Research & Engagement Brief

Walden Asset Management ❋ Advancing sustainable business practices since 1975

April 2011

Shareholder resolutions are front and center during the spring season of company annual meetings. Engaged investors eagerly await voting results that signal the strength of shareholder support for environmental, social or corporate governance (ESG) related ballot initiatives they champion. Headlines are made when shareholder resolutions garner majority support or exceed expectations.

Less visible are the shareholder resolutions that never appear on company proxy statements because management and investors have negotiated withdrawals. Yet these quiet dialogues are more often than not the avenue for meaningful progress on ESG goals. With two recent company agreements, Walden has now withdrawn 60 percent (11 of 18) of the resolutions we led (or co-led) for 2011 annual meetings.

Walden withdrew our resolution at **Target** requesting a comprehensive Board review of political contributions, including criteria for donations to candidates and procedures to assess associated risks. Target had unleashed nationwide controversy in 2010 for its contributions to MN Forward, a political group working to elect a gubernatorial candidate known for his opposition to lesbian and gay civil rights. In January, Target's Board completed a review of policies, oversight and reporting on political spending, and adopted a new policy that is posted on its website. Though the policy does not prohibit spending in future elections, new checks and balances assure greater due diligence and sensitivity to potential risks.

St. Jude Medical's commitment to produce an inaugural Corporate Social Responsibility (CSR) report, based on input from internal and external stakeholders including Walden, led us to withdraw our resolution seeking comprehensive ESG disclosure. While the CSR report will not meet best practice GRI (Global Reporting Initiative) standards, it will be informed by GRI guidelines and more detailed reporting is expected to be developed over time as the company seeks "continuous improvement." We commend St. Jude Medical for placing an announcement in its proxy informing shareholders of the CSR report and Walden's withdrawal. In another sign of responsiveness to shareholders, St. Jude Medical did not include a "statement of opposition" on a client-led resolution requesting annual election of directors in lieu of three year terms. Instead, the company asked to hear from shareholders without biasing the results.

Our first voting result in 2011 is in—just over one-third of votes cast supported our ESG reporting resolution at **Emerson Electric**. To date our interactions have focused on the environmental and energy efficiency benefits of many of its products, but Emerson has not been convinced of the value of comprehensive ESG disclosure. We hope to leverage this relatively strong investor backing in ongoing discussions with the company.

Continuing Focus: Chamber Board Membership

Our last update described multiple strategies Walden is pursuing to challenge companies' use of firm resources to enable the U.S. Chamber of Commerce (the Chamber) to advance positions that appear to contradict their own policies and actions on issues such as climate change. A case in point is the Chamber's lawsuit against the Environmental Protection Agency (EPA) in which it challenges the basis of EPA's power to regulate greenhouse gases. Focusing on companies with Board representation on the Chamber, Walden is leading dialogues, an investor open letter and shareholder resolutions on this topic.

We have also begun utilizing an investor tool that is new to us, raising resolutions from the "floor" of annual meetings. Floor resolutions cannot be expected to garner significant shareholder support compared to traditional proxy resolutions, but they allow for a direct exploration of an issue while also providing a public record of the action. This strategy is prompting serious discussions about political spending policies and Chamber Board membership at a number of companies, including where Walden is leading the effort at **3M**, **ConocoPhillips**, **JPMorgan Chase** and **Pfizer**. The floor resolution at Pfizer was withdrawn when the company adopted a new policy prohibiting the use of company funds for any political campaigns and placed a senior environmental executive on the Chamber's environmental committee to strengthen representation of its positions.

Meanwhile James Rogers, CEO of **Duke Energy**, was most responsive to the investor open letter encouraging a review of involvement in the Chamber. The company is

reviewing formally its policy to determine the appropriate path—engagement or withdrawal—including whether "constructive engagement can bring the organization's policy positions into better alignment with those of Duke Energy."

Other Recent and Emerging Initiatives

In January Walden co-led a group of 39 institutional investors representing over $800 billion in assets calling for companies to support an annual advisory vote on executive compensation in their spring proxy statements and for investors to vote for annual "Say on Pay." The Dodd-Frank reform bill called for mandatory Say on Pay, along with a vote on the frequency these should occur—every one, two or three years. As of early April, annual votes are the clear favorite at over three-quarters of companies voted. Four companies failed to receive majority support for the advisory vote, including **Hewlett-Packard**.

We are co-leading a collaboration of Principles for Responsible Investment (PRI) and CDP Water Disclosure, a project of Climate Disclosure Project (CDP) that began last year, to encourage a response from companies with high exposure to water-related risks that did not complete its questionnaire on water management and conservation policies, practices and goals. The initial response rate among companies was impressive, with 50 percent of 302 companies completing the questionnaire.

Walden is concerned about growing challenges to limit EPA's authority to regulate greenhouse gases, particularly in light of diminished hopes for passage of a sound climate change policy in the U.S. Congress. Walden joined 44 investors with over $500 billion in assets urging House and Senate leaders to allow the EPA to press ahead with greenhouse gas regulations and to oppose constraints on EPA's authority to do so. We were relieved, at least temporarily, to see the EPA rider removed from recent contentious budget negotiations.

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

Immigration Reform: An Emerging Investor Concern

While calls for civility in public discourse may be cliché, the very uncivil tone of discussions on U.S. immigration policy has helped push immigration reform into a political dead zone. Yet a sound U.S. immigration policy—one that includes a pathway for currently unauthorized immigrants to earn legal status—is a business and human rights imperative. That's why Walden is co-leading an investor initiative, representing approximately $145 billion in assets, to encourage business leaders to speak out for comprehensive immigration reform.

The historic and ongoing importance of immigrants in creating a prosperous U.S. economy is well documented. In March, for example, the annual Kauffman Index of Entrepreneurial Activity, a leading indicator of new business creation in the U.S., concluded: "A growing immigrant population and rising entrepreneurship rate contributed to a rise in the share of new entrepreneurs that are immigrant, from 13.4 percent in 1996 to 29.5 percent in 2010." Meanwhile, many U.S. industries depend on immigrants, including undocumented workers, to operate their businesses. The Pew Hispanic Center estimates the share of employment occupied by unauthorized workers, who in 2008 totaled over 8 million, was 14 percent in construction, 13 percent in agriculture and 10 percent in leisure and hospitality. The bottom line: To be a successful global competitor, U.S. business must attract and retain the most talented and highly motivated people across the job-skill spectrum.

Lack of progress on federal immigration reform along with several draconian legislative efforts by individual states increasingly threatens the human rights of immigrants, some of whom face growing discrimination and violence. At least 5 million children of undocumented immigrants, the vast majority of whom were born in the U.S., endure an uncertain future that imperils their families. Moreover, fear of exposure keeps undocumented workers, who are disproportionately represented in low-wage occupations, vulnerable to unscrupulous employers who can violate wage, safety and discrimination laws with impunity.

To help end the legislative impasse, our coalition of faith-based investors, investment firms, unions and the New York City Comptroller wrote to over 150 CEOs to ask for their public support of comprehensive immigration reform that includes a pathway for currently undocumented workers. We cited the *Partnership for a New American Economy* (the Partnership), a bipartisan coalition of mayors and business leaders who are making the case for sensible immigration reform. Thus far 17 companies have responded, many sharing common concerns but none expressing willingness to take a public stand, including **Apache**, **Colgate-Palmolive**, **Devon Energy**, **Emerson Electric**, **IBM** and **Merck**. Plans to follow up on a targeted basis are in the works. We praise corporate leaders who are already speaking out through the Partnership, including co-Chairs **Microsoft** and **Walt Disney**, as well as **Adobe Systems**, **JPMorgan Chase**, **Quest Diagnostics**, and **Time Warner Cable**. Their support could help foster the political will necessary to make progress.

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. Opinions expressed herein are subject to change without notice.