



# Research & Engagement Brief

Second Quarter 2016

As the 2016 proxy season winds down, we provide below our annual summary of Walden’s shareholder resolution activity and proxy voting. While our impact on business sustainability often stems from constructive dialogues with companies over many years, shareholder resolutions remain an essential tool to influence company policies and practices.

This season, Walden led 14 resolutions on a range of environmental, social, and governance (ESG) topics and co-filed 10 more resolutions led by other investors (see summary chart, below). Seven of the 24 resolutions were withdrawn after reaching significant agreements with the companies. In addition, most of the resolutions that went to a vote received strong shareholder backing, with one garnering majority support (our resolution to CLARCOR requesting a sustainability report). Overall, we are optimistic that these results will foster positive corporate change.

## ENVIRONMENTAL IMPACT

### Climate Change

Recognizing that climate change poses significant financial, operational, and regulatory risks to any business, Walden engages with fossil fuel producers and consumers. Walden withdrew a shareholder proposal filed at **ConocoPhillips** upon its agreement to increase disclosure of how it uses scenario analyses to assess the impact of carbon regulations and other market incentives in the shift to lower carbon energy sources. ConocoPhillips, which enhanced carbon risk disclosure in June, is the only U.S.-based fossil fuel company to provide meaningful reporting on the business implications of a low-carbon future. Walden’s proposal promoting energy efficiency goals at **Hubbell** was withdrawn with its commitment to conduct a baseline study in 2016 and consider a goal in 2017. Our first-time resolution asking **Emerson Electric** to adopt robust, science-based greenhouse gas goals received strong shareholder support (37%).

### Water Risk

The availability of abundant, quality water is critical for business operations, particularly in water-intensive sectors such as agriculture. Walden’s resolution at **Flower Foods** addressing water related risks in its direct operations and in agricultural supply chain was withdrawn based on its commitment to respond to CDP Water (a public repository of corporate water management practices), create a GRI-based sustainability report (GRI represents a best practice reporting standard), and consider strengthening its work with NGO Field to Market to better support its suppliers in water conservation initiatives.

## SOCIAL IMPACT

### Public Health

A resolution on incorporating ESG metrics into performance assessments of senior executives at **PPG\*** was inspired by a multi-year dialogue seeking a phase-out of lead, a potent neurotoxin, from paints and coatings where it was still an additive. PPG’s commitment to expand reporting on links between ESG performance and executive compensation led to the withdrawal of the resolution. Subsequently, PPG also announced the complete phase-out of lead from all of its products. A resolution at **Johnson & Johnson\*** encouraged policies for safe disposition of prescription drugs through take back programs that would help prevent water pollution and drug abuse (7% support).

### Workplace: Diversity Disclosure

Transparency with respect to the gender and racial composition of a company’s workforce across job levels can be a precursor to progress on equal employment opportunity. A resolution requesting that global advertising company **Omnicom Group\*** disclose its workforce diversity data received 29% support.

## GOVERNANCE PRACTICES

### Lobbying Disclosures

Comprehensive disclosure of lobbying activities helps investors assess how companies utilize shareholder capital to influence public policy as well as risks associated with lobbying that does not align with expressed corporate goals. With AFSCME, Walden coordinates annually an investor coalition that sponsored 50 shareholder resolutions this season requesting better lobbying policies, oversight, and disclosure including indirect initiatives through trade associations and think tanks. Of 9 resolutions filed by Walden, 7 went to a vote: **Alphabet** (formerly Google, 12%

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### Walden 2016 Shareholder Resolution Summary

Topic	# Filed	Outcome
Lobbying Disclosure	9	1 withdrawn, vote range 12-34%
Climate Change	3	2 withdrawn, 37% vote
Board/Workforce Diversity	3	1 withdrawn, 18% and 29% votes
Sustainability Reporting	2	votes of 44% and 61%
Public Health	2	1 withdrawn, 7% vote
Independent Chair	2	1 withdrawn, 46% vote
Proxy Voting Processes	2	votes of 7% and 9%
Water Risk	1	withdrawn
<b>Total</b>	<b>24*</b>	

\*Walden was the lead shareholder proponent on 14 resolutions

support), **AT&T** (34%), **ConocoPhillips** (25%), **ExxonMobil**\*(26%), **IBM** (25%), **United Parcel Service** (23%), and **Walt Disney**\*(32%). Our resolution at **American Express** was withdrawn, though it remained in the proxy statement, and we commended the company for improvements in lobbying disclosure at the annual meeting. A resolution at **Time Warner Cable** was moot upon its recent merger with Charter Communications.

### Sustainability/ESG Reporting

A majority of shares (61 percent) supported our **CLARCOR** resolution seeking a report on ESG policies, performance, and goals, including greenhouse gas goals. As context, according to proxy advisor ISS, only one environmental or social proposal out of 474 submitted in 2015 received majority support. With this extraordinary result, CLARCOR communicated its intent to move forward with ESG reporting. The outcome of a comparable resolution at **ESCO Technologies** was almost as strong (44%), prompting the company to also initiate sustainability reporting.

### Board Composition: Diversity

The business case for increasing the representation of women and people of color in the boardroom is widely accepted but progress remains inadequate. A shareholder proposal urging **Cabot Oil & Gas**\* to take additional steps to increase board diversity was withdrawn as the company announced a

new woman director and also modified its nominating criteria to more explicitly consider gender and race. A similar resolution at **Discovery Communications**\*—among eight S&P 500 companies with no women directors—received 18% support.

### Board Structure: Independent Chair

The separation of the roles of CEO and Board Chair is a best practice that helps ensure independent board oversight of corporate management. An independent chair resolution at **Abbot Laboratories** was withdrawn as part of its agreement to engage broadly on corporate governance issues. Close to a majority of shares (46%) supported an independent chair resolution at **Express Scripts**\*.

### Vote-Counting Procedures and Proxy Voting

A resolution at **Amgen**\* requesting vote-counting procedures that more accurately depict investor support for shareholder proposals received 7% support. A **T. Rowe Price**\* resolution encouraged the investment firm to vote in support of shareholder resolutions on significant ESG matters, such as climate change (9%).

\*In order, shareholder resolutions co-filed by Walden were led by: Trillium Asset Management, As You Sow, New York City Pension Funds, United Steelworkers, Zevin Asset Management, City of Philadelphia Pension, Calvert Investments, John Chevedden, Newground Social Investment, and Zevin Asset Management.

## REPORT ON PROXY VOTING

Walden is committed to voting proxies conscientiously as part of our fiduciary duty to clients. In addition to the shareholder resolutions we file, Walden seeks to vote all ballot items in the long term interests of our clients, consistent with their financial as well as ESG objectives.

Across all of Walden's U.S. equity strategies, we voted with management recommendations approximately 86% of the time (for the year ending June 2016). Excluding director elections, which comprise about 70% of ballot items voted, 75% of votes cast were consistent with management recommendations.

Voting patterns for management-sponsored versus shareholder resolutions diverge significantly. Walden supported 91% of management recommendations on their own proxy proposals, yet we also supported 86% of shareholder proposals opposed by management.

### Management-Sponsored Resolutions

Walden voted against 10% of director nominees. There are two primary reasons: we withhold support for candidates serving on nominating committees when they fail to meet our minimum expectations on board diversity as well as directors that we believe serve on too many other boards to be effective. Overall, Walden did not support the entire slate of nominees at over one-third of U.S. portfolio companies.

Walden also voted against CEO remuneration, known as Say on Pay, about 10% of the time. In these instances, we had concerns that compensation practices were not sufficiently tied to company performance, contained other structural problems, or resulted in excessive absolute pay. We voted against pay packages at 14% of companies held in a representative core (large capitalization) equity portfolio.

### Shareholder Resolutions

As reported above, Walden supported the vast majority of shareholder proposals (against management recommendations). Shareholder proposals that appeared most frequently, in order, addressed: lobbying and political spending disclosure, separating the roles of CEO and Board Chair, and proxy access (shareholder access to the proxy for the purpose of nominating directors). Other shareholder resolutions we supported addressed climate change, equal employment opportunity and equal pay, human rights, product safety, and sustainability reporting.

Walden's voting policies and practices—which often provide a gateway to more targeted company engagement—are integral to our communication with management on the link between ESG performance and long-term business prosperity.

*Proxy voting records for the Walden mutual funds are available at [www.waldenassetmgmt.com/mutual-funds](http://www.waldenassetmgmt.com/mutual-funds).*