



Research & Engagement Brief

First Quarter 2016

Walden is optimistic that proxy voting results early in the 2016 season of annual general meetings (AGMs) reveal extraordinary momentum in support of corporate reporting on environmental, social, and governance (ESG) performance.

SUSTAINABILITY REPORTING RESOLUTIONS GAIN TRACTION

Sixty-one percent of shares at diversified filter manufacturer **CLARCOR** supported Walden's resolution seeking a report on ESG policies, performance, and goals, including greenhouse gas (GHG) emission reduction goals. With this result, CLARCOR joins the relatively small number of companies to receive a majority vote in support of an environmental or social resolution. According to proxy advisor ISS, only one environmental or social proposal, out of 474 submitted, received majority support in 2015. Shareholder support increased steadily since Walden introduced this sustainability reporting proposal at CLARCOR's AGM in 2014.

Even a majority vote on shareholder resolutions, which are almost always non-binding, does not compel action. Yet communication with CLARCOR subsequent to the AGM suggests that the company intends to move forward in reporting ESG information to investors and other stakeholders. Walden and our co-filing partners are pleased with this outcome and look forward to engaging with CLARCOR on sustainability reporting.

Similarly, Walden's third-year ESG reporting resolution at **ESCO Technologies**, another filtration products company, earned 43 percent support in 2016, compared to 28 percent last year. ESCO affirmed that shareholder interest led the Board to authorize steps toward ESG reporting, including consultation with external experts.

After five consecutive years of leading a sustainability reporting resolution at diversified manufacturer **Emerson Electric**, Walden decided to focus specifically on GHG goals in our 2016 proposal. Simultaneously, a sustainability reporting resolution remained on the ballot under the joint leadership of Mercy Investment Services and Wespath Investment Management. As with CLARCOR and ESCO, investor support for ESG reporting increased substantially to 47 percent in 2016, from 39 percent last year. Support for Walden's first-time resolution on establishing GHG goals was also strong at 31 percent. After the vote, Emerson Electric indicated a willingness to move forward on sustainability reporting.

We cannot know with certainty the reasons for the surge in support for these sustainability reporting resolutions or if this

trend will continue throughout the proxy season. We do know that more asset owners and investment firms are declaring their commitment to integrate ESG analysis into investment decision-making and ownership practices—the United Nations backed Principles for Responsible Investment (PRI) now counts 1,380 signatories who collectively represent US\$ 59 trillion in assets under management. Investors rely on comprehensive sustainability reporting to adequately assess a company's ESG risks and opportunities.

ENVIRONMENTAL PRACTICES: RESOLUTIONS WITHDRAWN

Walden withdrew our shareholder proposal asking **Hubbell**, an international manufacturer of electrical and electronic products, to set public goals to increase company-wide energy productivity. Investments in energy efficiency reduce GHG emissions while enabling companies to manage volatile energy prices and decrease costs. Hubbell committed to complete a baseline survey of company facilities and operations in 2016, and intends subsequently to establish and announce an energy efficiency goal.

Walden has participated in a multi-year dialogue with **PPG**, a global supplier of paints, coatings, and specialty materials, to encourage the removal of lead from industrial paints sold abroad (the last of its products to contain lead). Lead is a potent neurotoxin with serious consequences to humans and animals exposed through environmental contamination. As part of this discussion, Walden joined Trillium Asset Management's resolution on integrating sustainability metrics into the performance assessment of senior executives. The resolution was withdrawn with PPG's commitment to expand reporting on the link between ESG performance and senior executive compensation. Meanwhile, we continue to make the case for the removal of lead from all PPG products.

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Update on Walden Communications

We have retired our semi-annual newsletter, *Values*, in order to share with you Walden's current perspectives on a wide variety of issues, and report on our ESG research and engagement throughout the year.

To sign up for these communications, please contact us at info@bostontrust.com, or follow us on Twitter @waldenAM.

OTHER INITIATIVES

Lobbying Disclosure: For many years Walden and AFSCME have co-led a shareholder campaign to enhance disclosure of corporate lobbying activities including federal and state lobbying payments, dues to trade associations used for lobbying, and monetary support of tax exempt organizations that write or endorse model legislation. Comprehensive lobbying disclosure enables investors to evaluate the consistency of a company's public policy advocacy with its stated positions and goals, and to assess associated risk. For 2016, shareholder resolutions have been filed at 50 companies by 66 institutional and individual investors. These resolutions generally receive significant investor support (an average of 26 percent in 2015) and have prompted numerous companies to enhance lobbying disclosure.

Gender Pay Gap: Walden provided public comments in support of an Equal Employment Opportunity Commission (EEOC) proposal that would require all employers with more than 100 employees to include pay data in their Employer Information Report, which currently provides gender and racial workforce composition data by job category. Walden explained why we believe that increased transparency with respect to compensation in the U.S. workforce is likely to reduce the persistent gender wage gap, in turn fostering more equitable compensation practices that would help diminish overall income inequality and contribute positively to economic growth. We also participated in a signatory letter to 100 large companies seeking their public support of the EEOC initiative and their commitment to calculate and report on their wage analysis.

A Closer Look: Engaging on Water Risk

Consumption of water is fundamental to human survival, and an abundant supply of quality water is vital to our ability to produce food. With agriculture already accounting for 70 percent of global fresh water usage¹ and the global population expected to reach approximately 9.6 billion by 2050², growing enough food to feed everyone on this finite natural resource will be a continuing challenge.

Climate change exacerbates this challenge. Adverse water events such as pollution, shortages, or inundation are occurring more frequently. In the past year alone: lead-contaminated water prompted a state of emergency in Flint, Michigan; California experienced its fourth year of crippling drought; millions in São Paulo, Brazil faced daily water shutoffs as the biggest city in the Western Hemisphere runs dangerously close to fully depleting its water supply; and more than 70 people died in Chennai, India due to flooding caused from over a week of heavy rains.

Managing water risk more effectively, while looking for opportunities for water efficiency and supply resiliency, is an important call to action from both a humanitarian and financial perspective. For years, Walden Asset Management has engaged with companies on this issue, many of which have made progress on measuring, managing, and mitigating water risk.

CASE IN POINT: FLOWERS FOODS

In August 2015, Walden joined a Ceres-coordinated coalition of investors with over \$1.9 trillion in combined assets under management in writing to 15 food and beverage companies requesting improved disclosure on water risk. Walden followed up more comprehensively with Flowers Foods, a Georgia based bakery company, on how it manages water within its supply chain and direct operations. The company's response to our inquiry was received simultaneously with our filing a shareholder resolution.

The resolution was withdrawn quickly following direct communication from the CEO, Allen Shiver, and a constructive dialogue with key personnel from Flowers Foods including the CEO, CFO, Director of Sustainability, and Executive VP of Corporate Relations, among others. They plan to expand their commitment to corporate sustainability in 2016 by responding to the 2016 CDP Water Survey and commencing sustainability reporting following the Global Reporting Initiative (GRI) guidelines as soon as possible. GRI guidelines are considered to be the gold standard on sustainability disclosure.

Beyond improving its own transparency, Flowers Foods is actively leveraging its influence in the bakery industry to improve resiliency within the wheat supply chain. The company reported that it was reaching out to its major suppliers to assess their water risks and encourage more disclosure. Flowers Foods holds a leadership position within the American Bakers' Association (ABA), which recently partnered with the sustainable agriculture NGO Field to Market (FTM). FTM works presently with select wheat growers to provide technical resources and anonymous peer-to-peer benchmarking to improve crop production and natural resource management. Through ABA, Flowers Foods will be working with FTM to develop a pilot project to expand water management data down the flour value chain.

We commend Flowers Foods for these plans as well as its openness to dialogue with its shareholders. Walden looks forward to discussions with the company as it implements these changes.

¹ Clay, J. (2004) [World Agriculture and the Environment: A Commodity-by-Commodity Guide to Impacts and Practices](#), Island Press.

² "The World Population Situation in 2014." Department of Economic and Social Affairs Population Division, United Nations, 2014.