



## Research & Engagement Brief

Third Quarter 2012

Notwithstanding the hyper-partisan tone of this 2012 election cycle, popular concern is escalating over the torrent of secret money into politics. According to a *Washington Post*-ABC News poll conducted in September, three-quarters of voters expressed unease about campaign ads supported by corporations, unions and wealthy individuals. Among the many environmental, social and governance (ESG) topics Walden addresses through engagement with portfolio companies, none are more timely than political spending and lobbying transparency.

### POLITICAL SPENDING AND LOBBYING

Walden has worked closely with numerous companies to encourage best practice policies, oversight, and disclosure of corporate political spending and lobbying activity. Our dialogues often focus on companies' third party spending through trade associations, think tanks or other tax-exempt organizations that research, write or endorse model legislation that may undermine sustainable business practices.

Recently Walden helped lead an investor initiative comprised of 41 investors with approximately \$25 billion in assets who wrote to over 50 corporate members of the American Legislative Exchange Council (ALEC) or the Heartland Institute. ALEC and Heartland are linked to controversial legislation, such as Stand Your Ground laws, harsh immigration policy, denial of the science of climate change, and efforts to dramatically weaken the authority of the U.S. Environmental Protection Agency. We urged corporate boards to evaluate relationships that may carry significant reputational and business risks. Pressure from investors and many other stakeholders has prompted over 40 companies (e.g. **Johnson & Johnson**, **McDonald's**, and **Procter & Gamble**) to cut ties with ALEC and 20 (e.g. **PepsiCo**) to leave Heartland.

We also saw progress in our ongoing discussion with **Procter & Gamble** (P&G) related to spending in support of candidates by its political action committee (PAC). P&G's policy now references explicitly its corporate values among the criteria used: "We also consider whether a candidate's public positions and statements are congruent with our Purpose, Values, and Principles." Additionally, P&G notified trade associations that annual dues cannot be used for electioneering or independent political expenditures.

Walden also recently endorsed sound public policy designed to counter secret money in politics through participation in a

signatory letter supporting S. 2219, the DISCLOSE Act. This bill would require transparency of campaign expenditures by outside groups and their donors that are attempting to influence federal elections, including disclosure of the money trail tied to campaign ads.

### THE ENVIRONMENT

Our engagement with companies on risks and opportunities associated with water scarcity and climate change are showing significant forward momentum. We withdrew our resolution at **United Natural Foods** calling for a water risk assessment based on its commitment to add language to the company's Supplier Code of Conduct addressing water conservation practices, as well as to explore methodologies to identify the sourcing locations of fresh produce in its Albert's Organics subsidiary and to determine the level of exposure to water stressed regions.

In partnership with the Principles for Responsible Investment Initiative (PRI) and Carbon Disclosure Project-Water (CDP Water), Walden is coordinating an effort to urge participation by companies that have not responded to requests to complete the CDP Water questionnaire on water use and risk. In addition, we agreed to lead outreach to **McDonald's** and **Nike**. We successfully encouraged McDonald's to respond to CDP Water and Nike is working on aligning its metrics with CDP Water to prepare a response in the future.

Outside of the PRI collaboration, a constructive discussion on water use is underway with **Denbury Resources**. Also, Walden participated at a stakeholder meeting convened by **Nestlé Waters**, including the CEO and approximately 20 staff, to provide feedback on the company's corporate social responsibility program including water management initiatives and goals. In September, parent Nestlé was awarded the top rank by CDP among 500 global companies for its integration of climate change into business plans, monitoring of emissions, risk mitigation, and public disclosure.

A recent report by the Union of Concerned Scientists entitled "A Climate of Corporate Control" identified U.S. companies with public positions recognizing and responding to climate change that simultaneously support trade groups and think tanks working to dismantle regulations and laws addressing global warming. Calvert Asset Management and Walden coordinated a letter to more than one dozen companies to encourage consistent company-wide positions on established climate

science and public disclosure of third party organizations that lobby on climate policy. The letter further requested that companies consider either withdrawing from organizations that misinform the public or providing a rationale for continued financial support.

As a member of the Investor Network on Climate Risk (INCR), Walden backed an extension of the federal Wind Production Tax Credit that encourages a clean energy alternative to fossil fuels.

## EQUAL OPPORTUNITY

Walden commended Minnesota-based **General Mills** and **St. Jude Medical** for opposing publicly that state's proposed constitutional amendment banning marriage equality. Like Walden, these companies assert the importance of an inclusive environment from the perspective of a business that seeks to recruit and retain the best employees. Along these lines, **Mettler-Toledo** is, after several conversations with Walden, amending its nondiscrimination policy to include sexual orientation and gender identity or expression. **DENTSPLY** plans to make its inclusive policy more accessible through a website update of its corporate social responsibility platform. Similarly, **T. Rowe Price** is contemplating expanded disclosure.

## HUMAN RIGHTS

Walden is addressing corporate responsibility initiatives related to human rights on several fronts. We co-lead an investor coalition representing \$145 billion in assets that called on congressional leaders to enact comprehensive immigration reform that includes a pathway to legal status for undocumented immigrants. The letter provided testimony of the necessity for such reform to help drive U.S. economic growth, long-term business prosperity, and the well-being of our immigrant population.

As part of the Dodd-Frank financial reforms, the Securities and Exchange Commission in August adopted a rule requiring tracing and disclosure of companies' exposure to conflict minerals – gold, tantalum, tin, or tungsten – sourced from or near the war-torn Democratic Republic of the Congo. Walden revisited a discussion on conflict minerals with **St. Jude Medical**, which reported that it is reviewing tracking tools that could be implemented globally while also examining materials declarations from suppliers that will address conflict minerals.

We joined 21 institutional investors with more than \$400 billion in assets who provided comments to the U.S. State Department on the new Reporting Requirements on Responsible Investment in Burma. Coordinated by the Conflict Risk Network, the statement supports greater transparency and accountability to ensure respect for human rights in

Burma as U.S. sanctions are lifted.

In a letter to Secretary Clinton Walden joined investors asking the U.S. State Department to urge the government of Uzbekistan to demonstrate its commitment to end child labor and forced labor by allowing the International Labour Organization to monitor the cotton harvest.

## ESG REPORTING

Led by New York City Pension Funds, Walden withdrew co-filed resolutions at **Cisco Systems** and **Oracle** requesting that they require sustainability reports from their suppliers. This relatively new strategy seeks to use the leverage of corporate purchasing power to push ESG reporting throughout supply chains. Cisco Systems committed to greater disclosure on its supplier scorecard methodology and results, as well as to encourage and train suppliers on sustainability reporting using best practice Global Reporting Initiative (GRI) guidelines. Oracle agreed to: encourage its hardware suppliers to report on ESG performance, preferably using the GRI framework; seek progress reports from suppliers; and set a goal of including sustainability performance metrics on supplier scorecards by 2015 to underscore the importance of ESG disclosure and performance in the supplier selection process.

Other ongoing Walden dialogues promoting initial or expanded sustainability reporting are also moving in a positive direction. **Carbo Ceramics** plans to report on sustainability efforts on its website and has set a goal for a first iteration report by its annual shareholder meeting. **Commercial Metals'** CEO and CFO met with us for a discussion focused on environmental, health and safety priorities and actions. We are encouraging management to report publicly on these initiatives. **McCormick** expects to publish a sustainability report in mid-2013 and will provide an opportunity for Walden and other investors to share input in the development process.

We participated in a forward looking meeting with representatives of the NASDAQ exchange, led by INCR, in which the prospect for a mandatory market-wide disclosure standard for listed companies was discussed. NASDAQ could play a constructive role in this debate.

Congratulations to Tim Smith, our Director of ESG Shareowner Engagement, who was recognized in the 2012 NACD (National Association of Corporate Directors) Directorship 100 as one of the most influential leaders in corporate governance.



*The information contained herein has been prepared from sources and data we believe to be reliable, but we make no guarantee as to its adequacy, accuracy, timeliness, or completeness. We cannot and do not guarantee the suitability or profitability of any particular investment. No information herein is intended as an offer or solicitation of an offer to sell or buy, or as a sponsorship of any company, security, or fund. Neither Walden nor any of its contributors make any representations about the suitability of the information contained herein. Opinions expressed herein are subject to change without notice.*