

June 23, 2023

Via UPS and email to: [bod@us.mcd.com](mailto:bod@us.mcd.com)

Enrique Hernandez, Jr., Chairman of the Board  
McDonald's Corporation  
110 N. Carpenter Street  
Chicago, IL 60607

Dear Mr. Hernandez,

We the undersigned investors representing an aggregate \$1.29 trillion in assets under management or advisement and other stakeholders are deeply concerned with the findings of child labor law violations at McDonald's restaurants. We are troubled by the apparent lack of oversight of human and labor rights risks by the Board of Directors. Child labor violates multiple international human rights standards as well as McDonald's own Human Rights Policy and Standards of Business Conduct. Being associated with violating child labor laws, the exploitation of vulnerable groups of workers, and violations of human rights—whether at franchised or McDonald-owned restaurants—risks McDonald's reputation and brand value around the world.

We request that the Board:

- 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, 2023, and with ongoing monitoring and annual updates.

**McDonald's child labor violations pose an increasing legal and reputational risk to shareholder value, regardless of whether they involve franchise or company-owned restaurants.**

McDonald's has a child labor problem. In May, the Department of Labor (DOL) fined three McDonald's franchisees operating 62 restaurants across Kentucky, Indiana, Maryland, and Ohio \$212,000 for employing 305 children, for violations of the legal limits on hours, violations related to age requirements for dangerous tasks, and wage and hour violations, including unpaid overtime and a lack of pay. The DOL found that two 10-year-olds sometimes worked as late as 2 a.m. and were unpaid; one 10-year-old was allowed to operate a deep fryer.<sup>1</sup> In December 2022, a McDonald's franchisee in Erie, PA was fined \$92,1107 for violating child labor hours and safety regulations involving 154 minor-aged workers,

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<sup>1</sup> <https://www.dol.gov/newsroom/releases/whd/whd20230502-0>;  
<https://www.cnbc.com/2023/05/03/mcdonalds-franchisees-fined-over-child-labor-law-violations.html>.

including 9 minors operating deep fryers.<sup>2</sup> A 15-year-old minor suffered hot oil burns while using a deep fryer at a McDonald's franchise restaurant in Morristown Tennessee.<sup>3</sup>

A dramatic rise in child labor has been accompanied by heightened media coverage, tougher enforcement, and potential reputational damage for companies violating child labor laws. The DOL has seen a 69% increase in children being employed illegally by companies since 2018, with more than 3,800 children impacted during the agency's 2022 fiscal year.<sup>4</sup> A *Reuters* series, "Undocumented and Underage," on the use of child labor by Hyundai suppliers has prompted at least 10 probes by federal and Alabama authorities into suppliers of Hyundai and its sister brand Kia.<sup>5</sup> Packers Sanitation, a slaughterhouse cleaning company fined \$1.5 million by the DOL for employing more than 100 children to help sanitize dangerous razor-sharp cutting equipment, has lost contracts with three major meat producers since the DOL investigation became public in the fall of 2022.<sup>6</sup> A recent *New York Times* exposé on the rise of child labor, especially migrant minors,<sup>7</sup> was followed by a Biden Administration announcement of an interagency task force between the DOL and the Department of Health and Human Services to enhance investigations and enforcement.<sup>8</sup> Six senators have introduced legislation in the United States Senate that would increase maximum fines for violations and establish new criminal penalties to deter child labor and hold employers accountable.<sup>9</sup>

According to an independent analysis of the DOL wage and hour data for 2018-2022, about 75% of U.S. child labor violations were in the food industry, and of those food industry violations, 64.6% of violations stemmed from violations by restaurants, fast food, and food services.<sup>10</sup> Of great concern is that McDonald's franchises were found to have committed 8.7% of all child labor violations in the DOL data.<sup>11</sup> With the fast-food industry continuing to face tight labor markets, we are concerned that the pressure to exploit vulnerable children as a supply of cheap labor will continue.

Moreover, these reports of child labor in violation of international human rights standards come on the heels of a 2022 shareholder proposal--receiving 53% of investor support--requesting that the Board undertake a third-party civil rights audit to address widespread allegations of racial discrimination and sexual harassment. This trifecta of human rights, labor rights, and civil rights problems raises the alarm of a systemic failure in McDonald's current governance structure. Given the importance of these issues to the Company's long-term value, we are disappointed that McDonald's has chosen to not communicate with the proponents of the civil rights audit proposal since an initial brief dialogue in November 2022.

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

<https://www.nytimes.com/2023/02/25/us/unaccompanied-migrant-child-workers-exploitation.html>

<sup>3</sup> <https://www.dol.gov/newsroom/releases/whd/whd20230323-0>

<sup>4</sup> <https://www.dol.gov/newsroom/releases/osec/osec20230227>

<sup>5</sup> <https://www.reuters.com/world/us/reuters-wins-george-polk-award-uncovering-child-labor-hyundai-supply-chain-2023-02-20/>

<sup>6</sup> <https://apnews.com/article/meat-processing-child-labor-pssi-slaughterhouses-ffbce0861e28a02b0c66e264ba9c6cc5>

<sup>7</sup> <https://www.nytimes.com/2023/02/25/us/unaccompanied-migrant-child-workers-exploitation.html>

<sup>8</sup> <https://www.dol.gov/newsroom/releases/osec/osec20230227>

<sup>9</sup> <http://www.schatz.senate.gov/news/press-releases/schatz-introduces-new-bill-to-help-stop-child-labor>

<sup>10</sup> <https://thefern.org/2023/04/the-child-workers-who-feed-you/>

<sup>11</sup> Ibid.

**The Board must adopt a zero-tolerance policy towards child labor law violations in all McDonald's restaurants and strengthen human rights oversight.**

McDonald's Human Rights Policy and Standards of Business Conduct prohibit the use of child labor. However, McDonald's does not appear to apply its own policy against the employment of underage children to franchisees, but rather encourages franchisees to adopt their own similar policies.<sup>12</sup> In our view, regardless of where it occurs in the McDonald's system, child labor presents such a risk to McDonald's reputation and brand value that it should not be left to franchisee discretion but rather should be added to the Global Brand Standards, with a zero-tolerance policy.

McDonald's Human Rights Policy states that Board-level oversight of human rights is provided by the Public Policy and Strategy Committee. However, the Committee Charter does not explicitly mention human rights. To strengthen oversight and underscore the importance of these issues, the Committee Charter should be amended to include human rights.

Considering the heightened public scrutiny and regulatory risks associated with child labor, we urge the Board to commission an independent third-party human rights risk assessment of McDonald's business, including restaurants owned and operated by franchisees. We believe that this analysis, completed in a timely fashion by year-end, would benefit the Board in carrying out its oversight responsibilities.

Reports of troubling child labor abuses and the greater public and legal scrutiny of child labor raise concerns as to how McDonald's manages its human rights risks. Human rights scandals pose significant risks to McDonald's reputation and brand value. The time is now for the Board to take meaningful action by strengthening oversight. We urge the Board to consider our recommendations and we request a meeting with you no later than July 14, 2023. Please contact Tejal K. Patel at [tpatel@socinvestmentgroup.com](mailto:tpatel@socinvestmentgroup.com) to arrange the meeting.

Sincerely,

Adrian Dominican Sisters, Portfolio Advisory Board  
Æquo  
Brightlight Group  
CCLA Investment Management  
Colorado State Treasurer David L. Young\*  
Council on Ethics  
David Green, Los Angeles County Employees Retirement Association<sup>†</sup>  
Erick Russell, Connecticut State Treasurer  
Ethos Foundation  
First Affirmative  
Friends Fiduciary Corporation  
Henry Beck, Treasurer, State of Maine<sup>†</sup>  
Maryknoll Sisters  
Maryland State Comptroller Brooke E. Lierman\*

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<sup>12</sup> [https://corporate.mcdonalds.com/content/dam/sites/corp/nfl/pdf/McDonalds\\_Human\\_Rights\\_Policy1.pdf](https://corporate.mcdonalds.com/content/dam/sites/corp/nfl/pdf/McDonalds_Human_Rights_Policy1.pdf);  
<https://sbc.mcd.com/>

Massachusetts State Treasurer and Receiver-General Deborah B. Goldberg\*  
Mercy Investment Services, Inc.  
Michael W. Frerichs, Illinois State Treasurer  
Mullissa Willette, CalPERS Board of Administration‡  
New York City Comptroller Brad Lander  
Northwest Coalition for Responsible Investment  
Pensions & Investment Research Consultants Ltd  
Ramón Rubalcava, CalPERS Board of Administration‡  
Region Vi Coalition for Responsible Investment  
Robert F. Kennedy Human Rights  
SHARE  
Sisters of St. Francis of Philadelphia  
Sisters of the Humility of Mary  
SOC Investment Group  
The Local Authority Pension Fund Forum (LAPFF)  
Theresa Taylor, CalPERS Board of Administration‡  
Vivian Gray, Los Angeles County Employees Retirement Association‡  
Additional Private Signatories

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\* Signing as an elected official and not as a fiduciary of any fund

† Acting as sole fiduciary of State of Maine funds

‡ Fund name listed for identification purposes only