Walden Asset Management

Advancing sustainable business practices since 1975

Research & Engagement Brief

First Quarter 2014

Spring is the busy season for investors who file shareholder resolutions. Alongside management sponsored resolutions in companies' annual proxy statements, shareholders have the opportunity to put environmental, social, and governance (ESG) topics on the ballot for a discussion and vote at annual meetings. Walden and other investors have found shareholder resolutions to be a highly effective mechanism to encourage more sustainable business practices. Recent events remind us that we must not take this important shareholder right for granted.

Securities and Exchange Commissioner Daniel Gallagher advocates overhauling the shareholder resolution process. Gallagher argues that "activist investors and corporate gadflies...hijack the shareholder proposal system." He offers shareholder proposals on corporate political spending disclosure as an example of activity that is "unrelated to, or in conflict with, the interests of other shareholders" (remarks at Tulane University Law School, March 27, 2014).

Walden could not disagree more. We and likeminded investors pursue ballot initiatives that we believe are in the long term best interests of companies and shareholders. As testimony we offer our long history of reaching agreements with companies on resolutions we file (approximately half are successfully withdrawn), as well as generally strong shareholder support when they go to a vote. Fortunately, Gallagher does not currently represent the majority opinion of the SEC, the agency with oversight responsibility for shareholder proposals.

Challenges to this shareholder right also came from another front in recent months. Four companies—**Chipotle**, **EMC**, **Express Scripts**, and **Omnicom**—took the aggressive step of filing lawsuits in U.S. District Courts against an individual shareholder in an attempt to exclude his shareholder resolutions from their proxy ballots. (Three out of the four companies lost.) The individual has a notable track record of winning majority support for many of the shareholder proposals. Twenty investment firms and groups, led by NorthStar Asset Management with assistance from Walden, wrote the companies to express concern and seek a conversation about their decision to sidestep the customary and less costly process of appealing to the SEC.

Recent Engagement Results

To date, eleven of twenty Walden-led resolutions in 2014 have been withdrawn after reaching constructive agreements with the companies, three received shareholder support ranging from 24 percent to 40 percent, and six votes are pending.

Lobbying Transparency: There are more than 100 shareholder resolutions on corporate political activity this year, the largest category of proposals, which, in 2013, received average support of approximately 25 percent. Walden and AFSCME are coordinating a campaign on a subset of these, advocating for comprehensive lobbying disclosure with 48 resolutions filed by 60 institutional and individual shareholders. Improved disclosure enables shareholders to better evaluate potential risks associated with lobbying and understand how these expenditures advance corporate interests. Early this year, Walden reached an agreement with **Accenture** and withdrew our proposal. We also participated in an investor coalition letter to SEC Chair Mary Jo White on the anniversary of the Supreme Court's *Citizens United* decision, urging renewed attention to the prospect of mandated political spending disclosure.

Workplace Equality: Companies with inclusive Equal Employment Opportunity (EEO) policies and practices are better positioned to attract and retain top talent. Walden withdrew a shareholder resolution at **O'Reilly Automotive** after it published an updated EEO policy that references sexual orientation on its website. **Simpson Manufacturing** did so as well (as part of a discussion on sustainability reporting). Also recently, **Power Integrations** and **Ross Stores** made public their inclusive policies.

Sustainability (ESG) Reporting: Comprehensive reporting on ESG factors that are relevant to a company's business is a critical management tool and fosters corporate accountability. Three out of 8 Walden resolutions requesting detailed information on ESG policies, performance, and progress were withdrawn with company commitments to initiate reports—**Gentex**, **Simpson Manufacturing**, and **Wolverine World Wide**. **Clarcor**, **Emerson Electric**, and **ESCO Technologies** each received strong shareholder support (40 percent, 38 percent, and 24 percent, respectively), an unambiguous message to management that investors value greater ESG transparency.

Led by the Interfaith Center on Corporate Responsibility (ICCR), Walden is an active participant in discussions with **J.P. Morgan** on corporate governance and risk control measures in response to recent, high profile and costly controversies (featured in our December *Values* newsletter). ICCR members withdrew their resolution in response to J.P. Morgan's commitment to publish a report in the fall detailing each legal issue under investigation, as well as measures being taken to rebuild a culture of ethics, strengthen checks and balances in risk management, and foster greater accountability through new board and management structures and executive compensation policies.

Engagement on Climate Change – Raising the Bar

Walden's campaign to "raise the bar" encourages vigorous corporate and public policy action to limit climate change to no more than 2°C by 2050. New reports and research have increased our understanding of the risks and opportunities posed by climate change and underscore the need for action.

Research and Reports

In March, Working Group II of the Intergovernmental Panel on Climate Change (IPCC) released its report documenting numerous impacts of climate change already occurring around the globe affecting both people and the environment. The group noted that efforts to both mitigate and adapt to further climate change are critical.

On a positive note with respect to mitigation, the Department of Energy reported that since 2008 the cost of solar panels has dropped 75 percent and the cost of LED lights has fallen 85 percent, while electric vehicles now cost 50 percent less than in 2010. Year-on-year investment in clean energy, as reported by Bloomberg New Energy Finance, fell by 11 percent, in large part related to the declining costs in solar. However, the volume of installed solar capacity increased by around 20 percent.

The Obama administration submitted to the global community its view of key elements of a 2015 climate deal, and Democrats held an all-night session discussion on the Senate Floor highlighting the importance of action on climate. The Global Legislators Organisation (GLOBE International) released the 4th edition of the GLOBE Climate Legislation Study. The study is the most comprehensive audit of climate legislation across 66 countries, together responsible for around 88 percent of global manmade greenhouse gas (GHG) emissions. Sixty-two of the countries have legislation or regulation addressing climate change, with 8 passing new legislation in the last year.

Selected Walden Engagement Results

Company	Progress and Results
Advance Auto Parts	Expanding disclosure of energy management
AptarGroup	Setting new climate change goals in 2014 and increasing disclosure
Apple	Signed the Climate Declaration
Becton Dickinson	Setting a new GHG goal in 2014
Cabot Oil & Gas	Setting energy-related goals and targets and increasing disclosure
Denbury Resources	Will publish GRI-based sustainability report
Cincinnati Financial	Increasing climate-related disclosure
DENTSPLY	Reporting on results of energy audit
Donaldson	Developing a GHG goal to be set in 2015
ExxonMobil	Reported on carbon asset risk
Intel	Updated climate policy and signed the Climate Declaration
Lincoln Electric	Increasing sustainability reporting and will set a GHG goal
Mettler-Toledo	Will set public energy/GHG goals and increase climate-related disclosure
Ross Stores	Increasing sustainability disclosure
Stryker	Will set GHG goals and respond to CDP climate survey

Companies in bold received resolutions; all were withdrawn.

Company Engagement on Climate

Walden is actively engaged with more than 30 companies this season, specifically focusing on setting GHG goals, climate-related disclosure, and influence on public policy. The following are three illustrations of progress (see chart at right for more examples).

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/advocacy efforts. Another example is **Denbury Resources**' commitment to publish a sustainability report that follows the Global Reporting Initiative's latest guidelines. The company is also increasing the use anthropogenic CO_2 in its enhanced oil recovery, an example of carbon capture and storage, when feasible.

Finally, **ExxonMobil**'s response to an investor coalition inquiry on carbon asset risk was an unequivocal statement that climate change is occurring, that it is caused in large part by human activity, and that it presents serious risk to society. ExxonMobil also stated that it considered government action to limit climate change to a 2°C increase highly unlikely. This sobering assessment serves as a reminder of the challenge of transitioning to a low carbon economy.

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