

May 7, 2024

Via UPS and email to: bod@us.mcd.com

Miles White, Incoming Lead Independent Director
McDonald's Corporation
110 N. Carpenter Street
Chicago, IL 60607

Dear Director White,

We the undersigned state and municipal leaders and investors representing over \$2.2 trillion in assets under management or advisement are writing to express our concern about McDonald's lack of success at adequately addressing child labor law violations at McDonald's restaurants. In January, *The Washington Post* released an analysis of the U.S. Department of Labor's child labor violation statistics. The analysis found that since 2013, McDonald's has had more than 2,300 child labor law violations originating from more than 13,000 restaurants. The investigation found 15 child labor law violations per 100 restaurants since 2020.¹ Though none were found to take place at corporate owned restaurants, this reporting underscores the reputational damage to the McDonald's brand. In December 2023, Tiffanie Boyd, McDonald's' Chief People Officer stated, "These reports are unacceptable, deeply troubling and run afoul of the high expectations we have for the entire McDonald's brand. It is not lost on us the significant responsibility we carry to ensure a positive and safe experience for everyone under the Arches."²

Many of us first communicated our concern with McDonald's handling of child labor law violations at its restaurants in a letter sent to the Company on June 23, 2023. In July 2023, we received a letter from Chairman Hernandez claiming that McDonald's shares our concerns and highlighting that these incidents took place at franchised locations, not corporate owned stores. It also noted that the Company would be reaching out at the appropriate time for further dialogue, yet we did not receive any further communications from the Company, and no dialogue was had. As a result of the Company's continued failure to address this longstanding issue, we urge the Board to:

- adopt a zero-tolerance policy in its Global Brand Standards regarding the use of child labor in franchised restaurants;
- specify oversight of human rights, including child labor, in the charter of the Public Policy and Strategy Committee, which is named in McDonald's Human Rights Policy as having oversight of the issue; and
- conduct an independent third-party human rights risk assessment of McDonald's business, including restaurants owned and operated by franchisees, with the results released publicly by December 31, 2024, and with ongoing monitoring and annual updates.

¹<https://www.washingtonpost.com/business/2024/01/14/child-labor-fast-food-franchises/>

²<https://news.bloomberglaw.com/daily-labor-report/fast-food-brands-duck-joint-liability-for-child-labor-violations>

The McDonald's Board's continued lack of success in addressing the Company's child labor crisis exposes shareholders to reputational and legal risks associated with repeated violations of child labor law. In addition to *The Washington Post* article, which found that McDonald's led all fast food companies in child labor violations between 2013 and 2023, a separate analysis of Department of Labor child labor violation statistics found that McDonald's franchisees were responsible for 8.7% of all violations between January 1, 2018 and November 23, 2022.³ As press coverage of the national child labor crisis increases, consumers will become more aware of McDonald's own child labor issues. An Ipsos poll found that 77% of Americans "aren't likely" to continue making purchases from brands that use child labor.⁴

McDonald's has also faced legal penalties for its use of child labor. In our previous letter, we shared our concern about the \$304,107 in fines McDonald's has faced for employing over 400 children at more than 60 locations. Children that were employed at these locations were assigned dangerous tasks and were the victims of numerous wage and hours violations⁵. In response to the rampant child labor issue across McDonald's locations, the Company announced it would be surveying franchisees on its child labor practices, with the survey intending to address further training and resources to franchises.⁶

Surveying franchisees, however, does not address the lack of oversight by management and the Board over this pervasive issue. By adopting a zero-tolerance policy towards child labor into its Global Brand Standards, which apply to all restaurants including franchisees, it signals the Company's commitment to rooting out the issue at all locations. Second, clearly assigning oversight of human rights, and more specifically child labor issues, to a Board committee will ensure that the Board remains informed of any developments regarding child labor at McDonald's. Finally, an independent third-party risk assessment would allow the Company's operations to be fully scrutinized by an unbiased evaluator and pinpoint any weaknesses in the Company's current employment practices that need to be addressed by the Board and management in a way that an internal survey could not accomplish. McDonald's should be well aware of the benefits of a third-party assessment, having had suppliers undergo a similar process earlier this year.⁷

Beyond the child labor issue, McDonald's employment practices are under further scrutiny. In December 2023, a McDonald's franchisee was among employers named as defendants in a suit filed in U.S. District Court by current and former Black inmates in Alabama. These inmates allege the state's system of prison labor is a "modern-day form of slavery" that forces them to work, often for little or no money, for the benefit of government agencies and private businesses, and that inmates are denied parole to maintain their cheap labor.⁸ We are concerned that the McDonald's Board is failing to appropriately oversee the Company's employment practices and is failing to mitigate risks to the Company's reputation.

The Board's continued lack of success in effectively addressing the Company's child labor crisis poses risks to McDonald's reputation and brand value. It is time for the Company to take meaningful steps to improve oversight of the use of child labor within the McDonald's system. We strongly urge the Board to

³ <https://thefern.org/2023/04/the-child-workers-who-feed-you/>

⁴ <https://www.ipsos.com/en-us/majority-55-americans-willing-pay-more-clothing-not-made-using-child-labor>

⁵ <https://www.dol.gov/newsroom/releases/whd/whd20230502-0>

<https://www.dol.gov/newsroom/releases/whd/whd20230222-2>

⁶ <https://www.restaurantdive.com/news/mcdonalds-to-survey-franchisees-on-child-labor-practices/702838/>

⁷ <https://www.nytimes.com/2024/02/07/us/child-labor-us-companies.html>

⁸ <https://www.nytimes.com/2023/12/12/us/alabama-prisons-lawsuit-labor.html>

implement the recommendations that we've outlined in this letter, and to that end we are seeking a meeting with you no later than May 20, 2024. To coordinate a meeting, please contact Mikail Husain by email at mhusain@socinvestmentgroup.com. We look forward to hearing your response.

Sincerely,

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Illinois State Treasurer, Michael W. Frerichs*

Investor Advocates for Social Justice (IASJ)

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