



VALUES

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TIPPING POINTS

Mad Men watchers surely flinched the first time the show's protagonist, ad executive Don Draper, exhaled a plume of cigarette smoke in an airplane or a movie theater. Fortunately, smoking in enclosed public places reached a tipping point years ago and is now largely a thing of the past. Walden's climate change campaign aspires to catalyze a similar break from the status quo in the way energy producers and consumers address greenhouse gas (GHG) emissions.

Last summer, we described the focus of our engagement with climate "leaders" and "learners." We are encouraging companies to integrate climate change into their business strategy and set meaningful goals to reduce emissions. Additionally, we are strongly advocating that companies support smart climate-related policy and regulation. Finally, we underscore the need for comprehensive transparency for the benefit of all stakeholders.

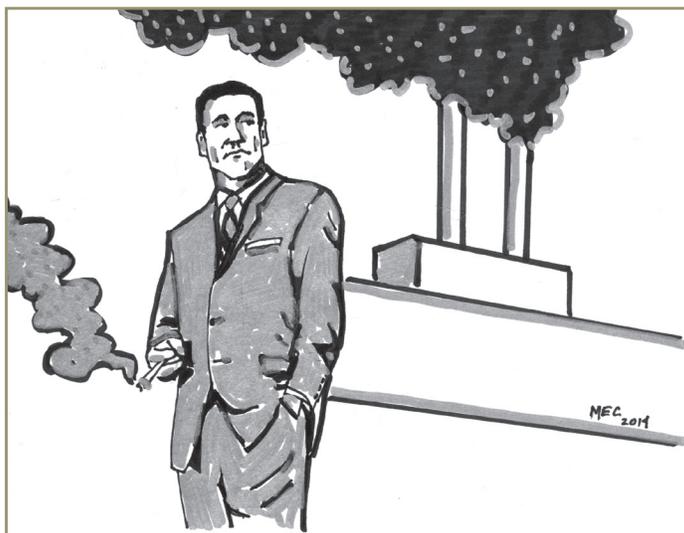
We knew the campaign was a bold one, and a recent report details the size of the challenge. In April, Ceres released *Gaining Ground: Corporate Progress on the Ceres Roadmap for Sustainability*. Analyzing 600 of the world's largest corporations, the report finds that more than two-thirds of the companies are taking steps to reduce GHG emissions, but only 35 percent have established time-bound targets, a three percent increase from the

previous assessment two years ago. Thirty-seven percent of companies are working on renewable energy, but only six percent have quantitative targets to increase sourcing of renewable energy.

What follows is a description of how Walden's engagement contributed to meaningful progress over the past year.

More Sustainable Policies and Practices

Walden asked more than 30 companies to improve their policies on climate change, specifically to reference the Intergovernmental Panel on Climate Change (IPCC) and climate science, and set goals that align with the Copenhagen Accord (i.e., reducing emissions sufficiently to limit temperature change to 2 degrees Celsius). Specific success stories this year include:



- ◆ **Colgate** announced it will reduce its GHG emissions by 25 percent by 2020 and 50 percent by 2050, in line with the Copenhagen Accord.
- ◆ **Intel** updated its climate policy, which now details the scientific consensus regarding climate change; links its GHG reduction goals to targets endorsed by climate scientists; and discusses the company's views on climate policy and describes related lobbying and advocacy efforts.
- ◆ **McDonald's** developed its first-ever climate change position statement, which references

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About Walden Asset Management

Walden Asset Management has been a leader in integrating environmental, social and governance (ESG) analysis into investment decision-making and company engagement since 1975. A division of Boston Trust & Investment Management Company, Walden manages accounts tailored to meet client-specific investment objectives and works to strengthen corporate ESG performance, transparency and accountability.

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DÉJÀ VU: SHAREHOLDER RIGHTS UNDER ATTACK

Every once in a long while a group of companies, usually led by the U.S. Chamber of Commerce, launches a campaign to change the rules allowing investors to file shareholder resolutions. Welcome to the latest iteration.

We are witnessing a coordinated buzz about so-called “problems” with the shareholder resolution process led by Securities and Exchange (SEC) Commissioner Daniel Gallagher, who argued recently that investor advocates have “hijacked” the proxy proposal process. Gallagher was supported by the general counsel of NASDAQ in a recent op-ed for *The Wall Street Journal*, and abetted by the Chamber’s official petition to the SEC to review and change the proxy rules.

Ironically, these voices against shareholder resolutions are materializing during a proxy season in which many shareholder initiatives seeking to strengthen companies’ management of climate change risk, political spending and lobbying disclosure, governance practices, and sustainability reporting, among other issues, are reaching new highs in proxy vote tallies. Perhaps it is this traction at the ballot box that has stimulated the attempt to roll back shareholder rights.

These events are alarming but not surprising. Walden has been closely monitoring the Chamber of Commerce’s speeches, articles, and conference proceedings over the last several years as it regularly challenged the proxy resolution process and the right of investors to file resolutions. The Chamber has also vigorously challenged proxy advisory firms like ISS that wield significant influence with voting shareholders.

What are the specific recommendations and criticisms of these shareholder resolution naysayers?

Commissioner Gallagher advocates that a filer of a shareholder resolution should have to own “perhaps \$200,000 or, even better, \$2 million” in a stock or hold a specific percent of outstanding shares. Currently, the threshold

for shareholder filing is ownership of \$2,000 in stock, so such a change would disenfranchise smaller individual and institutional investors, even though many of their resolutions are equally effective as those from larger investors and receive high votes. The Commissioner also seeks to limit the number of shareholder proposals a company should have to include in its proxy statement. He further argues that shareholder proposals advance social, environmental, or political interests that are not in companies’ (or shareholders’) financial interests.

The Chamber’s petition, supported by the American Petroleum Institute and the Financial Services Roundtable, among others, promoted an increase in the percentage of votes required to resubmit a shareholder resolution in order to deter repeat filings. Presently thresholds are 3 percent in year one, 6 percent in year two, and 10 percent thereafter. Using this one recommendation, we suspect that the Chamber hopes the SEC will open the door to a proxy rule review that would result in multiple radical changes limiting the influence of shareholders.

Walden will advance a different perspective in defending the current rules that govern the submission of shareholder resolutions. We will explain how shareholder proposals on environmental, social, and corporate governance matters often raise issues with a direct impact on long-term shareholder value (e.g., effective management of climate change risk or encouraging stronger board oversight and independence). We will highlight that many companies embrace the substance of these shareholder proposals as good for business. We will make the case that fiduciary duty compels us to raise these matters that address long-term risk and brand reputation. And finally, we will argue that sometimes voting support is modest in early years but later garners significant shareholder backing as knowledge about an issue accumulates.

In May we met with Commissioner



Tim Smith is Director of ESG Shareowner Engagement.

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BICEP: BUSINESS MUSCLE WHERE IT'S NEEDED MOST

partnerships in action

This column highlights selected groups and organizations working to promote social and economic justice, environmental leadership, or corporate accountability. Walden often supports the work of featured groups and partners in research and advocacy initiatives.

December 2007: Nike Headquarters, Portland, Ore.

Like most stakeholder meetings led by Ceres, this one was chock-full of subject matter experts, investors, academics, NGOs, and senior Nike managers. All were zeroing in on a climate change action strategy for the iconic brand known for its leadership in improving labor practices, creating environmentally preferable materials in its manufacturing, and expert sustainability reporting. As colorful flip charts filled the walls with recommendations about Nike's next steps, one person – Brad Figel, then director of government affairs – raised his hand. “It is great for Nike to try to reduce its own carbon footprint and to pursue energy efficiency,” he said. “But unless and until we make systemic change through Capitol Hill, nothing is really going to happen to move the needle on climate change.”

The room went quiet. Brad was right. Although up to this point the focus had been on the singular, voluntary action of one company in a vast sector, collective action among like-minded consumer brands was tantalizing.

BICEP Launched

In November 2008, BICEP (Business for Innovative Climate & Energy Policy) was born, thanks to Ceres, Nike and the four other companies¹ that were willing to stand up in public and call for climate policy action. Today, BICEP has 30 member companies and has stayed the course through the uncertain terrain of the past five and a half years, weighing in on policy whenever possible. From the Waxman-Markey Bill (the American Clean Energy and Security Act) to protecting AB32 in California to advocating for strong federal fuel economy standards, individual BICEP members have sought to transcend partisan politics and make the business case for action.

Have they succeeded? Not entirely. Have they given up? Never.

In a move toward post-partisanship, the BICEP companies re-wrote their core principles in 2010 after the failure of legislation at the federal level. No longer calling for “cap and trade,” the principles became less prescriptive and focused on broad

strategies and recommendations around energy efficiency, renewable energy, clean transportation, and U.S. leadership at the international level.

In early 2012, when it became clear that climate change had become politically toxic and appeared to have fallen off the radar of the popular press, BICEP companies coalesced around an inclusive, winning narrative that enshrines the not-so-obvious link between solving the climate crisis and economic opportunity. The Climate Declaration – (www.ceres.org/bicep/climate-declaration) a can-do message celebrating America's legacy of overcoming challenges – was designed to enlarge the tent for potential business messengers who would provide policy makers with the economic cover they needed to press for aggressive measures.

In a matter of weeks, nearly 500 companies added their names to the Climate Declaration in agreement. In his famous speech at Georgetown in June 2013, President Obama used the Declaration in precisely the way Ceres and BICEP had intended.

After making the case for the cost-effectiveness of his Climate Action Plan, he said, “But don't take my word for it... over 500 [companies], including GM and Nike, have signed on to the Climate Declaration...” The Climate Declaration has since been held up as a proof point for corporate support of climate policies countless times on the House and Senate floor and in committee meetings. Now there are 800 companies on board and more companies are joining each week. Notably, an influential group of California companies who signed the Climate Declaration specifically called for the protection of AB32.

Now, nearly one year after the release of the Declaration, the President announced draft Carbon Pollution Standards for power plants – the crown jewel of his Climate Action Plan – to address the largest source of carbon pollution in the United States. Ceres and BICEP are encouraging other companies to stand in support of the President's standards. Businesses tend to reflexively reject Environmental Protection Agency (EPA) rules, so it is worth noting the number and nature of the leading companies willing to stand with the President on this issue.

Once in place, the new EPA rules will be the single largest step to reduce CO₂ taken by any country in the world, and again demonstrate America's resolve in the face of immense challenges. Thoughtful business support for these standards is critical over the next six months and will need to trump the inevitable resistance from various trade groups.



Anne Kelly is the Director of Business for Innovative Climate & Energy Policy (BICEP). For more information, visit www.ceres.org/bicep.

¹ BICEP's founding companies: LS&Co., Nike, Starbucks, Sun Microsystems, and Timberland.

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RESEARCH & ENGAGEMENT IN ACTION



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Heidi Soumerai is the Director of ESG Research.

At the April 30 annual meeting of shareholders of technology firm **EMC**, Walden offered strong words of praise for EMC's robust goal to address greenhouse gas (GHG) emissions. The company committed to achieve an absolute GHG reduction of at least 80 percent by 2050, the target that the Intergovernmental Panel on Climate Change reports is necessary to avoid the most catastrophic impacts of climate change. Few companies show similar leadership.

Yet, we also commented that few companies have caused such consternation about a fundamental shareholder right. EMC sued individual investor proponents, James McRitchie and John Chevedden, in an attempt to exclude a resolution they had proposed calling for an independent board chairman, even though most corporate governance experts believe that this board structure represents best practice. The U.S. District Court in Massachusetts did not agree with EMC, and Walden was pleased that the resolution ultimately appeared on the ballot. At the meeting we expressed alarm about the use of enormous firepower to thwart a shareholder's right to raise a legitimate governance matter via the proxy resolution process. CEO Joseph Tucci and other representatives of the board and management assured us that such litigation would not be the new norm.

In the face of other prominent challenges to shareholders' right to file proxy resolutions (see *Déjà Vu*, page 2), as well as at least three other similar company lawsuits against Chevedden (from **Chipotle**, **Express Scripts**, and **Omnicom**), Walden assisted NorthStar Asset Management in organizing an investor coalition letter to express strong concern to management of the four companies. Express Scripts, the only company to win its lawsuit, responded that it had provided opportunities for the proponent to correct inaccuracies and submit a revised proposal.

Walden's 2014 Resolutions

Walden attempts first to engage in a dialogue with management at portfolio companies on significant environmental, social, and governance (ESG) matters, but filing shareholder proposals has also been an essential tool. Filing a proxy resolution often opens the door to successful negotiations that lead to its withdrawal before appearing

on a ballot.

In 2014, we sponsored 26 shareholder resolutions on behalf of all clients: Nine seeking sustainability reporting, seven addressing GHG emissions, six requesting greater lobbying transparency, two on recyclability of packaging, and two advocating more inclusive nondiscrimination policies (see *Summary of Walden's 2014 Shareholder Resolutions*, on page 5). Of 20 resolutions led or co-led by Walden, 11 were withdrawn after significant company commitments. To date, voting support for resolutions not withdrawn has ranged from 8 percent to 40 percent (several meetings are pending), results that should encourage continued dialogue across the board.

Outside the Proxy Process

ESG progress is evident at several companies where multi-year conversations with investor coalitions have continued into 2014.

In April, **Apple** provided an update on labor standards and practices in its supply chain, continuing a discussion that began in 2011 after egregious problems were uncovered at a major supplier in China (Foxconn). Apple continues to build its monitoring and compliance program, as well as its partnership with the Fair Labor Association. Audits increased by more than 50 percent from the previous year (to approximately 450 audits) and now reach five levels deep in the supply chain. More than 1.5 million workers have had training on workers' rights. Violations of the 60-hour workweek are a primary concern, yet compliance is now at 90 percent. Apple also developed new standards to address concerns about employment of student interns.

With members of the Interfaith Center on Corporate Responsibility, we are addressing serious business ethics and risk control breaches that in 2013 led **JP Morgan** to commit to pay tens of billions of dollars to settle an array of charges brought by regulatory agencies (covered in our Winter 2013 *Values* newsletter). In February, JP Morgan agreed to publish in the fall a comprehensive report for investors on risk mitigation initiatives and actions to prevent recurrence, a much-needed step toward greater accountability and transparency related to the various controversies.

In April, the work of **McDonald's** formal

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SUMMARY OF WALDEN'S 2014 SHAREHOLDER RESOLUTIONS

Much of Walden's success in advocating for greater corporate responsibility and transparency comes from constructive dialogues with companies over many years, outside of the shareholder resolution process. Yet sponsoring resolutions remains a primary tool for investors to influence company policies and practices as illustrated below.

Corporate Governance

Lobbying Disclosure

Comprehensive disclosure of corporate lobbying helps investors assess how a company's lobbying activities align with its expressed goals and commitments on public policy. For the third consecutive year, shareholder proposals requesting better lobbying policies, disclosure, and oversight, including indirect initiatives through trade associations and think tanks, were submitted to **Accenture**, **ConocoPhillips**, **IBM****, **JP Morgan Chase****, and **UPS**. **Google** and **Time Warner Cable** also received lobbying disclosure resolutions for the first year and second year, respectively.

After receiving 31 percent support last year, the 2014 proposal at Accenture was withdrawn with an agreement to publish extensive lobbying information. All the others received varying levels of shareholder support: ConocoPhillips (25 percent), Google (9 percent), IBM (24 percent), JP Morgan Chase (8 percent), and UPS (17 percent). At the time of publication, Time Warner Cable's vote tally was still pending. Lobbying disclosure resolutions continue to garner growing and significant shareholder support, reflecting the supportive recommendations from major independent proxy advisors and increasing shareholder focus on risks related to corporate positioning on public policy.

Sustainability/ESG Reporting

For the fifth and fourth year in a row, respectively, Walden filed resolutions requesting comprehensive sustainability reports at **C.R. Bard** and **Emerson Electric**. Despite managements' recalcitrance to expand their reporting, these resolutions continue to gain considerable support from shareholders, receiving approximately 30 percent of the vote or greater each time they have appeared on the ballot. This year, both resolutions received approximately 38 percent support. The resolution at **Cincinnati Financial**** was withdrawn with agreement.

Walden continues its leadership in promoting better sustainability reporting among small cap companies. After multi-year engagements with **Gentex*** and **Simpson Manufacturing**, the 2014 shareholder proposals were withdrawn with commitments to initiate sustainability reporting. The proposal at **CLARCOR** was backed by 40 percent of shares voted, an unusually high level that should contribute to a constructive dialogue. First-time resolutions at **ESCO Technologies** and **RPC, Inc.** (a closely held company) received 24 percent and 9 percent of the vote, respectively. A unique resolution at **Wolverine Worldwide** focusing on both sustainability reporting and supply chain disclosure was withdrawn with an agreement that the company would collect and disclose more data over the coming year.

Environmental Impact

Climate Change Mitigation

In order to "raise the bar" on corporate responses to climate change, we redoubled our engagement efforts to press portfolio companies to improve disclosure of greenhouse gas (GHG) emissions and set robust reduction goals rooted in climate science. Along with several successful dialogues, Walden was pleased to withdraw its shareholder proposals at **Advance Auto Parts**, **Cabot Oil & Gas**, **Denbury Resources**, **Lincoln Electric Holdings**, and **Mettler-Toledo**, based on a variety of commitments. For example, Mettler-Toledo set a goal to reduce its CO₂ emissions per net sales 20 percent by 2020 compared to a 2010 baseline. The company also agreed to respond annually to the CDP Climate Change survey, the world's largest public repository of corporate responses to climate change. Denbury Resources agreed to develop a comprehensive sustainability report following the Global Reporting Initiative's G4 standards, and is considering setting energy reduction goals. A resolution we supported at **Energen**** related to fugitive methane emissions received 27 percent support.

The second-year proposal at **PNC Financial Services**** asking for a report on the bank's GHG emissions and climate change risk from its lending, investing, and financing activities received shareholder support of 23 percent (unchanged from 2013).

Packaging Recycling

Resource efficiency and waste management have a substantial role to play in the efforts to combat climate change and the quest toward environmental sustainability. Walden co-filed resolutions at **General Mills**** and **Procter & Gamble**** to encourage greater use of recyclable materials in product packaging. Both resolutions are proceeding to the proxy statement for a vote.

Workplace

Inclusive Non-Discrimination Policy

Walden's two proposals requesting companies amend their equal employment opportunity policies to include "sexual orientation and gender identity or expression" were successfully withdrawn. **Ross Stores*** increased the transparency of its existing EEO policy and **O'Reilly Automotive** strengthened its policy and published it on the firm's careers webpage.

To increase our impact Walden often joins others on collaborative efforts.

**In order, Walden co-led these resolutions with the following investors: Calvert Investments, Horizons Foundation*

***In order, these shareholder resolutions co-filed by Walden were led by: First Affirmative Financial Network, Sisters of St. Francis, Calvert Investments, Miller Howard, Boston Common Asset Management, As You Sow (GIS and PG)*



TIPPING POINTS *continued from page 1*

the IPCC and states clearly the need for action; it shared McDonald's approach to managing its own direct carbon footprint as well as engaging key suppliers to address the climate impact of the company's massive supply chain.

The politicization of the climate change debate has made many companies reluctant to speak specifically about climate science for fear of alienating customers or political leaders. However, on the other side, an increasing body of research makes a compelling near-term business case for energy efficiency and, to a lesser extent, renewable energy. In the year to come we will continue to press companies to ground their climate change strategies in scientific understanding of the issue, and to follow the example of leaders like Colgate that have committed to make the reductions deemed necessary to avoid the worst impacts of climate change.

Influence on Public Policy

Corporate influence on the political process has been a significant obstacle to meaningful climate and energy legislation here in the United States. To turn this dynamic on its head, we are asking companies to use their voices to support smart regulation and legislation. We were pleased that **Apple**, **Disney**, and **Intel** signed the Climate Declaration, which states unequivocally that America needs to act on climate change (See Partnerships at Work: BICEP, page 3). Intel played an active role at a recent launch of a White House initiative leveraging technology to help address climate change. And **Campbell Soup** spoke out this past fall in support of renewable portfolio standards in Ohio for electric utilities.

While we helped more companies take small but meaningful steps toward public support of climate related regulations or legislation, many companies we spoke with stated that climate and energy policies are not a high enough priority for them to spend their political capital on. Similarly, few companies, as yet, have expressed willingness to speak out regarding the Envi-

ronmental Protection Agency's regulatory work on climate change.

Progress is even more elusive in changing the behavior of companies that block meaningful regulation or legislation. While we did discuss the issue extensively with **ConocoPhillips** and **Exxon Mobil**, our efforts do not appear to have contributed to any specific change in either company's approach. Further, no companies have specifically committed to asking their trade associations, such as the U.S. Chamber of Commerce or the National Association of Manufacturers, to stop opposing legislative and regulatory action on climate change.

Walden's work challenging the incongruence of company commitments to renewable energy and addressing climate change while participating in the American Legislative Exchange Council (ALEC) continues to make progress. To date, approximately 85 companies have withdrawn from ALEC. This year Walden clients filed resolutions with **Occidental Petroleum**, **Pfizer**, and **Time Warner Cable**, specifically highlighting ALEC's initiatives opposing climate change policies and asking companies to evaluate their membership. The resolution received 28 percent support at Occidental, 6 percent at Pfizer, and a challenge forced its withdrawal at Time Warner Cable. Walden and several non-governmental organizations pressed **Google** on lobbying disclosure and ALEC. At the company's annual general meeting, Google emphatically expressed disagreement with ALEC on a number of issues and agreed to review the resolution.

Increased Transparency

Walden's work asking companies to evaluate their trade association memberships and political spending is just one part of a broader effort to advocate for increased transparency in how companies are addressing all material environmental, social, and governance issues. Our advocacy this year contributed to numerous companies agreeing to increase transparency related to climate risk, including **Advance Auto Parts**, **AptarGroup**, **Apple**, **Cabot Oil & Gas**,

Denbury Resources, **Cincinnati Financial**, **Lincoln Electric**, **Mettler-Toledo**, **Ross**, and **Stryker**.

The CDP investor survey on climate change is the gold standard for climate disclosure. **Mettler-Toledo**, which had previously responded to CDP, committed to continue to do so; **Cabot Oil & Gas**, **Denbury Resources**, and **Lincoln Electric** are considering completing the survey in the future. In the case of **Denbury Resources**, we are pleased to report the company did commit to developing its next sustainability report in accordance with the Global Reporting Initiative (GRI) standards, which are harmonized with the CDP questions on climate change. Responding to the CDP survey continues to be seen as too time- and energy-intensive an undertaking for many companies. Walden will continue to press the case for responding to CDP.

In our efforts to reach a climate tipping point, we work with numerous investors, researchers, and activist organizations. This proxy season was one of the most active for investors on climate issues. Shareholders filed more than 150 climate-change related resolutions. These resolutions were filed by 37 "lead" filers and included a threefold increase in proposals focused on GHG emissions. Walden joined in engagement and shareholder resolutions led by others on numerous issues including fugitive methane emissions, hydraulic fracturing, and financed emissions, among others.

Based on Ceres' findings and our efforts over the last year, Walden would say the tipping point is visible on the horizon. Companies like **Colgate** and **Intel** are leading the way. Others are following in their footsteps. Yet much remains to be done. We will continue to look for allies within companies that understand the importance of sustainability, and simultaneously continue the effort to remove the obstacles that impede progress.



Aaron Ziulkowski is a Senior ESG Analyst

— A. Ziulkowski

ESTATE PLANNERS EYE STATE REQUIREMENTS

With the higher federal estate tax exemption now at \$5.34 million for an individual and \$10.68 million for married couples, much of the focus of estate planning has shifted to minimizing taxes at the state level. Many states still apply some type of tax at death and current state exemption limits are significantly lower than federal limits. For example, a couple in Massachusetts with \$5 million in assets would owe no federal estate tax but might owe \$390,000 or more in state estate tax. Massachusetts has a \$1 million individual exemption, no special provision for couples, and a top rate of 16 percent. These levels are about average for those states that still have the tax.

Traditional estate planning tools such as marital and family trusts, which were used to manage federal estate taxes, are now being used by those with estates under the federal exemption limits to plan for estate taxes at the state level. Similarly, gifting strategies used to lower estate values for those same individuals now focus on state taxes. There are entire books explaining the requirements for residency in Florida

or Arizona, states with more favorable estate tax provisions.

While there appears to be a trend toward reducing or eliminating state estate taxes, the future of such taxes remains uncertain. Proposed legislation awaits the many complex political and fiscal battles in state legislatures. The new generous federal limits have not removed estate tax considerations; for many it has simply shifted the focus of planning to accommodate individual state rules.



Stephen Benevento is a Senior Administrative Officer.

– S. Benevento, CFP™, CTFA

As always, we strongly recommend consulting with your tax advisor prior to making any decisions related to your tax or estate plans.

DÉJÀ VU: SHAREHOLDER RIGHTS UNDER ATTACK

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Gallagher to put our case on the record. We are confident that Walden and the institutional investor community will make a persuasive case that the existing shareholder resolution process is not broken. Indeed, the current proxy process provides shareholders an important voice. A voice that, we believe, makes the companies they own much stronger.

– T. Smith



BICEP: BUSINESS MUSCLE *continued from page 3*

Meanwhile, BICEP members and peer companies continue to recruit new business champions who are helping the United States transition to a clean energy economy. The coalition is also looking ahead to the Paris 2015 climate summit, seeking to pave the way for a progressive business voice to be heard and to have an impact at the international level.

– A. Kelly

Walden is an active member of Ceres and a signatory to the Climate Declaration.

RESEARCH AND ENGAGEMENT *continued from page 4*

stakeholder advisory team, which included Walden, concluded with the company's publication of its first Corporate Social Responsibility/Sustainability Framework, as well as a report highlighting ESG progress in 2012 and 2013. The framework establishes McDonald's sustainability vision and goals across five areas: Food, Sourcing, Planet, People, and Community. We commend management's vigorous "2020 aspirational goals," including:

- ◆ Food—doubling servings of fruit, vegetables, dairy, or whole grains; and menu-wide reductions in sodium, sugar, and saturated fats.
- ◆ Sourcing—leadership on the development and implementation of sustainable beef standards; 100 percent verified sustainable coffee, palm oil, and fish; and 100 percent of packaging to be sourced from certified or recycled sources.
- ◆ Planet—20 percent increase in energy efficiency in company-owned stores and higher restaurant standards overall, and 50 percent increase in restaurant recycling.

In each case, Walden expects to continue these conversations and encourage ongoing progress for years to come.

– C. Greenberg and H. Soumerai

cutting edge companies

CYBERONICS

This column highlights companies in the business of providing solutions to social and environmental challenges. Featured companies are typically held in the Small Cap Innovations portfolios offered to Walden clients.

Convulsions, twitching or jerking muscles, and even loss of consciousness: The characteristics of an epileptic seizure are well-known. A seizure may persist for up to several minutes and can be a difficult episode to endure. Epilepsy is a disorder in which neurons in the brain, the cells responsible for processing and relaying information in the nervous system, are subject to abnormal neurotransmitter levels leading to disturbed neuronal activity. Epilepsy is the fourth most common neurological disease after migraine, stroke, and Alzheimer's. There are currently nine million people living with epilepsy in the United States, Europe, and Japan. The majority of patients with epilepsy rely primarily on anti-epileptic drugs to manage the disease; however, more than 30 percent of patients continue to experience seizures in spite of multiple pharmacological treatments.

Texas-based **Cyberonics** has developed a medical device utilizing vagus nerve stimulation (VNS) therapy for the long-term treatment of epilepsy. Cyberonics' VNS Therapy system received FDA approval in 1997 as an adjunctive therapy for reducing the frequency of seizures. Known as a refractory therapy, VNS Therapy is appropriate for individuals who do not respond to pharmacological treatment.

The vagus nerve originates in the brainstem and travels down the body through the neck. It is responsible for many key parasym-



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pathetic activities including heart rate. VNS Therapy is conducted by implanting a pacemaker device (and associated leads) into the chest. Mild pulses applied to the vagus nerve in the neck send signals to the brain. It is believed that the regular electrical pulses delivered to the vagus nerve assist in regulating neurotransmitter activity in the brain, but the exact mechanism is unknown. The devices provide adjustable, automatic intermittent stimulation. The frequency of electrical impulses is specific to each patient and doctors customize the therapy to achieve optimal seizure reduction.

There is strong clinical evidence in support of VNS Therapy (1,200 publications). In comparison to second-generation anti-epileptic drugs, VNS Therapy has demonstrated similar efficacy with approximately 40 percent of VNS responders experiencing a greater than 50 percent reduction in seizure frequency. Moreover, devices have fewer unwanted side effects than anti-epileptic drugs (though they are obviously more invasive). Perhaps the most powerful argument in favor of these devices is evidenced by the decision patients are making related to "re-implanting" the device. When the battery life of Cyberonics' device expires (typically after five to seven years), patients choose to re-implant the device approximately 90 percent of the time.

For people with epilepsy, every day can be a challenge. Cyberonics' VNS Therapy system offers a mechanism to improve seizure control and quality of life without adding a pharmacological burden.

—H. Vanni

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