



Research & Engagement Brief

Fourth Quarter and Calendar Year 2013

The year 2013 was notable for progress on many engagement priorities including climate change management, board diversity, inclusive nondiscrimination policies, and political spending and lobbying transparency.

REACH AND IMPACT

Walden tracks the companies we engage on behalf of clients and the environmental, social, and governance (ESG) issues we address, and also assesses the impact of these initiatives. While reach is an important indicator of our commitment to promote more sustainable business practices, impact is more important.

In 2013, Walden reached approximately 44 percent of companies approved for purchase. We approached 114 companies and engaged in 199 ESG dialogues (multiple conversations were held at many firms).

Topics covered in 2013 included greenhouse gas (GHG) emissions management, hydraulic fracturing, political spending and lobbying transparency, gender and LGBT (lesbian, gay, bisexual, and transgender) equality, labor practices, human rights, and sustainability reporting. More than 70 dialogues and 54 shareholder resolutions filed in the 2013 and 2014 seasons of annual general meetings (the filing date usually precedes the year of the meeting). Walden was an active or lead participant in approximately three-quarters of these actions.

We are able to extend our clients' reach by joining collaborative initiatives addressing multiple companies and industries. In doing so, Walden benefits from the added clout of participating major institutional investors (e.g. state and city pension funds) and can also help tackle important ESG concerns that may be less relevant to many of our portfolio companies. For example, Walden participated in a Ceres-led coalition of 70 investors, representing \$3 trillion in assets, that asked 40 of the world's top fossil fuel and electric power companies to assess their exposure to business and financial risk from climate change. After the tragic Rana Plaza collapse in May, more than 200 investors with over \$3 trillion in assets wrote to 21 brands and retailers to encourage them to join the Bangladesh Accord on Fire and Building Safety. Led by the Interfaith Center on Corporate Responsibility, Walden was pleased to be a voice for better working conditions for 4 million individuals toiling in 4,000 Bangladeshi factories.

How does Walden define and evaluate impact? Walden

records all of its engagements with companies—single communications as well as more intensive interactions. Single communications generally aim to increase corporate awareness, while more intensive interactions attempt to foster specific corporate change: better ESG policies (e.g. corporate governance charters that explicitly identify gender and race among the factors considered in nominating directors), more sustainable business practices (e.g. setting and meeting robust greenhouse gas goals and targets), and increased transparency (e.g. comprehensive disclosure of political spending and lobbying). Greater transparency enables investors to more fully assess opportunities and risks associated with existing and potential investments and bolsters corporate accountability to all stakeholders.

To measure impact, Walden assesses the progress of each initiative in which we aimed to improve ESG policies, practices, or transparency. As noted, we record single communications that are intended to build awareness, but we do not attempt to measure the outcome of such interactions.

Looking exclusively at the subset of actions in which Walden aimed to promote better policies, practices, or transparency, 47 engagements were identified as *making meaningful progress* and 71 were determined to be *in progress*—an “impact rate” of approximately 40 percent.

Importantly, while we believe our work is a contributing factor, success is often the result of the hard work of many stakeholders—other investors, employees, activists, NGOs, governmental bodies, the media, and others.

ENVIRONMENTAL IMPACT

With mounting scientific evidence continuing to underscore the need for urgent action on climate change, Walden redoubled efforts to engage companies on their mitigation and adaptation plans. We analyzed climate change policies and management of GHG emissions at large cap portfolio companies and identified over 30 for follow up. Specifically, we encouraged setting GHG reduction goals for company operations consistent with the recommendations of the IPCC (Intergovernmental Panel on Climate Change), the leading scientific authority on climate change. IPCC determined a 50 percent reduction of CO₂ globally is required by 2050 to avoid catastrophic consequences of climate change. Additionally, we asked companies to disclose goals and progress regarding mitigation and adaptation, preferably through the CDP climate survey.

Early results of these conversations are promising. **Advance Auto Parts** committed to expand disclosure on its approach to managing and reducing energy consumption. **AptarGroup** will set new climate change targets in 2014 and provide more disclosure. **Becton Dickinson** told Walden it would set and make public a new GHG goal by September 2014. **Colgate-Palmolive** is developing a climate change policy statement and establishing more robust GHG goals that will be announced later this year. **DENTSPLY International** is planning to report on the results of its energy consumption audit. **Donaldson** is currently gathering baseline GHG data and intends to set a goal in 2015. **Lincoln Electric Holdings** agreed to set a GHG emissions reduction target and increase reporting substantially. **Mettler-Toledo** plans to publish a statement on climate change in its 2014 sustainability report, set public goals on its energy use and carbon footprint, and respond to CDP annually. **Ross Stores** expects to expand reporting in 2014. **Stryker** committed to assess emissions at all of its facilities, establish GHG goals and targets, and complete the CDP questionnaire (which it did in 2013).

Also in 2013, **United Natural Foods** conducted a water risk assessment within its *Albert's Organics* division, fulfilling a commitment made to Walden in 2012. The company used the World Resources Institute's Aqueduct tool, which maps supplier locations to water availability. United Natural Foods stated that similar water risk assessments could be helpful in evaluating existing and prospective supplier relationships.

SOCIAL IMPACT

Board diversity is widely recognized as a component of good corporate governance; yet women hold just 16 percent of director seats on U.S. public company boards. To encourage progress, Walden seeks corporate governance policies and nominating charters that explicitly include gender and race as factors considered in director recruitment and a public commitment to a diverse candidate pool. In 2013, we addressed board diversity at eleven companies without women board members. By year's end five companies—**American Science & Engineering**, **NetApp**, **Resmed**, **Riverbed Technologies**, and **Sapient**—had added a woman director to their boards (Riverbed Technologies also added a person of color).

In November, the Employment Non-Discrimination Act (ENDA) passed in the U.S. Senate with bipartisan support, a landmark vote after numerous unsuccessful attempts over more than a decade. The legislation, which is not expected to pass this year in the House of Representatives, prohibits discrimination in hiring and employment on the basis of sexual orientation and gender identity. Absent federal protections, however, Walden continues to encourage companies to adopt and make public nondiscrimination policies that reference sexual orientation and gender identity. As is the case with many ESG issues, acceptance from the corporate community can positively influence public policy. In 2013, seven companies adopted more inclusive

nondiscrimination policies: **Denbury Resources**, **East West Bancorp**, **j2 Global**, **Mettler-Toledo**, **O'Reilly Automotive**, **Riverbed Technologies**, and **Simpson Manufacturing**. In addition, 5 more companies—**Advance Auto Parts**, **Donaldson**, **Liquidity Services**, **Ross Stores**, and **St. Jude Medical**—disclosed their inclusive policies on their websites.

POLITICAL SPENDING AND LOBBYING TRANSPARENCY

Since the 2010 U.S. Supreme Court *Citizens United* ruling, which eliminated a ban on corporate political independent expenditures, Walden has helped organize and lead investor coalitions seeking comprehensive disclosure of corporate funds used to influence elections, legislation, and regulation. To help investors assess the consistency of corporate policies with their public policy advocacy as well as any potential reputational risks, we asked dozens of companies over the year to disclose policies, oversight processes, and direct and indirect political spending and lobbying expenditures, including payments to trade associations and think tanks.

A number of companies responded positively. **3M**, **Accenture**, and **PepsiCo** expanded lobbying disclosure on their websites. **Apache's** board of directors adopted a Political Expenditures and Oversight Statement that emphasizes nonpartisanship. **J.P. Morgan** strengthened political spending policies, including directing trade associations not to use company funds for electoral purposes and prohibiting independent expenditures that were allowed by the Supreme Court's *Citizens United* decision.

We also continued to challenge companies associated with the American Legislative Exchange Council (ALEC), an organization that has worked to obstruct the U.S. Environmental Protection Agency and developed model legislation opposing state renewable energy regulations. This year, **Microsoft** and **Campbell's Soup** publicly criticized ALEC's efforts to repeal state renewable energy standards.

SUSTAINABILITY REPORTING

Encouraging comprehensive ESG reporting is a longstanding priority of Walden. Companies benefit from better management and communication of material ESG risks and opportunities. For investors and other stakeholders, sustainability reporting enables more accurate evaluation of corporate practices, goals, and results. In 2013, **Gentex**, **McCormick**, and **Wabtec** initiated or expanded sustainability reporting substantially. **Nike**, already a "best practice" reporter, agreed to use its leverage to encourage sustainability reporting among its major suppliers.

We are encouraged by both the reach and impact of Walden's company engagement efforts in 2013. We recognize, however, that corporate change is usually incremental. Given the enormity of some of the challenges we seek to address, especially regarding climate change, we are fortunate that our clients are long-term investors who can sustain these initiatives for years to come.

Public Policy Advocacy Highlights, 2013

Walden pursues public policy advocacy to complement and buttress company engagement initiatives and address broad-based ESG concerns that require policy solutions. We expand our leverage as investors by working with diverse coalitions representing large pools of assets, in some cases well into U.S.\$ trillions.

ENVIRONMENTAL

- Supported an Investor Network on Climate Risk (INCR) statement to the U.S. Environmental Protection Agency (EPA) endorsing Tier 3 Vehicle Emission and Fuel Standards. As currently proposed, the standards would improve air quality and public health by setting new vehicle emissions standards and lower sulfur content in gasoline beginning in 2017.
- Signatory of an INCR-led letter to President Obama supporting the proposed Carbon Pollution Standard for New Power Plants while also encouraging reduction in carbon pollution from existing power plants. Walden also provided in-person testimony at an EPA “Listening Tour” in Boston on the need for strong carbon pollution standards at existing power plants.
- Endorsed the Climate Declaration, organized by BICEP (Business for Innovative Climate & Energy Policy), which calls on policy-makers to take serious action to combat climate change.
- Joined investors asking the EPA to further assess the impact of large-scale mining on salmon ecosystems in Alaska’s Bristol Bay region. The initiative was led by Calvert Investment Management and Trillium Asset Management.

SOCIAL

- Co-led an investor statement calling on legislators to pass comprehensive immigration reform that includes a pathway to citizenship for undocumented immigrants. Legislation passed in the U.S. Senate with bipartisan support, but has stalled in the House.
- Signatory of an Interfaith Center on Corporate Responsibility (ICCR) letter asking U.S. Secretary of State John Kerry to support publicly the Accord on Fire and Building Safety in Bangladesh and encourage U.S. brands and retailers to join.
- Supported the Conflict Risk Network’s letter to the U.S. State Department urging progress toward implementing the Burma Responsible Investment Reporting Requirements for U.S. businesses in Burma to help protect human rights. The reporting requirements received final approval and the first submissions came due in July, 2013.
- Participated in a USSIF (The Forum for Sustainable and Responsible Investment) letter to Congress supporting the Non-Disparagement of Native American Persons and Peoples in Trademark Registration Act. Introduced in March, the bill would presume that use of “redskin” in trademarks may disparage people, which is grounds for not permitting trademark registration.
- Endorsed ICCR’s Statement of Principles and Recommended Practices Confronting Human Trafficking and Modern Day Slavery. In 2014, it will be used to promote best corporate practices beginning with the agriculture/food and hospitality sectors.
- Signatory of a public statement expressing strong support for disclosure requirements in the Conflict Minerals rule stemming from Dodd-Frank financial reform legislation, in opposition to a lawsuit filed by the U.S. Chamber of Commerce, the National Association of Manufacturers, and the Business Roundtable. The statement was led by the Responsible Sourcing Network, ICCR, and Boston Common Asset Management. Upheld by a federal court in July, the rule adds transparency regarding minerals sourced from war-torn Democratic Republic of Congo.
- Supported the Cotton Campaign’s request of the European Commission to use its influence to end forced labor in the Uzbekistan cotton sector. Also endorsed a statement encouraging the International Labour Organization to obtain information from independent monitors of the cotton harvest in Uzbekistan.

GOVERNANCE

- Submitted public comments on the benefits of the Securities and Exchange Commission’s (SEC) proposed CEO-to-median worker wage ratio. Part of Dodd-Frank, final rules on pay ratio disclosure are expected in 2014.
- Provided public comments to Ceres outlining Walden’s support for a proposed ESG listing standard—ESG disclosure requirements and recommended implementation plans for companies listed on public stock exchanges.
- Signatory of a Corporate Reform Coalition letter to SEC Chair Mary Jo White expressing disappointment with the SEC’s decision to remove the political spending disclosure rule from its 2014 agenda, despite a record-breaking number of public comments favoring the rule. Requested renewed consideration of the rule.
- Supported a Calvert Investment Management letter to SEC Chair Mary Jo White commending the agency’s strong, final rules for the implementation of Dodd-Frank reforms on payment transparency in the oil, gas, and mining sectors.

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