



Walden Asset Management[®]
Advancing sustainable business practices since 1975

Research & Engagement Brief

First Quarter 2015

Calling climate change the “defining challenge of our generation,” Secretary of State John Kerry announced on March 31st the submission of the United States’ Intended Nationally Determined Contribution (INDC) to the United Nations Framework Convention on Climate Change—a pledge to cut greenhouse gas (GHG) emissions 26-28% below 2005 levels by 2025. This commitment is consistent with the U.S. reaching reductions of 80% by 2050, the contribution needed to help keep global temperature rise below 2 degrees Celsius and avoid the most devastating consequences of climate change. Beginning November 30th, the UN Climate Conference will meet in Paris with the objective of establishing a climate agreement with global and country-specific GHG reduction targets.

Climate Change Engagement

Businesses must embrace and support the political commitments through GHG emissions reduction targets that are similarly based in climate science. Walden’s shareholder engagement encouraging robust corporate responses to climate change remains a top priority. We are pleased to report ongoing progress at a number of client portfolio companies, often through collaboration with other investors and the efforts of focused NGO (non-governmental organization) campaigns.

Financial services company **BB&T** agreed to publish a sustainability report beginning in 2016 that will describe its energy efficiency initiatives and alternative energy financing. BB&T plans to utilize the CDP climate questionnaire to guide reporting and gather data for consideration in future goal-setting and progress measurement. CDP is an NGO that works with institutional investors and companies to encourage strong and transparent corporate responses to climate change. Retailer **Costco** committed to resume CDP climate change disclosure, include climate science context in its energy use reporting, and keep GHG emissions growth below sales growth over the next 5 years. Walden and a small group of investors met with CEO Craig Jelinek and other executives at Costco’s headquarters, where we introduced a representative of Rocky Mountain Institute and discussed opportunities for the company to expand energy efficiency measures and renewable energy procurement. **Lincoln Electric** reported that progress on data collection has it on track to include long-term GHG goals on its website by year-end. **PepsiCo** told Walden that its next generation GHG goals would be science-based as well as more explicit about climate change impacts and opportunities throughout the supply chain.

Advances by **International Flavors & Fragrances** (IFF) and **Sysco** toward sustainable palm oil procurement will help prevent the destruction of carbon absorbing forests and peatlands in

Indonesia and Malaysia, which until recently was standard practice in the industry. After having mapped its supply chain, IFF is in the final stages of developing a sourcing policy that will require 100% certification of palm oil by 2020 and annual reporting of progress. Sysco similarly traced part of its supply chain, and with assistance from The Forest Trust, an expert NGO, is on track to announce its palm oil procurement policy and implementation plans in the coming months.

Corporate Governance Engagement

Lobbying Transparency: For several years, AFSCME and Walden have coordinated an investor campaign to strengthen disclosure and oversight of corporate lobbying practices, including indirect activity through trade associations or tax-exempt organizations that promote model legislation. Enhanced accountability helps investors assess the consistency of companies’ expressed policies with their public policy advocacy to determine if lobbying activities are in the long-term best interests of shareholders or a source of potential business risk (e.g. reputational risk). According to AFSCME, approximately 35 companies have improved their lobbying disclosure. In the current proxy season, 65 investors, including state and city pension funds, have filed lobbying disclosure resolutions at more than 50 companies. Voting support of 39.8% on a resolution at portfolio company **Emerson Electric** is testimony of broad interest in improved lobbying disclosure.

Sustainability Reporting: Comprehensive sustainability reporting that includes meaningful environmental, social, and governance (ESG) metrics and goals helps investors and other stakeholders understand how companies manage and measure ESG risks and opportunities. When company outreach and dialogues prove ineffective, Walden may file shareholder resolutions to encourage greater accountability on ESG management and performance. To date, ESG reporting resolutions for 2015 annual general meetings have received unusually strong voting support: **Clarcor** (45.3%; if abstentions are included, a majority did not support management); **Commercial Metals** (46.4%); **Emerson Electric** (39.3%); and **ESCO Technologies** (28.2%). With this strong backing from investors, Walden hopes future conversations with these companies will be more fruitful.

Other Corporate Governance: In January, **Apache** told Walden of its plan to split the CEO and Board Chair positions after recently retired CEO Steve Farris leaves the Chairman role in May. Walden has long advocated for separating the two roles at portfolio companies to foster independent board oversight of management. **Cohen & Steers** amended its corporate governance guidelines and nominating charter to add gender,

race, and ethnicity as factors considered in director nominations.

Over our 40-year history as engaged investors, we have worked to forge constructive partnerships with companies that bring meaning to Walden's tagline and goal of "advancing sustainable business practices." We were delighted to receive personal 40th anniversary congratulations and affirmation from PepsiCo CEO Indra Nooyi, who told us: "We greatly appreciate your support and partnership over the years and

have benefitted from your valuable insights on political spending, lobbying disclosure, Board leadership disclosure, and sustainability matters. The feedback we have received from you and other stakeholders has informed our decisions and strategy."

Walden continues to aim for significant positive impact and we are pleased that early results in 2015 presage another productive year.

Business Leads the Way on LGBT Equality

Arkansas headquartered **Wal-Mart**, a beacon of controversy for critics who denounce poverty level wages, has recently become a beacon of another sort. Speaking via Twitter against the state's Religious Freedom Restoration Act that would have enabled discrimination against lesbian, gay, bisexual, and transgender (LGBT) citizens, CEO Doug McMillon said the bill "threatens to undermine the spirit of inclusion present through the state of Arkansas and does not reflect the values we proudly uphold." McMillon further stated, "Every day, in our stores, we see firsthand the benefits diversity and inclusion have on our associates, customers and communities we serve...For these reasons, we are asking Governor Hutchinson to veto this legislation." Walden applauds Wal-Mart's exemplary public stand.

While a broad-based public backlash against a similar law enacted in Indiana helped pave the way for Governor Hutchinson to send the bill back to state legislators for a fix earlier this month, the consensus view is that when business speaks, politicians listen. In the case of LGBT rights, companies have often been more proactive than legislators, and Walden has worked hard to encourage positive corporate practices that can serve as role models for reluctant politicians.

Since 2000, Walden has written letters, engaged in dialogues, or filed shareholder proposals with over 100 companies regarding workplace equality for LGBT individuals. A substantive number of these companies ultimately improved their equal employment opportunity (EEO) policies by making them more publicly accessible or expanding policies to explicitly include protective language for sexual orientation and gender identity. In the past three years alone, Walden has engaged with 35 companies and 32 of them made the desired improvements. Walden's ultimate goal is for all client portfolio companies to have inclusive non-discrimination policies that are easily accessible to current and prospective employees.

In 2014 and early 2015, Walden has seen continued progress even while most of the companies engaged have been located in states that are typically less supportive of LGBT equality. **InterDigital**, **MarketAxess**, and **UMB Financial** have published their EEO policies to their websites, and **Texas Capital Bancshares** added sexual orientation and gender identity to its policy. **Franklin Electric** increased the transparency of its EEO policy and also amended its medical benefits plan to offer spousal and dependent coverage to employees in state recognized same-sex unions. Moreover, resolutions filed for 2015 annual meetings at **Cullen/Frost Bankers**, **Expeditors International**, **First NBC Bank**, **IDEX Corporation**, and **Syntel** have been withdrawn upon the companies agreeing to improve the inclusivity and visibility of their non-discrimination policies.

Walden is also pleased to partner with and support the efforts of clients working to make a positive impact on this issue. Pride Foundation, a regional community foundation focused on advancing equality for the LGBT community in the Northwest, led resolutions at nine companies for the 2015 proxy season and has seen similar success.

LGBT rights are a matter of social justice and good business. We believe companies that ensure a respectful and supportive atmosphere for all employees enhance long-term shareholder value. Employment discrimination on the basis of sexual orientation and gender identity diminishes employee morale and productivity. Further, inclusive and public EEO policies help companies avoid costly discrimination litigation and reputation damage, all while enabling the company to attract employees from the broadest possible talent pool.

Kudos to Wal-Mart and other companies such as **Apple**, **EMC**, and many more that are publicly making the case for equality. Their voices help galvanize needed changes in public policy.

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