



Research & Engagement Brief

Walden Asset Management ✿ Advancing sustainable business practices since 1975

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Sometimes corporate missteps illuminate so vividly the case for shareholder engagement that they compel immediate action. Walden responded swiftly to two recent events that provided opportunities to underscore our long-term commitment to encourage best practices in corporate governance.

The first, in early August, was the sudden resignation of Mark Hurd, then CEO and chair of **Hewlett-Packard Co.** (HP), after an internal investigation concluded he had been inappropriately reimbursed for expenses associated with events attended by a contractor with whom he had engaged in an improper personal relationship. The surprise announcement initially caused HP's share price to tumble nearly 10 percent. Walden has long advocated for separation of CEO and chair positions as a means to ensure independent board oversight of management. This case, made worse by an inadequate succession plan, resulted in leadership in limbo on the board and in management. Walden filed a shareholder resolution for 2011, the next annual meeting, calling for HP to adopt a policy separating the positions of CEO and chair. (To its credit, HP subsequently appointed an independent chair.)

Next came **Target's** controversial financial backing of a Minnesota gubernatorial candidate, who is a vocal opponent of lesbian, gay, bisexual and transgender (LGBT) rights, via an intermediary organization Minnesota Forward, despite Target's own supportive LGBT policies and practices. The ensuing media coverage and backlash against Target by some consumer and civil liberties groups was a clear demonstration of reputational risk associated with corporate political spending directly for or against individual candidates, a new reality made possible by the U.S. Supreme Court decision in *Citizens United v. Federal Election Commission* earlier this year. Along with Calvert Asset Management and Trillium Asset Management, Walden is leading a 2011 shareholder resolution calling for a comprehensive review and disclosure of Target's political expenditures, decision-making and board oversight processes.

Concern over the potential Pandora's box opened by *Citizens United*, along with reported plans of the U.S.

Chamber of Commerce (the Chamber) to inject \$75 million into political contests this mid-term election, led Walden to expand our engagement beyond Target. Focusing on 35 companies with representatives on the Chamber's board, we led a sign-on letter on behalf of 30 institutional investors and shareholder advocates requesting expanded information on independent political expenditures as a new avenue for corporate political giving. Specifically we asked companies to monitor and review how trade associations and other tax-exempt organizations use their funds, whether there are any conditions on such payments, and finally, whether they intend to publicly report on all such political expenditures. None of the responding companies have agreed, as board members, to challenge the Chamber publicly on positions that are contrary to their own public policy views.

Additional 2011 Walden Shareholder Resolutions

In 2010, four Walden-led shareholder resolutions on sustainability or ESG (environmental, social and governance) reporting went to a vote – **C.R. Bard**, **Gentex**, **Layne Christensen** and **St. Jude Medical**. Despite broad-based shareholder support ranging from 32 percent (C.R. Bard) to a majority of 60 percent (Layne Christensen), none have yet to commit to a comprehensive report. Walden is re-filing the shareholder resolutions at these companies for the 2011 season; in addition, several Walden clients are separately leading resolutions asking for annual elections of directors, a best practice corporate governance policy that frequently wins majority support. This dual strategy that incorporates advocacy for increased director accountability should encourage greater responsiveness to shareholders.

New comprehensive ESG reporting resolutions led by Walden include those filed with **Emerson Electric** and **Varian Medical Systems**, the latter having been withdrawn recently when the company committed to a GRI-based (Global Reporting Initiative) report. Similarly, a resolution asking **eHealth** to adopt an inclusive nondiscrimination policy was withdrawn when the company amended its policy to include sexual orientation explicitly.

New and Continuing Shareholder Dialogues

Some of our conversations with companies are brief check-ins, such as monitoring new ESG developments or commending specific achievements. We corresponded with **Nike** about Honduran workers who had been laid off from two sub-contractors, and applauded its efforts to assist them in gaining employment and receiving needed medical care. Similarly, we inquired at **Target** about Clean Clothes Campaign's (CCC) concerns involving Cambodian workers in Target's supply chain who had been displaced by a factory closure. Target worked with its supplier, who met with workers and a CCC affiliate to provide financial compensation and job offers at another factory. A September 11, 2010 *New York Times* article, "Russia Uses Microsoft to Suppress Dissent," chronicled how the Russian government used anti-piracy law to raid and confiscate computers of a leading environmental organization that was organizing protests. **Microsoft** responded immediately and thoughtfully to our request for comment, detailing actions it has taken to "prevent non-government organizations from falling victim to nefarious actions taken in the guise of anti-piracy enforcement," including "creating [a] new unilateral NGO software License that will ensure [NGOs] have free, legal copies of our products – whatever the legal status of the software on the machines." At Microsoft's urging, Walden shared the response broadly. We believe these brief company exchanges build mutual awareness and understanding, while also demonstrating our commitment as long term investors.

Our belief in the power of investor coalitions is at the core of Walden's collaborative company dialogues. We are one of three U.S. participants in a Principles for Responsible Investment (PRI) initiative of global investors, representing over US\$70 billion in assets, calling for increased representation of women on corporate boards and in senior management. We are taking the lead on three portfolio companies with subpar records – **CommVault**, **Dime Community Bancshares** and **Dupont Fabros Technology**. With Ceres, a network of investors, environmental organizations and public interest groups, Walden participated in letters to energy and insurance companies to better understand their risk mitigation strategies in the wake of BP's catastrophic platform blowout. A second meeting of the **PepsiCo** stakeholder group convened by Ceres focused on workplace practices and corporate governance. We also joined a Ceres stakeholder group on the Eco-Index, an outdoor apparel industry association effort to develop a life-cycle

analysis focusing initially on water and energy use and greenhouse gas emissions. Finally, Walden joined a successful initiative led by Green Century Funds that resulted in **Costco's** public statement "Seafood and Sustainability" and a ban on the sale of seven endangered species.

In September Walden hosted **Medtronic** and a group of concerned investors to discuss sourcing of minerals, such as tin, from violence-torn areas in the Democratic Republic of Congo (DRC). New Securities and Exchange Commission (SEC) disclosure rules require assurance that "conflict minerals" from DRC do not make their way into company products, an unexpected component of financial reform legislation passed in July. Medtronic formed a Supply Chain Council with a special task force to assess conflict minerals risk in specific products, and spoke candidly about difficulties it faces tracing the sources of these minerals. The company committed to ongoing dialogue.

Walden provided input to **Comerica** on its last sustainability report and ESG performance as part of a stakeholder consultation process. We also continue to participate in constructive meetings with representatives of **ConocoPhillips**, led by Boston Common Asset Management, addressing the rights of indigenous peoples in energy exploration and production.

Public Policy Advocacy

Walden was a signatory to an Investor Environmental Health Network letter to congressional leaders expressing support for stronger public health and environmental protections through the Safe Chemicals Act of 2010 (S. 3209) and the Toxic Chemicals Safety Act (H.R. 5820). We also joined other investors urging the Obama Administration to add the U.S. to the list of endorsers of the United Nations Declaration on the Rights of Indigenous Peoples, consistent with international human rights laws. Lastly, Walden participated in a second SEC consultation to consider improvements in the shareholder resolution process.

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