

Research & Engagement Brief

Walden Asset Management

Advancing sustainable business practices since 1975

July 2011

As company annual meetings wind down for the year, another phase of the shareholder engagement cycle is completed and we can take stock of our actions and impacts on corporate environmental, social and governance (ESG) performance. Along with numerous emails, letters, phone calls, and meetings, Walden led 18 shareholder proposals. Ten were withdrawn after successful negotiations (see summary chart on back). We also co-filed six resolutions with other investors and assisted clients in filing resolutions in their names at 18 companies on many ESG topics of concern.

Recent Resolution Activity

In a surprising reversal from silence into action by **Layne Christensen**, we were pleased to learn that an inaugural sustainability report informed by the Global Reporting Initiative guidelines was released in advance of the annual meeting. Additionally, management recommended a vote in favor of Walden's proposal which passed overwhelmingly (93 percent). High votes were received in support of the sustainability reporting proposals that went to a vote at **C.R. Bard, Emerson Electric**, and **Gentex**, ranging from 28 to 38 percent in favor, sending a strong message to management for greater ESG transparency.

For investors in companies with extensive agricultural supply chains, information about exposure to and management of water risk is essential to the evaluative process. An inadequate response from **Sysco**, the largest U.S.-based food distributor, resulted in the filing of a new shareholder proposal asking the company to evaluate exposure to water scarcity in its supply chain.

Consistent with our previous work on beverage container recycling and recovery practices, Walden co-filed resolutions at **General Mills** and **Procter & Gamble**, asking them to study the feasibility of an extended producer responsibility (EPR) policy. Already adopted in several European countries, EPR shifts accountability for collection and recycling from taxpayers and governments to producers. EPR would augment already ambitious company recycling goals and raise the bar in the United States for life-cycle assessments of product packaging.

Pressing On: Company Dialogues

As we continue to engage companies regarding the diversity of their management and boards, some are showing signs of progress. Watts Water Technologies

recently elected a female director, after having amended its director nomination policy last year to address explicitly gender and racial diversity in the director selection process. **CommVault** hired a woman VP of human resources and **Dime Community Bancshares** added a woman to its board of directors. Additionally, the bank's board-level corporate governance committee will be considering amending its nominating guidelines to include the explicit consideration of gender and racial diversity.

ConocoPhillips announced its withdrawal and sale of oil interests in the controversial Block 39 in the remote northern Peruvian Amazon. Walden is part of a multi-year investor and stakeholder dialogue on indigenous peoples' rights that addressed the risks of forced displacement and unintentional introduction of deadly diseases to populations living in voluntary isolation. ConocoPhillips' decision is a positive example of forgoing exploration and drilling in part due to concerns for those living in voluntary isolation. Still, the future of Block 39 remains uncertain with oil interests under new ownership.

Public Policy and Collaborative Work

Recent initiatives led or joined by Walden include:

- Investor signatory letters to 43 major companies on the Board of the National Association of Manufacturers (NAM), asking them to explain the misalignment between their own climate policies and NAM's position on climate change.
- Correspondence to President Obama lauding an executive order that would require full disclosure of campaign expenditures by business entities seeking federal government contracts.
- Participant in several collaborative letters including to the Securities and Exchange Commission supporting the inclusion of pay disparity information in the Dodd-Frank bill; to the constituents of the Russell 1000 Index asking them to address sustainability factors throughout their business operations using the Ceres 21st Century Roadmap for Sustainability as a guide; and to 25 companies in industries with exposure to human trafficking concerns calling for human rights policies that address explicitly trafficking and modern-day slavery.

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SUMMARY OF WALDEN'S 2011 SHAREHOLDER RESOLUTIONS

Much of Walden's success in advocating for greater transparency and corporate social responsibility comes from constructive dialogues with companies over many years, entirely outside of the resolution process. Yet sponsoring shareholder resolutions remains an important avenue for investors to influence company practices. These resolutions can be an important tool for change, as illustrated in this summary of 2011's shareholder resolutions.

CORPORATE GOVERNANCE

Political Contributions

Shareholder proposals went to 3M*, IBM, and PepsiCo requesting disclosure of political expenditures, both direct and indirect, and an evaluation of political spending policies, processes, and oversight. The latter two explicitly addressed membership in the Chamber of Commerce and the conflict between Chamber initiatives and their corporate ESG policies. These resolutions garnered votes of 36, 32, and 11 percent support, respectively. Negotiations with Pfizer* and Target* resulted in withdrawals: Pfizer expanded its policy to prohibit political expenditures with corporate funds and Target implemented a new policy and oversight process while continuing to allow political expenditures.

Separation of Chair and CEO

Proposals went to **Hewlett-Packard*** and **State Street** calling for the separation of the CEO and chair roles; both were withdrawn. After the appointment of a new CEO, Hewlett-Packard brought in an outside director in the position of chair and amended its corporate governance guidelines in favor of an independent chair. State Street continues with a combined CEO-chair position but strengthened the role of the independent lead director to incorporate many of the responsibilities of an independent chair.

Sustainability/ESG Reporting

For the second year, Walden filed resolutions requesting comprehensive corporate sustainability reporting with **C.R. Bard, Emerson Electric,** and **Gentex,** which received votes in favor of 28, 34, and 38 percent, respectively. Surprisingly, after receiving majority support in 2010, a similar resolution at **Layne Christensen** was backed by management and passed overwhelmingly (93 percent). The company published its first ESG report in May. **St. Jude Medical** and **Varian Medical Systems** resolutions were withdrawn upon their commitment to produce inaugural reports informed by Global Reporting Initiative guidelines.

COMMUNITY IMPACT

Human Rights

After a disappointing response from **Cisco Systems**** Walden again co-filed a proposal asking the company to assess steps it could take to reduce the likelihood of complicity in human rights violations, including freedom of expression and privacy, in countries with poor human rights records. The shareholder vote is pending.

Lending Practices

A first-time resolution to **JPMorgan Chase**** requested improvements on loan modification policies and oversight, including mortgages serviced for others. It received 6 percent of the vote in favor, sufficient support to file again.

ENVIRONMENTAL IMPACT

Climate Risk/Oil Sands

Walden co-filed a resolution with ExxonMobil** requesting the adoption of quantitative goals to reduce greenhouse gas emissions from its products and operations. Another proposal went to ConocoPhillips** requesting that the company study and report on the environmental impacts of the extraction of oil from oil sands. ConocoPhillips' proposal received a robust vote of 28 percent and ExxonMobil results were also strong at 26.5 percent.

Packaging

New resolutions were co-filed with **General Mills**** and **Procter & Gamble**** asking them to study the feasibility of an extended producer responsibility (EPR) policy for post-consumer product packaging. Votes are pending and dialogues are underway.

Water

We co-led the filing of a new resolution at **Sysco***, the largest U.S.-based food distributor, requesting that the company evaluate the risks of water scarcity in its agricultural supply chain. The annual meeting is in the fall.

WORKPLACE

Inclusive Non-Discrimination Policy

Proposals submitted to **Ambassadors Group**, **eHealth**, **Nutraceutical**, and **Southside Bancshares** were withdrawn with agreements to amend their equal employment opportunity policies to include sexual orientation explicitly.

To increase our impact Walden often joins others on collaborative efforts. *In order, Walden co-led these resolutions with the following clients and other investors: Trillium Asset Management; Christopher Reynolds Foundation, Trillium Asset Management, AFSCME and the New York State Common Retirement Fund, and Trillium Asset Management. **In order, these shareholder resolutions co-filed by Walden were led by: Domini Social Investments, Presbyterian Church (USA), Sisters of Saint Dominic of Caldwell, NJ, CalSTRS, As You Sow, and As You Sow.