Walden Asset Management

Advancing sustainable business practices since 1975

Research & Engagement Brief

Fourth Quarter 2011

A recent *Wall Street Journal* (*WSJ*) editorial entitled "Shutting Up Business" (December 28, 2011) accused Walden and other investors of stifling the First Amendment rights of business through our shareholder advocacy encouraging transparency on corporate political spending and lobbying. Our response was to reaffirm strongly the right of shareholders to know how corporate resources are used for such purposes. U.S. Supreme Court Justice Kennedy agrees. Writing for the 5-4 majority in *Citizens United v. Federal Election Commission*, a decision which effectively opened the door in 2010 to unlimited corporate money in politics, Justice Kennedy stated, "With the advent of the Internet, prompt disclosure of expenditures can provide shareholders and citizens with the information needed to hold corporations and elected officials accountable for their positions and supporters."

Update on Shareholder Resolutions

As we enter the first presidential election cycle post *Citizens United*, corporate political spending and lobbying accountability is a major emphasis of Walden's engagement activities. We are the lead sponsor of ten shareholder resolutions for 2012 annual meetings requesting comprehensive political spending or lobbying disclosure. Several proposals focus on companies' indirect political involvement through their role on the board of the U.S. Chamber of Commerce (see Walden's 2012 Shareholder Resolutions on page 2).

Unfortunately, the U.S. Securities and Exchange Commission (SEC) allowed **Deere** to omit our resolution based on a new, minor technicality—it was not mailed on the exact date of the submission letter. Nevertheless, Deere informed us subsequently that it is not corporate practice to make financial or in-kind political contributions with corporate assets. Furthermore, Deere is contemplating additional clarification in its proxy disclosures.

Several other shareholder resolutions were withdrawn recently after successful negotiations. **LKQ Corp.** and **Meridian Bioscience** adopted more inclusive nondiscrimination policies and posted them to their websites. Both added sexual orientation explicitly, and LKQ also included gender identity and expression. Our resolution asking **Qualcomm** to evaluate water scarcity risk in its supply chain opened the door for a constructive dialogue that includes other investors and the multi-stakeholder coalition Ceres.

The December annual meeting of **Cisco Systems** concluded Walden's 2011 shareholder resolution season. Co-filed with Domini Social Investments, the resolution asked Cisco to take steps to decrease the likelihood that its business practices could enable or encourage the violation of human rights, including freedom of expression and privacy. Company discussions have emphasized such risks in China. The request earned a shareholder vote of 42.5%, a record-breaking level after multiple years on the ballot. More importantly, Cisco reports that it will develop a roadmap for implementing the new United Nations Guiding Principles on Business and Human Rights in 2012.

Progress through Company Dialogues

Company dialogues continue on an array of environmental, social and corporate governance (ESG) topics, with many resulting in tangible progress. **Illinois Tool Works** (ITW) plans to expand website disclosure on political spending, including rolling three year data on lobbying activities and expenditures. We had a remarkable response from **Merck** to our outreach requesting that companies express publicly their policy positions when they differ from those of their trade organizations. In a letter to the National Association of Manufacturers (NAM), a trade organization that has worked to obstruct progress on climate change policy, Merck described in detail its own position and concluded, "…we believe it is important that the business community be engaged on climate change in a constructive and meaningful way, promoting science-based solutions that will lead to more secure energy supplies and the creation of a low-carbon economy. We encourage NAM to consider these views when reviewing the Association's position on climate change for the long-term sustainability of the U.S. economy."

Conversations with **Ross Stores** encouraging comprehensive ESG disclosure are promising. The company expects to begin reporting in coming months; Walden has asked for supply chain monitoring and compliance to be a central focus. Feedback from Walden was incorporated in **DENTSPLY**'s recently released second sustainability report. The company is beginning to track the generation and disposal of hazardous waste, and is committed to reductions where feasible. DENTSPLY also agreed to increase significantly its response to the annual Carbon Disclosure Project questionnaire.

When we learned recently of the temporary closure of Shanghai **Johnson Controls** by China's environmental authorities due to reports of lead poisoning in children living near the facility, we immediately contacted the company. Johnson Controls, known for its strong environmental, safety and health programs, asserts that contamination is not from its facility and that ongoing monitoring of employees shows no elevated blood-lead levels. Separately, the Institute for Global Labour and Human Rights reported abusive labor conditions at a Chinese manufacturer of **Hasbro**'s popular *Transformers* toys. Hasbro told us that it is satisfied with the results of an independent investigation through an unannounced, nine-hour inspection of the facility. Also, the company plans to monitor the plant. Walden is seeking additional information and continues to follow both situations.

Public Policy Initiatives

Since our last quarterly brief, Walden has:

- Welcomed the December 30, 2011 Montana Supreme Court decision upholding a state ban on corporate spending for or against state political candidates. Earlier in the year, Walden joined investors in submitting an amicus curiae brief in support of the defendants. This outcome challenges the reach of the U.S. Supreme Court *Citizens United* decision.
- Supported a rulemaking petition to the SEC requiring corporate political spending transparency. The submission captures concerns of investors seeking a uniform means to monitor and assess the risks of corporate political giving.
- Participated in two Investor Network on Climate Risk letters. The first supported a regional Clean Fuel Standard (CFS) in the Northeast and Mid-Atlantic states, which would require fuel providers to gradually transition to a cleaner mix of energy sources for fuel. The second supported a strong Low Carbon Fuel Standard in California to help reduce greenhouse gas emissions.
- Joined investors calling on Senate Majority Leader Reid and Minority Leader McConnell to support timely implementation of Clean Air Act rules proposed by the U.S. Environmental Protection Agency (EPA), including the Cross State Air Pollution rule and Mercury and Air Toxics rule. The letter made the case that the EPA rules would improve public health and stimulate job creation.
- Provided technical expertise and signed a public document describing investor expectations surrounding natural gas operations that utilize hydraulic fracturing. Led by the Investor Environmental Health Network, the report details best practices and key performance indicators that would help investors better assess the risks associated with hydraulic fracturing.

Walden entered January with a strong foundation of ESG engagement initiatives and we have high expectations for a busy and productive 2012.

Walden's 2012 Shareholder Resolutions
Corporate Governance *ESG Reporting:* C.R. Bard, Emerson Electric, Gentex *Lobbying Disclosure:* 3M, ConocoPhillips, Devon Energy, Johnson & Johnson, JPMorgan Chase, Target, UPS *Political Spending Transparency:* Deere, State Street* *Trade Association Membership Review:* Accenture**, IBM, PepsiCo*
Workplace *Inclusive Nondiscrimination Policy:* LKQ Corp.**, Meridian Bioscience**
Environmental Impact *Climate Change Mitigation:* ExxonMobil* *Water Risk in Supply Chain:* Qualcomm**, Sysco**
Community Impact *Mortgage Loan Modification:* JPMorgan Chase*
*Walden is a co-filer. Primary filers are, in order of appearance, Trillium Asset Management, Pax World, Dominican Sisters, Presbyterian Church. Walden is the lead or co-lead sponsor of all other resolutions. **Withdrawn after fruitful negotiations.

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