THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

September 14, 2016

Klaus Kleinfeld
Chairman and Chief Executive Officer
Alcoa Inc.
390 Park Avenue
New York, NY 10022

Dear Mr. Kleinfeld:

I write to you on behalf of the New York City Pension Funds (the "NYC Funds") to request that Alcoa Inc. annually report to shareowners on the performance of its supplier diversity program using quantitative metrics. While the company currently discloses qualitative information on its supplier diversity program, we are unable to locate quantitative program performance data on either the company's website or in its sustainability report.

Absent comprehensive quantitative information that is comparable to what many other large companies provide, shareowners have no way to evaluate and benchmark the performance of Alcoa's supplier diversity program. Specifically, I ask that the company:

1. disclose the number of its diverse suppliers and annual spend in both real terms and as a percentage of its total supplier spend, preferably by category (e.g. women-owned, etc.);
2. establish and disclose quantitative performance goals for its supplier diversity program and annual progress towards achieving those goals; and
3. describe the ways in which supplier diversity goals are reinforced throughout the organization, including for example, through (a) oversight by senior management and the board of directors and (b) specific compensation incentives for employees, managers and senior executives.

As Comptroller of the City of New York, I am the investment adviser to, and custodian and a trustee of, the NYC Funds. The NYC Funds have $163.1 billion in assets and are substantial long-term Alcoa shareowners, with 3,092,227 shares of common stock. The NYC Funds are committed to promoting diversity within our investment portfolio and among our external service providers. Investment management commitments with Minority and Women Business Enterprises (MWBE) and Emerging Mangers, for example, have increased from approximately $5.5 billion in 2010 to $14.4 billion as of May 2016, currently representing 8.8 percent of total plan assets.

These MWBE commitments enable the funds to both manage risks and produce attractive returns. Similarly, we believe a more diverse supply base helps our portfolio companies to create sustainable competitive advantage and long-term shareowner value by taking advantage of emerging market opportunities. According to the Pew Research Center, minorities now account

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for most of US population growth and are expected to be the majority group in a few decades. Along with an increasingly global marketplace, the potential demand from these groups is astounding. Nielson estimates that multicultural buying power, which now grows exponentially, will grow at twice the rate of overall US buying power. Investors would like to know how the companies in their portfolio are leveraging supplier diversity to taking advantage of these opportunities. As the Director of Supplier Diversity at Microsoft – which spent over $2.3 billion with diverse suppliers in fiscal 2015 – states on the company's web site: "we are convinced that our supplier diversity initiatives are a key competitive advantage, helping us win new business, retain customers, and reinforce the Microsoft brand."

In addition to tangible benefits such as price and quality, a broader pool of diverse suppliers builds brand value, reputation and goodwill. Companies promote the importance of their community impact in building brand reputation and a social license to operate. Supplier diversity programs can contribute to this by fostering entrepreneurship as a source of economic development - job creation, wealth creation and asset ownership in minority communities and among disadvantaged groups. I therefore encourage the company to enhance its efforts to utilize small- and medium-size diverse firms, to report on the number of its diverse suppliers, and to discuss its efforts to foster their growth and development through training, mentoring and facilitating access to capital to support their scalability.

To fully assess how supplier diversity programs yield competitive advantage and build brand value, measuring and monitoring should go beyond simply reporting dollars and percent spent. Shareowners need to understand the scope of the company's supplier diversity program (e.g. does it include finance, professional services, subcontractors or foreign suppliers), program goals, how the organization supports these goals, and how the program ties into the company's overall approach to diversity, its strategy and community. The company should also seek to assess the impact of, and therefore validate the business case for, its supplier diversity program. The company could, for example, estimate the impact on costs, revenue, market share or other relevant metrics. A Hackett Group report (*ROI-Related Supplier Diversity*) demonstrates that best in class supplier diversity programs are profit centers – generating $3.6 million in benefits for every $1 million invested in procurement operations costs.

The need for meaningful quantitative disclosures takes on added urgency in light of Section 342 of the Dodd-Frank Act, which requires six federal regulators, including the Securities and Exchange Commission, to assess the diversity policies and practices of regulated entities. The regulators' final policy statement - *Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies* - encourages, but does not require, regulated entities to disclose supplier diversity performance metrics. According to the Standards,

> *Making public an entity's commitment to diversity and inclusion, its plans for achieving diversity and inclusion, and its metrics used to measure success in both workplace and supplier diversity informs a broad constituency – its investors, employees, potential employees and suppliers, customers, and the general community.*

In April 2014, I made similar requests to some of our largest portfolio companies. Many have now begun to publicly report on various aspects of their supplier diversity programs, including 3M, Altria, Apple, Pfizer, Qualcomm, US Bancorp and United Technologies, among others.

The momentum towards greater disclosure is growing. Additional companies that have initiated reporting include BNY Mellon, Capital One, Exxon Mobil, Ford, Halliburton, MetLife, Raytheon, AbbVie, DuPont and Eli Lilly.

Some companies now provide comprehensive annual stand-alone supplier diversity reports, including Nielsen, Ericsson, Comcast, and PG&E.

- Nielsen's 2014 Supplier Diversity Annual Report explains how its supplier diversity program aligns with the objectives of its overall corporate global goals – the six C's for the business case for its supplier diversity program are: competition, customers, compliance, customization, costs and community. The report provides extensive quantitative reporting on Tier I and Tier II suppliers – amount and percent spend by categories (minority, women etc.); ethnicity; and types of services (facilities, human resources, marketing, professional services, finance, travel, technology and telecom). It outlines nine goals for 2015, including seeking synergies between its supplier diversity and sustainability efforts.
- PG&E discloses its direct and indirect spend with each of its diverse categories. It also provides extensive disclosure on spend and efforts to increase spend in non-traditional areas such as finance, banking, pension management, tax and accounting, marketing and legal services.

Given the above, and in light of mounting shareowner and regulatory interest in the performance of its supplier diversity program, it is incumbent upon Alcoa to publicly report meaningful quantitative performance data, either on its web site or as part of its sustainability report. Specifically, we urge the company to consider disclosing the annual performance data outlined above within six months of year-end, commencing in early 2017.

We would welcome a dialogue on how to bring the company's disclosures in line with best practice. Please contact Millicent Budhai on my Corporate Governance staff at 212-669-2536 or mbudha@comptroller.nyc.gov at your earliest convenience to schedule a discussion.

Sincerely,

Scott M. Stringer
New York City Comptroller