



RESEARCH & ADVOCACY BRIEF

Walden Asset Management ✿ Advancing sustainable business practices since 1975

April 2010

Company negotiations with shareholders who have submitted proposals for discussion and vote at the next annual meeting ramp up noticeably in the first quarter of any given year. In what can be described as a “desperately seeking withdrawals” phenomenon, even less responsive companies have been known to become quite engaged as deadlines approach for printing proxy statements before annual meetings. In this period, companies are often more open to constructive dialogue and negotiations for withdrawal can yield meaningful progress. This is, unequivocally, a good outcome of the shareholder resolution process, preferable to achieving a high level of voting support at the annual meeting. Fortunately, this positive result is exemplified in Walden’s eight withdrawal agreements thus far in 2010.

2010 Resolutions Withdrawn

With As You Sow foundation and other investors, Walden has for many years pressed **PepsiCo** and other U.S. beverage companies for stronger beverage container recycling initiatives, most recently with a focus on industry-wide container recovery goals (for PET plastic, glass and aluminum containers). PepsiCo announced a substantial new step in March, stating publicly its intention to boost U.S. beverage container recycling rates to 50% by 2018 from 32% today through various industry partnerships, consumer programs and other initiatives with U.S. bottlers, suppliers, communities, governmental entities and nongovernmental organizations. Along with its previous pledge to use 10% recycled content in PET bottles in the U.S., PepsiCo’s actions and goals demonstrate a fresh and authentic commitment to industry leadership on recycling; hence, our resolution was withdrawn.

A resolution asking **Colgate-Palmolive** to provide an opportunity for shareholders to have an advisory vote on executive compensation, popularly known as Say on Pay, was withdrawn after the company agreed to implement this advisory vote at its 2010 annual meeting in May. In its press release, Colgate included our quote and acknowledged explicitly the importance of a “constructive dialogue” with Walden and The Needmor Fund in reaching its decision, an unusually transparent and positive expres-

sion of the engagement process. **PepsiCo** also agreed to implement Say on Pay in 2010 in response to a client-sponsored resolution that was withdrawn.

Walden also withdrew a resolution at **Expeditors International**, co-filed with the United Methodist Church Foundation, addressing the lack of diversity among board members. Expeditors agreed to amend and expand its “Director Nomination Process” that describes how the Nominating and Governance Committee considers racial and gender diversity when filling board vacancies.

In our January 2010 brief, we reported on the remaining four resolutions that have been withdrawn. Similar to Expeditors, **Watts Water Technologies** amended its Corporate Governance Guidelines and Nominating and Corporate Governance Committee Charter to address explicitly diversity considerations in the director selection process. **Baldor Electric**, **Credo Petroleum** and **Time Warner Cable** agreed to initiate or expand environmental, social and governance (ESG) reporting.

Apart from these eight withdrawals, Walden participated actively in negotiations with **ExxonMobil** on a first-of-its-kind resolution requesting a report on the financial risks associated with climate change. With our client and lead filer Christopher Reynolds Foundation, we developed a new proposal building on a recent Securities and Exchange Commission (SEC) decision allowing shareholders to address risk directly. This previously would have been considered “ordinary business” and therefore sufficient reason to omit the resolution from the proxy statement. The resolution was withdrawn after ExxonMobil outlined how climate risk is managed and monitored and agreed to additional reporting, including financial implications of climate change. This new focus on risk is expected to result in increasing evidence that environmental and social considerations can have material long term financial consequences for companies.

Resolutions in Proxy Statements

Just one vote result is in at the time of this writing but we hope it starts a trend. Walden’s Say on Pay resolution at **Walt Disney** was supported by a majority 51% of votes

A Division of Boston Trust & Investment Management Company

One Beacon Street, Boston, MA 02108 | Tel: (617) 726-7250 | Fax: (617) 227-2690 | www.waldenassetgmt.com

cast, reflecting continuing public demand for greater accountability on executive compensation. Votes on similar Walden resolutions at **GE, Johnson & Johnson** and **IBM** are forthcoming, the latter co-filed with Boston Common Asset Management. GE and IBM attempted for a second time to receive permission from the SEC to omit their proposals, but Walden prevailed again. We also await a vote on sustainability (or ESG) reporting proposals at **C.R. Bard, Gentex, Layne Christensen, and St. Jude Medical.**

Action through Dialogue

While proxy resolutions are an important tool for shareholders to draw attention to important ESG concerns, Walden has always believed that corporate dialogues can be equally effective in encouraging sustainable business policies and practices. This is particularly true when institutional investors work in coalition. In January, over two dozen investors joined Walden – including large pension funds such as TIAA-CREF, public retirement systems of California and Connecticut and AFSCME; faith-based investors; mutual fund companies and investment firms – in an open letter to 18 major financial firms asking them to voluntarily provide shareholders with an advisory vote on executive compensation. Some companies are required to implement Say on Pay because they have not paid back Troubled Asset Relief Program (TARP) funds. Still, 12 companies responded thoughtfully and 16 are implementing the advisory vote.

There are numerous recent examples of the positive impact of ongoing dialogue, sometimes building on resolutions that were submitted in previous years:

- **ConocoPhillips** – With other investors led by Boston Common Asset Management, and stakeholders including Amazon Watch, we met with management to discuss indigenous rights policies related to energy exploration and production. ConocoPhillips is moving closer to the best practice policy of “free, prior and informed consent” in its Peruvian operations.
- **EMC** – For a decade Walden has encouraged the data storage technology leader to strengthen comprehensive ESG performance and reporting and the company continues to make impressive progress. In February, we were pleased to learn that EMC joined Ceres, a network of in-

vestors, environmental organizations and other public interest groups that work with companies committed to ESG transparency and continuous improvement.

- **General Mills** – Agreed to implement Say-on-Pay at its 2010 annual meeting after a majority of shareholders supported Walden’s advisory vote resolution in 2009.
- **Microsoft** – Joined several other major companies taking a public stand in opposition to the U.S. Chamber of Commerce’s lobbying against proposed climate change legislation. In conversations with Walden, Microsoft reported exploring avenues to differentiate itself from the Chamber, and recently requested that the trade association avoid using company dues to lobby against climate change regulations.
- **State Street** – State Street Global Advisors (SSgA) has implemented and will post publicly new proxy voting policies that will result in more thoughtful voting practices and the support of some shareholder resolutions addressing environmental and social factors. Previously, SSgA routinely voted against all such proposals. Walden’s 2009 resolution addressing proxy voting was deemed a matter of ordinary business by the SEC and omitted from the proxy statement, but our conversation continued, with SSgA and other investors.

Public Policy Advocacy

Walden wrote Senator Dodd, chair of the Banking Committee, offering comments in support of key financial reform provisions proposed in the “Restoring American Financial Stability Act.” These included greater industry regulation and oversight, the creation of a systemic risk regulator, credit rating agency reform, stronger consumer protections, mandatory Say on Pay votes for shareholders and ESG disclosure, among other corporate governance reforms.

We also joined investors commending the SEC’s recent disclosure guidance on climate risk, a major victory for investors who increasingly believe climate change poses material risks to companies. The guidance asks companies to consider regulatory, legislative and financial risk associated with climate change, as well as the possibility of physical impacts from severe weather, water availability, rising sea levels and other climate-related threats.

For more information, please contact:
Heidi Soumerai
Director of ESG Research
hsoumerai@bostontrust.com

The information contained herein has been prepared from sources and data we believe to be reliable, but we make no guarantee as to its adequacy, accuracy, timeliness or completeness. We cannot and do not guarantee the suitability or profitability of any particular investment. No information herein is intended as an offer or solicitation of an offer to sell or buy, or as a sponsorship of any company, security, or fund. Neither Walden nor any of its contributors make any representations about the suitability of the information contained herein.