



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

Research & Engagement Brief

Second Quarter 2015

Much of Walden's impact in advocating for greater corporate responsibility and transparency comes from constructive dialogues with companies over many years. However, sponsoring shareholder resolutions at company annual meetings of shareholders remains a crucial tool for investors to influence company policies and practices. These resolutions can be an important impetus for change.

Walden led or co-led 22 resolutions at company annual shareholder meetings on a variety of environmental, social, and governance (ESG) topics and co-filed ten more resolutions led by other investors. We are pleased that half of the 22 were withdrawn, almost all based on our reaching meaningful agreements with the companies. These withdrawals included all of the resolutions that addressed climate change and inclusive non-discrimination policies. In addition, most of our resolutions that were not withdrawn received strong shareholder support (as high as 46% at **Commercial Metals**). These voting results should bolster ongoing dialogues.

ENVIRONMENTAL IMPACT

Climate Change: Greenhouse Gas Emissions

Recognizing that climate change poses financial and operational risks to any business, Walden continues to engage with portfolio companies to reduce their contributions to climate change by setting robust greenhouse gas (GHG) reduction goals. A resolution at **Qualcomm** was withdrawn as the company agreed to begin compiling metrics for benchmarking and to set GHG targets in the near future. A similar resolution at **Costco**^{*} was withdrawn with the company agreeing to respond to CDP's questionnaire and to keep GHG emissions growth to less than sales growth over the next five years. Walden also filed resolutions at **Chevron**^{**} (8% support), **ExxonMobil**^{**} (10%), and **Phillips 66**^{**} (28%), focusing on developing GHG goals for their operations and products.

Climate Change: Deforestation

Forests are known as "carbon sinks" due to their ability to absorb CO₂ from the atmosphere. Clearcutting forests, therefore, is a major contributor to the climate crisis. In Indonesia and Malaysia, large areas of tropical forests are disappearing to make room for palm oil plantations—motivating investors and NGOs to focus on this unsustainable practice. Resolutions filed at **International Flavors & Fragrances**^{*} and **Sysco**^{**} on responsible palm oil sourcing were both withdrawn with agreement to update sustainable palm oil policies and sourcing practices.

CORPORATE GOVERNANCE

Political Spending and Lobbying Disclosure

Comprehensive disclosure of corporate lobbying and political spending helps investors assess how companies utilize shareholder capital to affect public policy as well as any risks that arise if lobbying activities do not align with a company's expressed corporate goals. Resolutions requesting better lobbying policies, oversight, and disclosure including indirect initiatives through trade associations and think tanks were filed at **American Express**^{*} (22% support), **ConocoPhillips** (27%), **Express Scripts**, **Google** (10%), **IBM** (22%), **JPMorgan**^{**} (7%), **Time Warner Cable** (28%), and **United Parcel Services** (16%). The resolution with Express Scripts was withdrawn because a similar resolution was on the ballot, yet the company agreed to continue the discussion and to consider the request. A resolution filed with **AT&T**^{**} focusing on political spending disclosure received 26% support.

Board Diversity

Walden's shareholder proposal urging **Cohen & Steers** to take additional steps to increase board diversity was withdrawn when the company agreed to amend its corporate governance documents to reference gender and race as factors considered in nominating directors and enhance disclosure in its proxy statement and website. A similar proposal at **Silgan Holdings** was withdrawn due to its unusual corporate bylaws regarding nominations.

Sustainability/ESG Reporting

A sustainability resolution at **BB&T** that focused on climate change was withdrawn as the company will begin taking steps to develop comprehensive ESG disclosure. A first-time sustainability proposal at **Commercial Metals** received 46% support, an unusually high level that should contribute to a constructive dialogue with the company. Second-year sustainability proposals at two smaller companies, **CLARCOR** and **ESCO Technologies**, grew in support in comparison to 2014, receiving 45% (v. 40) and 28% (v. 24), respectively. Another second-year proposal at **RPC** decreased slightly from 9% to 7% (RPC has significant insider ownership). Walden continues to pursue better ESG disclosure from **C.R. Bard** (fifth consecutive year) and **Emerson Electric** (sixth year) with resolutions that received 35% and 39% support, respectively.

Vote Counting Procedures

A new resolution encouraging companies to amend their vote-counting procedures to more accurately depict investor support for shareholder proposals was co-filed at **Amgen**^{**} and **Oracle**^{***†}. The Amgen resolution received 6% support.

WORKPLACE

Inclusive Non-Discrimination Policy

Proposals requesting **Cullen/Frost Bankers**, **First NBC Bank Holding Co.**, **IDEX Corp***, and **Syntel** to amend their equal employment opportunity (EEO) policies to include “sexual orientation and gender identity or expression” were successfully withdrawn when the companies agreed to modify their policies and make them more accessible to prospective employees. A resolution at **Expeditors International**** on amending its EEO policy to include gender identity and expression was withdrawn upon agreement.

Diversity Disclosure

A resolution requesting that global advertising company **Omnicom Group**** disclose its workforce diversity data received 28% support.

* In order, Walden co-led these resolutions with the following investors: Boston Common Asset Management/Calvert Investments/Trillium Asset Management, Calvert, Trillium, NorthStar Asset Management.

** In order, these shareholder resolutions co-filed by Walden were led by: Caldwell Dominican Sisters, *ibid*, Presbyterian Church, Sisters of St. Joseph, Sisters of St. Francis, Domini Social Investments, Investor Voice, *ibid*, Pride Foundation, New York City Pension Funds.

† Vote tally pending as of time of publication.

PROXY VOTING & ESG INTEGRATION

Each year, all public companies provide their investors with an opportunity to vote, via their annual proxy statement, on a range of business matters submitted by management and shareholders for the annual general meetings of shareholders (the vast majority occur during the spring months). Beyond the shareholder resolutions we file, Walden’s goal is to vote all proxy ballots in the best long-term interest of our clients, consistent with their financial as well as ESG objectives.

Resolutions that we believe *reduce* shareholder rights are generally *not* supported, and conversely, resolutions that *sustain* or *increase* shareholder value and rights are supported. Walden also believes that resolutions calling for greater disclosure and accountability on financial and ESG issues are generally beneficial and in the long-term best interest of the company and its shareholders. These often involve shareholder-sponsored resolutions asking management to report to investors on a specific concern.

Examples of shareholder resolutions generally supported by Walden include the following requests to management:

- Prepare comprehensive sustainability reports, as well as focused reports encouraging greater accountability such as on lobbying and political spending disclosure.
- Strengthen management practice and accountability with respect to climate change risk.
- Increase inclusiveness and independence on boards of directors.
- Adopt non-discrimination policies that explicitly reference sexual orientation and gender identity or expression.
- Adopt strong global labor standards and human rights policies that include independent monitoring and public reporting.

2015 Summary

Across all Walden equity strategies (core, mid cap, SMID cap, and small cap), we voted with management recommendations approximately 86% of the time. Excluding director elections, which comprise about 70% of ballot items voted because each

director counts as a separate vote, 79% of votes cast were consistent with management recommendations.

Voting patterns for management-sponsored versus shareholder proposals diverge significantly. Walden supported 90% of management recommendations on their own proxy proposals, yet we also supported 86% of shareholder proposals opposed by management.

Director elections appear on every proxy ballot and Walden voted against director candidates 11% of the time. The primary explanation was our lack of support for directors serving on board nominating committees for their failure to meet minimum expectations on board diversity. Twenty-five years ago, Walden was among the first investors to link director elections to board diversity. This policy was inspired by our client, the Sisters of Notre Dame de Namur, who made a strong case that board diversity was a social justice and business imperative.

Executive compensation was another significant area of disagreement on management proposals. Walden voted against the remuneration report, popularly known as Say-on-Pay, about 10% of the time. In these instances, we had concerns about compensation policies that were not sufficiently tied to company performance as well as excessive executive pay. Moreover, we voted against 16% of executive stock plans.

As reported above, Walden supported the vast majority of shareholder proposals (against management recommendations). The most frequent shareholder proposals encouraged lobbying and political spending disclosure, separating the roles of CEO and Board Chair, and sustainability reporting (with Walden acting as a lead proponent in many cases). Also prevalent this year were resolutions asking for shareholder access to the proxy for the purpose of nominating directors, with all receiving high or majority voting support.

Walden recognizes the important fiduciary duty proxy voting entails. Through our voting practices, we welcome this opportunity to communicate to management our views on the link between ESG performance and long-term company prosperity.