017 target year. WFC also outperformed its community development goal by recording $17B in loans and investments in affordable housing, job creation, community services and economic development since 2012.

WFC has an annual employee-giving campaign each September called the Wells Fargo Community Support and United Way Campaign. Through the campaign, employees can contribute to any non-profit, school (including educational foundations) or religious organization, which is matched dollar-for-dollar up to $5,000. In 2014, $70.5M was pledged through the campaign.



WFC provides employees two paid days per year to volunteer – 72,600 employees used paid volunteer days in 2014. The company also has a Volunteer Leave Program, which gives these team members the opportunity to take up to four months off work, with full pay and benefits, to volunteer with a nonprofit organization or K-12 school of their choice.

WFC offers financial education and literacy programs. The company has two campaigns – Teach Children to Save, and Get Smart About Credit – that have provided financial education through Hands on Banking to over 510,000 people since 2011. Hands on Banking is a program that sends WFC employees to schools and community groups to provide basic financial education.

Wells Fargo Housing Foundation: Established in 1993, the housing foundation works with nonprofit housing agencies to create affordable and sustainable housing initiatives serving low- and moderate-income households, including seniors, veterans, and underserved families. Foundation programs include:

- Team member volunteer program – the foundation provides financial support to NGOs when employees volunteer to build/renovate/repair a home for low-income homeowners.
- Home ownership grants – this is a small grants program (average grant size is $7,800) that focuses on homebuyer counseling, homebuyer education, and foreclosure prevention activities. The program supports local nonprofit housing organizations.

Wells Fargo Regional Foundation: This foundation is currently directed at improving the quality of life for low-income neighborhoods in New Jersey, Delaware and eastern Pennsylvania through supporting resident-driven neighborhood plans. The Wells Fargo Regional Foundation awards Neighborhood Planning Grants and Neighborhood Implementation Grants to support long-term, resident-driven neighborhood revitalization. In 2015, the National Neighborhood Grants Program began piloting in Seattle, Houston and Baltimore. As part of the national pilot, one neighborhood in each city will receive a Neighborhood Planning Grant, of up to $100,000, with the grantee being selected through an open "Request for Proposal (RFP)" process. Depending on their success during the planning process, selected grantees will also be eligible to apply for implementation funds.

WFC's last Community Reinvestment Act (CRA) evaluation was in 2008 – the bank received a rating of "outstanding".

Customers & Products

Product and Customer profile
WFC's $903B loan portfolio is split evenly 50/50 between commercial and consumer loans.

Beneficial Products
WFC provides financial resources to students and small businesses. It is the #2 provider of private student loans. In 2014, WFC made a commitment to extend $100B in new lending to small businesses by the end of 2018, and to lend $55B to women-owned businesses by 2020.

Product Liability – discrimination, foreclosure practices
WFC continues to face lawsuits from the recession and housing crisis, most of which have resulted in settlements. The company also has an ethnically diverse customer base and has faced discrimination lawsuits.

Sept 2015 – The city attorney for Oakland, CA filed suit against WFC alleging that the company disproportionately steered minority customers into subprime loans before the financial crisis. The customers would have been qualified for safer, lower-cost home loans had the bank not done so, the city is arguing. Wells Fargo has already settled such charges in the past, notably suits from Memphis, Tennessee; Baltimore, Maryland (of "ghetto loan" and "mud people" fame); and others in 2012. But that hasn't stopped other municipalities from coming after it. Chicago's county, Cook County, Illinois, just had a suit dismissed in federal court, as did Los Angeles, California. But another suit, brought against Wells Fargo as well as Bank of American and Citigroup by Miami, Florida, was recently revived after an appeal.

April 2015 – WFC along with four other mortgage servicers has faced complaints and lawsuits over alleged illegal foreclosure practices on service members. Authorities claimed that the bank had violated the Servicemembers Civil Relief Act (SCRA) when it increased the loan interest rate beyond the limit stated in the SCRA. The US Justice Department ordered WFC to compensate 666 service members and co-borrowers whose homes were illegally foreclosed between 2006 and 2010. WFC and four other mortgage servicers agreed to pay USD 123M as settlement.

2014 – The US Consumer Financial Protection Bureau (CFPB) launched an investigation against WFC over alleged illegal student loan servicing practices. The investigation began as a follow up to a routine examination which included payment processing and distressed borrower services.

2012 – WFC paid a $175M settlement with the US Justice Department to resolve allegations that it discriminated against qualified African America and Hispanic borrowers in its mortgage lending. The allegations state that the two ethnic groups received subprime loans, while giving white mortgage borrowers lower rates, even though they were no more qualified. Of that $175 million, $125 million will go to borrowers and the remaining $50 million will be in the form of down-payment assistance in locations where discrimination was prominent. The hardest hit areas identified include Washington, D.C., Chicago, Philadelphia, New York City, Cleveland, Baltimore, and three cities in California: Riverside, Oakland and

San Francisco. The alleged discrimination occurred between 2004 and 2009 and impacted more than 34,000 African American and Hispanic mortgage holders in 34 states. At the same time, the bank said it would stop making loans through mortgage brokers (as other big banks such as BofA, Citi and JPM have also stopped doing), who the government said submitted loans to Wells Fargo that had varied interest rates, fees and costs based only on race and not correlated to the borrowers' creditworthiness.

<u>Involvement - Predatory Lending, Private Prisons, Controversial Weapons</u>
MSCI estimates .99% of WFC's revenue comes from predatory lending practices. Wells Fargo offers the Direct Deposit Advance service, a line of credit that can be deposited immediately into the account of a consumer checking customer in the form of a cash advance. It has a credit limit of USD 500 or half of the borrower's total monthly direct deposits rounded up to the nearest USD 20, whichever is lower. The fee is USD 1.5 for every USD 20 advance. The California Reinvestment Coalition noted that Wells Fargo's Direct Deposit Advance (DDA) locks customers in a "debt trap" due to high interest rates. The Coalition alleged that the interest on a 14-day loan is equivalent to an annual percentage rate of more than 180%, while a 30-day loan carries an interest of 91%. In January 2014, the Consumer Federation of America announced in a statement that major providers of bank payday loans, Regions Financial Corp, Fifth Third Bancorp, Wells Fargo and U.S. Bancorp would no longer offer so-called deposit advance loans, which allow customers to borrow money against future deposits into their checking accounts. Wells Fargo said that consumer checking accounts newly opened from February 2014 would not be eligible to access the Direct Deposit Advance service.

Wells Fargo has indirect ties to predatory lending through credit agreements with payday lender Advance America, Cash Advance Centers Inc., and pawn lender Cash America International Inc., which will mature on December 2016 and March 2015, respectively. The company also has a credit agreement with EZCORP Inc., a pawn and payday lender, which will end in May 2015.

WFC provides financing to the private prisons industry, which has become an issue for responsible investors. WFC is estimated to be one of the largest financers of the private prisons industry. GEO Group and Corrections Corp of America (CCA) are the country's largest private prison companies. WFC has sold off most of its GEO Group stock, but still owns over 1 million shares in CCA. WFC administers a mutual fund that holds less than 1% of GEO Group as of October 2013, a significant reduction from the previous six months. WFC and other financial institutions have come under pressure from multiple divestment campaigns by minority rights activists, unions, and student groups to end their involvement in the industry. Such activists in Oregon are asking the city of Portland to stop buying bonds from WFC because it has a mutual fund that owns a company that operates immigration detention centers. Institutions like University of California, Columbia University and the United Methodist Church have officially divested from private prisons.

Nov 2014 – WFC was named in the updated "Don't Bank on the Bomb" report by PAX, ICAN and Profundo. The report discloses that 411 financial institutions have invested about USD 402B in the controversial weapons industry since 2011. WFC was named on the 2014 Hall of Shame list with a total exposure estimated at USD 5.7B. The company provided loans and/or underwrote bond issuances for AECOM, Alliant Techsystems, Babcock & Wilcox, BAE Systems, Boeing, Lockheed, Northrop Grumman and Raytheon among others.

> <u>2013 Don't Bank the Bomb report:</u>
> An October 2013 report entitled "Don't Bank on the Bomb" by European civil society groups, IKV Pax Christi, ICAN and Profundo indicated that between January 2010 and July 2013, a total of 298 financial institutions, including Wells Fargo, had financial relationships with controversial weapons producers. Within the analyzed time frame, Wells Fargo provided financing to 17 controversial companies via the provision of loans for at least USD 12.5 million, was involved in the provision of investment banking services worth at least USD 4 million, and owned or managed shares and bonds for at least USD 2.9 million. Companies include: Boeing, Honeywell, Northrop Grumman, Rockwell Collins, and Lockheed Martin.

<u>Other Controversy</u>

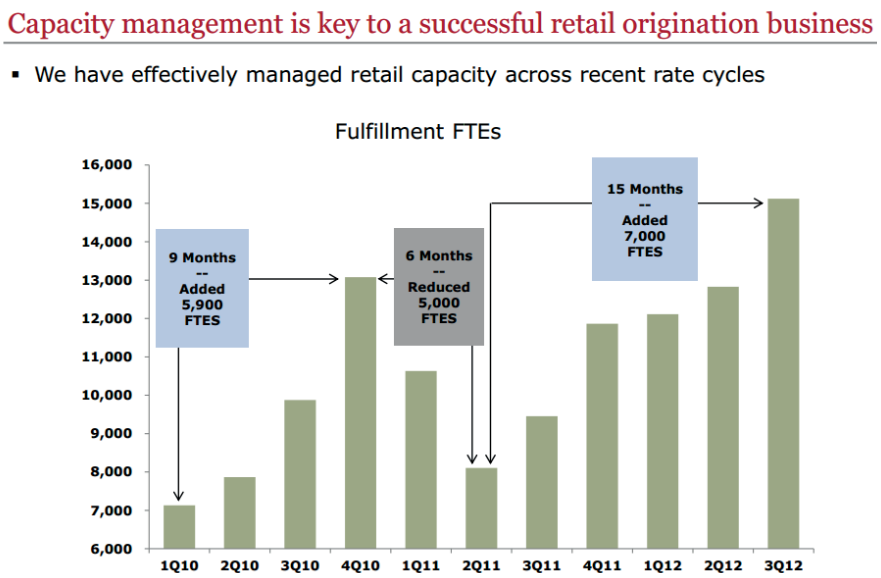
2013 – WFC paid an $869M settlement to Freddie Mac to resolve disputes over faulty loans sold to the agency before 2009. The company sold $343 billion of mortgages to Freddie Mac in 2005 through 2008. Citigroup agreed to pay Freddie Mac $395M days before the WFC settlement. It was unclear how much of the latest settlement related to Wachovia, which Wells Fargo bought at the end of 2008.

Employees & Supply Chain

Workplace
WFC had 264,500 full-time employees at the end of 2014, down from 274,000 in 2013. The company has an active diversity program, managed by a council chaired by the CEO. The company monitors and reports gender and racial diversity figures. 58% of employees are women, and 51% of officers and managers are women. 40% of employees are minorities, up 2% from the previous year. The company's recruiting efforts actively target veterans; WFC currently employs 7,500 veterans. The company maintains several inclusion networks. WFC does not disclose employee turnover rates or employee engagement survey results.

WFC provides a dollar-for-dollar match for 6% of an employee's contribution to his/her 401(k). The company also has profit-sharing contributions equal to 2% of pay to 401(k) accounts, though it's unclear who is eligible. Other benefits include: tuition reimbursement, adoption assistance ($5000), childcare and backup child care. WFC offers $1,500 scholarships to employees' dependent children who enroll in accredited vocational-technical schools. $1.8M was given out through this program in 2014.

Since July 2013, WFC has cut 6,200 jobs in its mortgage unit, citing dropping demand for refinancings as interest rates rise. The retail origination business experiences cyclical hiring and firing (chart).



ABOUT THE:
ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) INITIATIVE

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ENDNOTES

[i]Quotations sourced from emails provided by Joe Sinha, director of marketing, Parnassus Investments, September 2020.

[ii]All quotations from Ben Allen and Ian Sexsmith of Parnassus Investments are from an interview conducted by Profs. Witold Henisz and Rachelle Sampson on May 1, 2020, unless otherwise noted.

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[viii]Bank performance numbers sourced from 2007 Wells Fargo annual report.

[ix]Scott Alvarez, general counsel, U.S. Federal Reserve, "The Acquisition of Wachovia Corporation by Wells Fargo & Company," testimony before the U.S. Financial Crisis Inquiry Commission, Sept. 1, 2010. Accessed October 2020 at https://www.federalreserve.gov/newsevents/testimony/alvarez20100901a.htm

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[xi]Emily Glazer, "Wells Fargo CEO Defends Bank Culture, Lays Blame with Bad Employees," *The Wall Street Journal*, Sept. 13, 2016.

[xii]Glazer, "Wells Fargo CEO Testifies before Senate Banking Committee; John Stumpf Apologizes, Faces Grilling from Legislators over Bank's Sales Practices," Sept. 20, 2016

[xiii]Wells Fargo, "Independent Directors of Wells Fargo Conducting Investigation of Retail Banking Sales Practices and Related Matters," Sept. 27, 2016, BusinessWire. Accessed October 2020 at https://www.businesswire.com/news/home/20160927006772/en/Independent-Directors-Wells-Fargo-Conducting-Investigation-Retail

ENDNOTES (Continued)

[xiv]Information in the next three paragraphs sourced from the report of the Wells Fargo board of directors, “Sales Practices Investigation Report,” April 10, 2017. Accessed October 2020 at https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/presentations/2017/board-report.pdf

[xv]All information about the Glass Lewis reported is sourced from Glass Lewis Proxy Paper, “Wells Fargo & Co.” published April 3, 2017, and updated April 4 and 11.

[xvi]Stacy Cowley, “Wells Fargo Review Finds 1.4 Million More Suspect Accounts,” *The New York Times*, August 31, 2017. Accessed October 2020 at https://www.nytimes.com/2017/08/31/business/dealbook/wells-fargo-accounts.html?searchResultPosition=2

[xvii]Information in this paragraph sourced from notes of conversations and interoffice messages of Parnassus Investments, complied by Ian Sexsmith and Iyassu Essayas of Parnassus.

[xviii]A timeline of the protests and litigation as well as links to legal documents can be find at the website of Earthjustice (accessed October 2020): https://earthjustice.org/features/faq-standing-rock-litigation

[xix]Bill McKibben, “A Pipeline Fight and America’s Dark Past,” *The New Yorker*, Sept. 6, 2016. Accessed October 2020 at https://www.newyorker.com/news/daily-comment/a-pipeline-fight-and-americas-dark-past

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