

Research & Engagement Brief

Third Quarter 2011

The turbulent financial markets of recent months have not diminished Walden's successful efforts to strengthen corporate environmental, social and governance (ESG) performance through shareholder engagement and public policy advocacy. We believe that effective management of long-term ESG risks and opportunities enables companies to better weather such periods of increased economic uncertainty. Hence, we are pleased to be able to report on new and continuing initiatives, many of which demonstrate substantial progress toward more sustainable business policies and practices.

Political Expenditures and Lobbying

Get ready: The near constant barrage of political punditry, polling and campaigning that already envelops us is about to get worse. Electioneering in 2012 is expected to shatter previous records thanks in part to the U.S. Supreme Court's *Citizens United* decision effectively allowing unlimited corporate money in politics. To address this trend, Walden continues to lead shareholder campaigns encouraging political spending transparency and accountability, including newly filed resolutions at Deere and State Street for 2012 annual meetings. Moreover, in September Walden wrote over 40 companies seeking comprehensive disclosure of expenditures and policies involving direct, indirect and grassroots lobbying at the local, state and federal levels.

Walden withdrew a resolution at Accenture addressing its role on the Board of the U.S. Chamber of Commerce. The company committed to have a senior manager from Government Relations serve on the Chamber's Environmental and Energy Committee and to communicate its own corporate climate change position as a counterpoint to that of the trade organization. Additionally, Accenture is posting its political spending policies on the company website; they prohibit direct corporate political expenditures as well as indirect use of its membership dues in trade associations for political purposes.

Director Accountability

Effective corporate governance and management oversight begins with well-constructed and independent boards of directors who are accountable to shareholders and other important stakeholders. Walden has long advocated for best practice corporate governance policies. We were pleased to withdraw a client sponsored resolution at Accenture calling for an end to its classified board structure, by which only one-third of corporate directors are elected each year, in favor of annual election of directors. Accenture expects to affirm board declassification at an upcoming board meeting. Similarly, Gentex is taking steps toward implementing annual elections, as well as substituting a plurality standard with a majority voting policy, after resolutions we co-led with clients calling for these reforms received majority support earlier this year.

Extended Producer Responsibility

Extended Producer Responsibility (EPR) shifts responsibility for managing post-consumer waste from individuals and governments to corporations. Led by As You Sow (AYS), Walden filed shareholder resolutions at General Mills and Procter & Gamble, asking them to study the feasibility of adopting an EPR policy that builds on their successful experiences in Europe and Canada. The General Mills resolution was withdrawn based upon its agreement to hold quarterly meetings with AYS and investors, sharing key data on packaging waste and EPR programs from other countries, including data on program costs and recycling and recovery rates. The Procter & Gamble resolution was also withdrawn when it committed to a study evaluating options in the U.S., including EPR, to achieve its goal of zero post-consumer waste to landfills.

Water Scarcity

With nearly half of the world's population living in areas where water is either physically scarce or in short supply due to inadequate infrastructure, water scarcity is exacerbated by climate change. Water intensive industries, such as agriculture and technology, may face significant water risk, particularly in their global supply chains. Walden and Trillium Asset Management led a resolution at Sysco, the largest U.S. food distributor, asking for an evaluation of its exposure to supply chain water scarcity. We withdrew the resolution upon Sysco's commitment to expand its sustainability strategy to address water scarcity and sustainable agriculture, and to complete in 2013 the CDP Water questionnaire, the leading repository for corporate data on water risk management. We filed a similar resolution at wireless technology company Qualcomm after multiple attempts to engage in a conversation on water management practices failed to elicit a response. Recently, however, Qualcomm is communicating with Walden on this issue.

Indigenous Rights

Led by Boston Common Asset Management, over several years Walden has participated in discussions with ConocoPhillips, addressing indigenous rights concerns associated with oil exploration and production in Peru. Together with representatives of the nongovernmental organization Amazon Watch, we have encouraged the company to adopt the best practice standard of Free and Prior Informed Consent. A breakthrough occurred in August when ConocoPhillips updated its official Human Rights Position as follows: "The Company's approach to engagement with indigenous communities, in locations where they are an important stakeholder group for our operations, is consistent with the principles of the International Labour Organization Convention 169, concerning Indigenous and Tribal Peoples, and the United Nations Declaration on the Rights of Indigenous Peoples." This explicit recognition of indigenous rights is a sound platform for continuing our discussion regarding energy development in Peru and other sensitive locations.

Sustainability Reporting and Consultation

Encouraging best practice sustainability reporting based on Global Reporting Initiative (GRI) guidelines continues to be a central focus of Walden's corporate engagement. Two Walden resolutions advocating comprehensive ESG reporting that received substantial shareholder support in 2011 – C.R. Bard and Emerson Electric – have been filed again for the 2012 annual meeting season. Ongoing dialogues to strengthen ESG reporting are also underway at energy services company Core Laboratories and the dental supply firm Dentsply.

We continue to emphasize the importance of sustainability reporting for small companies because they tend to lag on ESG transparency. Led jointly by Walden and mutual fund company Pax World, a coalition of eleven investors, mutual funds and asset managers with over \$33 billion in combined assets under management recently wrote to more than 100 companies encouraging sustainable business practices and increased transparency. Walden is the primary contact for 10 companies, of which 5 have responded thus far: Calgon Carbon, Clarcor, Coherent, STR Holdings, and Zoll Medical.

Beyond these actions to advance reporting, Walden frequently provides formal stakeholder input at companies seeking to improve ESG policies and practices. For example, under the auspices of Ceres, a nongovernmental organization focused on corporate sustainability, we are part of a broad-based team of experts providing feedback to

McDonald's that includes the threshold issue of nutrition and obesity. With the business membership organization on corporate responsibility, BSR, Walden is providing input to spice manufacturer McCormick that addresses issues of sustainable agriculture. With other investors led by Boston Common Asset Management, we have ongoing meetings with senior executives of the energy company Apache to discuss community and employee health and safety, human rights, and risks associated with unconventional gas extraction (e.g. hydraulic fracturing). While the details of conversations at these meetings are confidential in order to foster honest exchanges between the participants, we believe such interactions help build trust and encourage continuous improvement on the part of the companies involved.

Public Policy Advocacy

In June, the U.S. Supreme Court ruled unanimously (8-0, 1 recusal) in American Electric Power Co. vs. Connecticut that the Environmental Protection Agency (EPA) under the federal Clean Air Act has the sole authority to regulate greenhouse gas emissions. With this strong affirmation of the EPA's mandate, Walden and Calvert Investments wrote to dozens of companies on the boards of the U.S. Chamber of Commerce or the National Association of Manufacturers, asking them to tell their trade organizations to end their campaigns to stifle the EPA's ability to mitigate climate risk. In July, Walden wrote to President Obama urging a strong stand against efforts to weaken, defund or delay the nascent Consumer Financial Protection Bureau, the agency born out of the Dodd-Frank law to protect consumers from abusive financial practices. Finally, we joined an Investor Network on Climate Risk letter to NYSE Euronext, parent of the New York Stock Exchange, to encourage increased ESG transparency among companies listed on the exchange.

Congratulations to Tim Smith, Director of **ESG** Shareowner Engagement, for recognition by the National Association of Corporate Directors (NACD) and inclusion on its 2011 Directorship 100. Each year NACD honors influential business leaders, governance advocates and



regulators who work to advance best practices in corporate boardrooms. Tim's relentless efforts on behalf of Walden's clients to encourage greater director independence, responsiveness and accountability – through successful promotion of annual elections of directors, political spending transparency, "Say-on-Pay" reforms, sustainability reporting and much more – reverberates in boardrooms throughout the country.