Walden Asset Management®
Advancing sustainable business practices since 1975
Over 40 Years of Impact

Fossil Fuel Company Exposure in Representative Walden Client Portfolios

Climate change is the world's foremost environmental challenge. As a portfolio manager who integrates environmental, social, and governance (ESG) analysis into investment decisions and corporate engagement, managing climate change risk is among our highest priorities. We believe that increased public awareness is urgently needed to bring about the changes required to mitigate and adapt to climate change. In our view, strong public policy that places a price on carbon is of paramount importance. We think investors can bring a crucial and strategic voice toward that end.

How Walden Addresses Climate Change Risk

Walden Asset Management integrates climate change risk in portfolio management in a holistic manner—addressing the supply side (fossil fuel and related companies) as well as the demand side (all other portfolio companies as energy users). Our approach is multi-faceted; climate change risk is a consideration in company selection, corporate engagement activities, and public policy advocacy.

Walden considers several indicators of corporate performance on climate change when making investment decisions, including greenhouse gas reduction initiatives, energy efficiency and natural resource conservation, commitment to renewable fuel sources, and public policy positions. At the center of our work is a call to the companies in which we invest to develop robust, thoroughly benchmarked programs to meet the greenhouse gas emissions goal recommended by the Intergovernmental Panel on Climate Change (IPCC). We thus urge companies to reduce emissions by 55 percent globally by 2050—the likely minimum needed to divert the planet from its current, unsustainable path.

With respect to investment in the energy sector and fossil fuel companies, Walden seeks to identify companies that contribute to more efficient energy production while simultaneously minimizing overall environmental impacts.[1] More specifically, Walden portfolios exclude coal companies (the most carbon intensive fossil fuel) and have relatively little exposure to oil sands (also among the highest carbon intensity sources). We favor natural gas, a lower carbon fossil fuel that, in combination with resource conservation and energy-efficiency measures, can be an important energy source in the transition to cleaner fuel technologies.

Our investment approach results in portfolios that have favorable carbon footprints relative to comparable benchmarks. For example, a representative Core Equity portfolio with fossil fuel exposure was evaluated to be 57 percent less carbon intensive that its S&P 500 benchmark, or put differently, the benchmark had more than twice the carbon footprint (the portfolio carbon footprint was done by Trucost as of August 31, 2015).

Moreover, we understand that investment in any fossil fuel company brings a responsibility to address unique environmental, safety and human rights concerns. Hence, upon investment in energy companies, Walden devotes significant resources to various shareholder engagement strategies. We believe that our strong track record suggests corporate engagement can be effective.

[1] Many Walden clients have chosen to bring public attention to climate change by joining the fossil fuel divestment movement inspired by Bill McKibben's 350.org. Walden has over twenty years' experience managing portfolios without exposure to coal, natural gas and oil companies. For more information, please contact us.

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The chart below identifies fossil fuel companies—those with carbon assets—held in the Walden mutual funds and many separately managed portfolios. The size of each position based on its percent of total portfolio assets as of August 29, 2017 accompanies each holding (the Walden Asset Management Fund is based on percent of equities). Next, we summarize briefly each company and include a description of relevant engagement by Walden.

Walden Equity Fund	**Walden Asset Management Fund**	**Walden Mid Cap Fund**	**Walden SMID Cap Innovations Fund**	**Walden Small Cap Innovations Fund**	**Walden International Equity Fund**
Apache – 0.7%	Apache – 0.6%	*No current exposure*	*No current exposure*	*No current exposure*	Origin Energy – 0.6%
ConocoPhillips – 1.5%	ConocoPhillips – 1.4%				Statoil – 0.9%
					Woodside Petroleum – 0.7%
Total Fossil Fuel Company Exposure (Benchmark*)					
2.2% (4.7%)	2.0% (4.7%)	NA (4.4%)	NA (3.0%)	NA (2.1%)	2.2% (5.8%)

*In order, benchmarks represent the sum of oil, gas & consumable fuels GICS sub-industries in the Russell 1000, Russell 1000, Russell Midcap®, Russell 2500™, Russell 2000®, and Russell Global Developed excluding U.S. Large Cap Index. Benchmark data is as of August 31, 2017.

Apache

Apache is an integrated oil and gas company with roughly half of production in natural gas. Walden, often in coalition with other investors, has actively participated in multi-year dialogues (initially with previous CEO Steve Farris, and more recently with CEO John Christmann) promoting best practices in greenhouse gas emissions management, hydraulic fracturing, human/indigenous rights, and lobbying and political spending related to climate change. Apache's performance trends with respect to many of these issues are positive. For example, the company's carbon intensity is improving. Over the last seven years global emissions intensity (tons CO_2/MBOE produced) has decreased approximately 35 percent, or five percent on an annualized basis. An example of how Apache achieved these results is its development in 2016 of a natural gas field near operations in the North Sea, enabling the company to power its operations with natural gas in place of diesel. Apache is also a charter member of ONE Future, an industry coalition focused on methane reductions in the natural gas value chain. Apache has committed to reduce its methane emissions intensity to 0.36 percent or less by 2025. With respect to hydraulic fracturing, all unconventional natural gas producers have room for improvement. *Disclosing the Facts: Transparency and Risk in Hydraulic Fracturing Operations* provides one way to assess relative performance. In 2016, Apache was third best in a report of 30 companies scoring 29 out of 43, compared to 20 out of 39, and 13 out of 35 in 2015 and 2014, respectively. The company's score continued to improve based on expanded quantitative reporting on toxicity reduction, including use of dry forms of chemicals in place of liquid chemicals as well as steps taken to reduce claims that "confidential business information limits the ability to disclose chemical use." On the topic of political spending and lobbying transparency, in 2015, the company committed to increased website disclosure of lobbying, including indirect lobbying through trade associations, but more improvement is needed. Also notable, Apache provided training for its drivers (employees and contractors) to help fight human trafficking.

ConocoPhillips

ConocoPhillips is an independent, diversified energy exploration and production company. In March 2017 the company announced the sale of oil sands assets that accounted for 80% of its 2016 bitumen production. On a pro-forma basis, Conoco estimates its product mix to be 57% oil, 38% gas, 5% bitumen. In 2007 it was the first U.S. oil company to call for mandatory greenhouse gas reductions, and, in 2010 the CEO testified before Congress on the need for legislation establishing a price on carbon. Walden is participating in an investor coalition asking ConocoPhillips to assess its exposure to carbon asset risk, an initiative of Ceres' Investor Network on Climate Risk that began in 2013. ConocoPhillips demonstrated industry leadership through its public disclosure of the use of carbon-constrained scenario analysis. ConocoPhillips has designated executive climate champions reporting to the

CEO, and established a 'climate change network of excellence' and two climate change working groups on issues and policy. A cross-functional team of 50+ experts monitors indicators ("signposts") for insight on the trajectories of the global economy toward a low-carbon future, which executive management reviews quarterly. Further, Climate risks and opportunities are monitored and considered at the board and executive level at COP. The Public Policy Committee helps the board oversee enterprise risk management (specific focus on social, political, safety, and environmental issues) and develops/reviews the company's lobbying and political contributions. Ms. Jody Freeman, a professor of environmental law and policy at Harvard Law School, and former White House Counsel for Energy and Climate Change, is a member of this committee. Overall, the company is relatively transparent on initiatives and progress to minimize its own environmental footprint. Walden, along with other concerned investors, has a long history of corporate engagement with ConocoPhillips on greenhouse gas reduction goals (the company set its first reduction goal of 3-5% for 2015), oil sands development, and indigenous rights. On the latter, we think the company is evolving toward a leadership position that is approaching best practice Free, Prior and Informed Consent standards of consultation with affected communities. In recent years, we have also focused attention on political spending and lobbying policies and transparency (focusing on alignment with corporate environmental policies and practices). ConocoPhillips reports that employees serving on trade association committees that advocate for legislation or regulation must work closely with the government affairs office, business units, and the legal group. Direct and indirect activities that influence policy are frequently reviewed by both the Executive Leadership Team and the Public Policy Committee of the Board of Directors. The company discloses on an annual basis trade association memberships with dues in excess of $50,000. Walden's 2016 shareholder resolution requesting comprehensive lobbying disclosure received 23% support.

Origin Energy

Origin Energy Limited, an integrated energy company, engages in oil and gas exploration and production, and electricity business primarily in Australia and New Zealand. Origin is Australia's largest energy retailer. It has a portfolio of approximately 6 GW of capacity (owned or contracted), including 745 MW of renewable energy contracted via power purchase agreements. The company has committed to increase renewables as a share of its generation mix to 25 percent within three years. In November 2015, before COP 21 in Paris, Origin became the first energy company to join the *We Mean Business* Coalition. In doing so, the company committed to set a science-based emission reduction target, to continue to transparently report climate change information, and to proactively work on public policy related to climate change. The company has responded to the CDP survey since 2007 and the emissions intensity per MWh of electricity produced is below the National Electricity Market (NEM) average in Australia. Its safety record, as measured by the total recordable injury frequency rate (TRIR) has improved year-on-year for the last four years.

Statoil

Norway-based Statoil has a stated mission to be the most carbon efficient oil and gas producer. Statoil has demonstrated relatively strong carbon efficiency in its operations, invests significantly in offshore wind and carbon capture and storage technology, and is a vocal public advocate for a price on carbon. The energy company has robust greenhouse gas intensity goals that include a commitment to phase out gas flaring by 2030 and applies an internal price on carbon to guide investment decisions. In other material areas of ESG risk—safety, spills, and human rights—Statoil also has a relatively strong performance record and is remarkably uncontroversial. In October 2013, Walden joined a Ceres led coalition of investors that asked fossil fuel companies, including Statoil, to assess and report on their transition plans toward a low carbon economy. Statoil was among the first to respond meaningfully and continues to provide an unusual level of detail on its management of climate risk and preparation for a cost on carbon. In 2016, Statoil launched Statoil Energy Ventures, one of the world's largest corporate venture funds dedicated to investing in renewable energy. Through the fund, Statoil has committed to invest up to $200 million over a period of four to seven years.

Woodside Petroleum

Woodside Petroleum is a natural gas focused oil and gas company based in Australia. Natural gas is a lower-carbon fossil fuel. The company is performing well relative to its substantial environmental, health, and safety goals and targets. Woodside's efforts to eliminate flaring wherever possible resulted in significant reductions in flaring intensity in 2015 and 2016. Over the past five years, Woodside has reduced its total recordable injury rate 60% and expects to achieve global top quartile health and safety performance by 2017. Among oil and gas producers, Woodside Petroleum has faced relatively few environmental, social, and governance controversies.

Portfolio Management Considerations

From an investment perspective, Walden continues to find investment opportunities among fossil fuel companies, and we believe they can hold an important place within diversified equity and balanced portfolios. If new legislation is enacted that limits the use of coal, oil, and gas, there is no doubt that these companies will need to change how they do business. Nonetheless, the following points summarize the rationale for continued, selective investment:

- Greenhouse gas emissions vary by the type of hydrocarbon burned; in broad terms natural gas is more carbon-efficient than oil, which is in turn more efficient than coal. Natural gas may therefore provide a bridge as society moves away from coal toward renewable sources of energy, and natural gas companies may benefit.
- We believe that government regulation limiting fossil fuel use will be phased in gradually, allowing companies to produce and sell their existing fossil fuel reserves and either invest in cleaner energy projects or return cash to investors. Most of the value of publicly traded fossil-fuel companies is associated with their production and cash flow over the next ten years; a gradual transition away from hydrocarbons should reduce the risk of holding these investments and allow investors to harvest their value.
- Energy companies understand the risk of additional regulations and taxes on carbon, and engage in scenario analysis around future carbon prices when they evaluate exploration opportunities. Walden supports a dialogue with company management teams to ensure they are doing this rigorously, given the substantial risks in both magnitude and timing.
- If we fail to regulate carbon emissions in the U.S. and globally, fossil fuel companies may be a relatively attractive investment from a financial perspective, at least in the foreseeable future.
- Fossil fuel companies are generally an important diversifying asset within portfolios. For example, a price shock in oil or gas will likely have the opposite impact on fossil fuel production companies than it will have on most other portfolio companies.

Walden remains committed to integrating ESG considerations in its investment process and to utilizing share ownership to promote positive corporate change, including with fossil fuel companies.

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