Walden Asset Management

Advancing sustainable business practices since 1975

Research & Engagement Brief

First Quarter 2013

Walden is pleased to begin 2013 with a report of substantial progress in fostering improved corporate environmental, social and governance (ESG) performance, a tribute to the positive impact of shareholder engagement.

Political Spending & Lobbying

As a leading investor advocate for full disclosure of corporate funds used in the political sphere, Walden is encouraged that the Securities and Exchange Commission (SEC) is considering mandating disclosure of political contributions by publicly traded companies. While the U.S. Chamber of Commerce and other organizations gear up to block such a rule, we have seen a number of portfolio companies step up. We withdrew a resolution at **PepsiCo**, led by the New York State Common Retirement Fund, when it agreed to disclose direct lobbying and contributions made to trade associations, as well as funds paid to grassroots lobbying and tax exempt groups that write and endorse model legislation. Similarly, Walden's resolution at **3M** was withdrawn with a commitment to detailed disclosure of lobbying activities and expenditures to trade associations. Another resolution at **JPMorgan Chase**, led by Domini Social Investments and co-filed by Walden, was withdrawn after successful negotiations led to the disclosure of new policies that ensure corporate funds cannot be used for electoral purposes.

Environmental Impacts

After productive discussions with **Stryker,** we withdrew our shareholder proposal requesting a comprehensive greenhouse gas (GHG) emissions management plan. The company committed to fully assess its facilities, establish GHG goals and targets, and complete the annual questionnaire of the Carbon Disclosure Project, the main repository of corporate responses to climate change. Walden also co-filed a resolution at **PNC Financial**, led by Boston Common Asset Management, requesting an assessment of GHG emissions in its lending portfolio and exposure to climate change risk in its lending, investing and financing activities. Prompted by PNC's funding of mountaintop removal coal mining, the SEC denied the bank's attempt to omit the resolution from its proxy ballot. Additionally, Walden was among the dozen investors who joined Ceres in a letter to the National Federation of Municipal Analysts seeking improved disclosure from water utilities on water supply risk analysis and climate change impacts.

Equality

The debate on the Defense of Marriage Act (DOMA) continues to intensify as the U.S. Supreme Court deliberates its fate. DOMA prevents the federal government from recognizing marriages between same-sex couples considered legally married in their home state. The business community has joined the wave of support for what many believe will be DOMA's invalidation in June. Walden wrote to twelve portfolio companies commending their decision to join hundreds of others that signed a *friend of the court* brief to the Supreme Court that essentially called the law bad for business. The companies are: **Apple**, **Cisco Systems**, **Diageo**, **EMC**, **Google**, **Intel**, **Johnson & Johnson**, **Microsoft**, **Nike**, **Oracle**, **Qualcomm**, and **State Street**. Additionally, Walden recently encouraged **Denbury Resources** to make its inclusive nondiscrimination policy more accessible via the Equal Employment section of its corporate website.

ESG Disclosure

Walden continues to emphasize shareholder initiatives calling for transparency around ESG practices, goals and results. Comprehensive reporting equips investors with information to assess more fully ESG risks and opportunities, and importantly, heightens corporate accountability, which can be an important precursor to more sustainable business conduct. We withdrew a resolution at **Wabtec** upon its commitment to publish a sustainability report by year-end that will reference the best practice GRI (Global Reporting Initiative) guidelines. Along with Calvert Investments, we have provided detailed feedback on **McCormick**'s outline for its first sustainability report. Our resolution at **Emerson Electric** attained shareholder support of 38 percent (up from 35 percent last year), sending a strong message to management that reporting on ESG impacts and results matters to investors.

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We close this quarter's update with words we appreciated from PepsiCo's CEO, Indra Nooyi, who some Wall Street analysts criticize for her championing of *Performance with Purpose*, the company's sustainability strategy. Along with Ceres and Calvert Investments, we let Ms. Nooyi and the Board know that we believe this focus positions the company for long-term business success. Ms. Nooyi reached out personally to thank us for our continued engagement over the years, noting: "Your feedback informs our thinking as we shape the company's approaches to address the issues that are so important to all of us."

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Women on Boards: Too Long in Coming

Facts and forces are coalescing to bring attention to the lack of gender diversity in U.S. corporate boardrooms.

First the facts. Women remain woefully underrepresented among corporate directors despite modest advances in recent years. According to Ernst & Young[1], women hold just 14 percent of S&P 1500 company board seats.[i] The larger companies in the S&P 500 fare slightly better with a total of 17 percent. Fully one-quarter of S&P 1500 companies have no female representation at all. And, according to the nonprofit Catalyst, women of color hold just 3 percent of director positions. These numbers are particularly disappointing since women make up nearly half of the U.S. workforce (47 percent) and they are attaining educational credentials at record levels (e.g., U.S. Census Bureau data shows women now account for about six of ten advanced degree holders among the 26-29 year age group).

More facts. Evidence is mounting of a positive relationship between company performance and the presence of women on boards. For example, recent research by Credit Suisse[2] (not peer reviewed) found that boards with gender diversity had higher return on equity, lower leverage and better than average growth. Moreover, superior stock price performance was observed for companies with one or more women on boards. The authors posited several reasons for their findings: positive signaling of good governance, stronger efforts board-wide, better mix of leadership skills, access to a wider pool of talent, better representation of consumers, gender differences in risk-aversion, and improved corporate governance.

Forces putting the spotlight on board diversity include women's organizations and networks, business leaders, media, and importantly, major institutional investors who believe gender diversity is an essential aspect of good corporate governance. With a representative of CalSTRS (California State Teachers Retirement System), Walden's Tim Smith co-chairs the Investor Committee of the Thirty Percent Coalition—a network of corporate governance experts, corporations, senior business executives, state-wide elected officials, national women's organizations, and institutional investors—which aims to encourage gender diversity in boardrooms through outreach to companies and other initiatives. Signatories to recent letters to companies lacking women directors have included the Comptrollers of New York State and New York City; the Treasurers of the States of Connecticut, Maryland, Massachusetts, Pennsylvania, Washington State, and California; representatives of CalSTRS, CalPERS and AFL-CIO; and various foundations, religious investors, mutual funds, and investment managers.

Walden is also ramping up engagement on board diversity at selected portfolio companies (**American Science & Engineering**, **CARBO Ceramics**, **City National**, **IPG Photonics**, **NetApp**, **ResMed**, **Riverbed Technology**, and **Sapient**), seeking stronger nominating policies and implementation plans to increase the representation of women and people of color. Specifically, Walden recommends companies have a public statement expressing the value of board diversity, nominating charter language that explicitly identifies gender and race as factors considered, and a commitment to a diverse candidate pool. We also often seek to have a conversation with the chairperson of a board's nominating committee.

Walden is pleased with the early results of this outreach. Riverbed informed us of its new appointment of two directors that added both racial and gender diversity to its Board. Sapient told us it will consider our recommendations during the annual review of corporate governance documents in the coming months. CARBO Ceramics agreed to bring our message to its nominating committee for discussion. NetApp, where we filed a resolution, is exploring steps that may result in the withdrawal of the proposal.

We were particularly impressed with a technology company response to the Thirty Percent Coalition that described gender diversity as a "critical need at the most fundamental level." The Chair of the Nominating and Governance Committee further stated: "[we] have opened our recruiting process so that we are constantly looking for qualified women candidates, even in the absence of an open seat. So when we do find a woman candidate, we will expand the size of the board to make room for her."

While progress is always slower to come than we all want, there is reason for optimism.

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[1] Getting on Board: Women join boards at higher rates, though progress comes slowly; Ernst & Young, December 2012

[2] Gender diversity and corporate performance; Research Institute, Thought leadership from Credit Suisse Research, August 2012

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