

Research & Engagement Brief

Second Quarter 2014

Summer marks the conclusion of the main season for company annual general meetings where Walden and other engaged investors bring issues of concern to a shareholder vote via the proxy resolution process. To date in 2014 we have sponsored 27 shareholder resolutions on behalf of all clients: 9 seeking comprehensive sustainability reports, 7 addressing greenhouse gas emissions, 6 requesting greater lobbying transparency, 2 on recyclability of packaging, 2 advocating more inclusive nondiscrimination policies, and 1 encouraging sustainable sourcing of palm oil (see summary on reverse side).

Of the subset of 20 resolutions led or co-led by Walden, 11 (55 percent) were withdrawn after significant company commitments. This compares favorably to an overall withdrawal rate of 19 percent as reported by proxy advisory firm Institutional Shareholder Services, and demonstrates Walden's constructive relationship with management at many portfolio companies. Voting support for Walden resolutions not withdrawn has ranged from 8 percent to 40 percent thus far (several meetings are pending), results that encourage continued dialogue on the array of environmental, social, and governance (ESG) topics we are addressing.

Outside the Proxy Process

While shareholder resolutions are an important mechanism to encourage positive corporate change, dialogues that are less visible to the public also contribute to significant progress.

Walden's advocacy for a robust response to climate change provides recent examples of impact. **Colgate** announced it will decrease greenhouse gas (GHG) emissions by 25 percent by 2020 and 50 percent by 2050, a level of reduction that the Intergovernmental Panel on Climate Change (IPCC) tells us is needed globally to avoid catastrophic consequences of climate change. **Intel** updated its climate policy to reflect the IPCC scientific consensus, and **McDonald's** developed its first-ever climate change position statement, which also references IPCC.

Walden also encourages companies to have a positive influence on public policy by supporting smart climate regulation and legislation. We were pleased that hundreds of companies, including **Apple** and **Intel**, signed the Climate Declaration created by Business for Innovative Climate & Energy Policy (BICEP). The declaration states unequivocally that America needs to act on climate change. **Campbell Soup** spoke out in support of renewable portfolio standards in Ohio for electric utilities. More recently, we commended **Microsoft** for ending ties with the American Legislative Exchange Council (ALEC), an organization that is attempting to thwart state renewable energy legislation as well as other policy action on climate change.

In the public policy realm, Walden and Calvert Investments are co-leading an investor coalition that is asking 30 companies with demonstrated leadership on climate change to consider how they can publicly support the Environmental Protection Agency's (EPA) new proposed carbon pollution standards for power plants. The EPA reports that power plants are the largest U.S. source of carbon pollution, accounting for approximately one-third of greenhouse gas emissions.

Progress is also evident at companies where multi-year conversations with investor coalitions have continued into 2014. In April, Apple provided an update on labor standards and practices in its supply chain, continuing a discussion that began in 2011 after egregious problems were uncovered at a major supplier in China (Foxconn). Apple continues to build its monitoring and compliance program, as well as its partnership with the Fair Labor Association. Audits increased by more than 50 percent from the previous year (to approximately 450 audits) and now reach five levels deep in the supply chain. More than 1.5 million workers have had training on workers' rights. Violations of the 60-hour work week are a primary concern, yet compliance is now at 90 percent. Apple also developed new standards to address concerns about employment of student interns.

In April, the work of **McDonald's** formal stakeholder advisory team, which included Walden, concluded with the company's publication of its first Corporate Social Responsibility/ Sustainability Framework, as well as a report highlighting ESG progress in 2012 and 2013. We commend management's "2020 aspirational goals," including:

- Food—doubling servings of fruit, vegetables, dairy, or whole grains; and menu-wide reductions in sodium, sugar, and saturated fats.
- Sourcing—leadership on the development and implementation of sustainable beef standards; 100 percent verified sustainable coffee, palm oil, and fish; and 100 percent of packaging to be sourced from certified or recycled sources.
- Planet—20 percent increase in energy efficiency in companyowned stores and higher restaurant standards overall, and 50 percent increase in restaurant recycling.

Additionally, as McDonald's, along with other fast food companies, has faced increased public scrutiny regarding low employee pay, the company signaled a willingness to support a phased-in increase in the federal minimum wage.

In each case, Walden plans to continue these conversations and encourage ongoing progress for years to come.

SUMMARY OF WALDEN'S 2014 SHAREHOLDER RESOLUTIONS

Much of Walden's success in advocating for greater corporate responsibility and transparency comes from constructive dialogues with companies over many years, outside of the shareholder resolution process. Yet sponsoring resolutions remains a primary tool for investors to influence company policies and practices as illustrated below.

Corporate Governance

Lobbying Disclosure

Comprehensive disclosure of corporate lobbying helps investors assess how a company's lobbying activities align with its expressed goals and commitments on public policy. For the third consecutive year, shareholder proposals requesting better lobbying policies, disclosure, and oversight, including indirect initiatives through trade associations and think tanks, were submitted to **Accenture**, **ConocoPhillips**, **IBM****, **JP Morgan Chase****, and **UPS**. **Google** and **Time Warner Cable** also received lobbying disclosure resolutions for the first year and second year, respectively.

After receiving 31 percent support last year, the 2014 proposal at Accenture was withdrawn with an agreement to publish extensive lobbying information. All the others received varying levels of shareholder support: ConocoPhillips (25 percent), Google (9 percent), IBM (24 percent), JP Morgan Chase (8 percent), Time Warner Cable (33 percent) and UPS (17 percent). Lobbying disclosure resolutions continue to garner growing and significant shareholder support, reflecting the supportive recommendations from major independent proxy advisors and increasing shareholder focus on risks related to corporate positioning on public policy.

Sustainability/ESG Reporting

For the fifth and fourth year in a row, respectively, Walden filed resolutions requesting comprehensive sustainability reports at **C.R. Bard** and **Emerson Electric**. Despite managements' recalcitrance to expand their reporting, these resolutions continue to gain considerable support from shareholders, receiving approximately 30 percent of the vote or greater each time they have appeared on the ballot. This year, both resolutions received approximately 38 percent support. The resolution at **Cincinnati Financial**** was withdrawn with agreement.

Walden continues its leadership in promoting better sustainability reporting among small cap companies. After multi-year engagements with **Gentex*** and **Simpson Manufacturing**, the 2014 shareholder proposals were withdrawn with commitments to initiate sustainability reporting. The proposal at **CLARCOR** was backed by 40 percent of shares voted, an unusually high level that should contribute to a constructive dialogue. First-time resolutions at **ESCO Technologies** and **RPC**, **Inc.** (a closely held company) received 24 percent and 9 percent of the vote, respectively. A unique resolution at **Wolverine Worldwide** focusing on both sustainability reporting and supply chain disclosure was withdrawn with an agreement that the company would collect and disclose more data over the coming year.

Environmental Impact

Climate Change Mitigation

In order to "raise the bar" on corporate responses to climate change, we redoubled our engagement efforts to press portfolio companies to improve disclosure of greenhouse gas (GHG) emissions and set robust reduction goals rooted in climate science. Along with several successful dialogues, Walden was pleased to withdraw its shareholder proposals at **Advance Auto Parts**, **Cabot Oil & Gas**, **Denbury Resources**, **Lincoln Electric Holdings**, and **Mettler-Toledo**, based on a variety of commitments. For example, Mettler-Toledo set a goal to reduce its CO₂ emissions per net sales 20 percent by 2020 compared to a 2010 baseline. The company also agreed to respond annually to the CDP Climate Change survey, the world's largest public repository of corporate responses to climate change. Denbury Resources agreed to develop a comprehensive sustainability report following the Global Reporting Initiative's G4 standards, and is considering setting energy reduction goals. A resolution we supported at **Energen**** related to fugitive methane emissions received 27 percent support.

The second-year proposal at **PNC Financial Services**** asking for a report on the bank's GHG emissions and climate change risk from its lending, investing, and financing activities received shareholder support of 23 percent (unchanged from 2013). Walden also asked **Sysco**** to report on efforts to curtail the impact of its palm oil supply chain on deforestation and human rights, our first resolution on this topic. The annual meeting is in the fall.

Packaging Recycling

Resource efficiency and waste management have a substantial role to play in the efforts to combat climate change and the quest toward environmental sustainability. Walden co-filed resolutions at **General Mills**** and **Procter & Gamble**** to encourage greater use of recyclable materials in product packaging. Both resolutions are proceeding to the proxy statement for a vote.

Workplace

Inclusive Non-Discrimination Policy

Walden's two proposals requesting companies amend their equal employment opportunity policies to include "sexual orientation and gender identity or expression" were successfully withdrawn. **Ross Stores*** increased the transparency of its existing EEO policy and **O'Reilly Automotive** strengthened its policy and published it on the firm's careers webpage.

To increase our impact Walden often joins others on collaborative efforts.

*In order, Walden co-led these resolutions with the following investors: Calvert Investments, Horizons Foundation

**In order, these shareholder resolutions co-filed by Walden were led by: First Affirmative Financial Network, Sisters of St. Francis, Calvert Investments, Miller Howard, Boston Common Asset Management, Racine Dominicans, As You Sow (GIS and PG)