Research & Engagement Brief

Third Quarter 2015

Rhode Island Senator Sheldon Whitehouse had this message for companies in response to a recent *New York Times* editorial[1]:

> We need strong corporate climate policies. We also need strong corporate climate politics. Make climate change a priority when you lobby Congress. Demand that your advocacy groups adhere to your climate principles, just as you ask your suppliers to do. Stop the funding of denier front groups. Put your politics where your policies are.

Walden couldn't agree more. In advance of the November 30 launch of a crucial global climate conference in Paris ("Paris 2015") that aims to forge a new international agreement on climate change, Walden continues to encourage companies to be a vocal, positive influence for public policy solutions.

ADDRESSING CLIMATE CHANGE

In August, the Obama Administration announced new carbon pollution standards for existing fossil fuel-fired power plants known as the Clean Power Plan. These standards are a critical part of the Administration's overall climate strategy because electric power generation accounts for roughly one-third of U.S. greenhouse gas (GHG) emissions. Opposition from the U.S. Chamber of Commerce was immediate. Over 60 institutional investors and organizations, led by Walden, wrote to approximately 50 companies that are on the Board or are prominent members of the Chamber. We asked the companies to use their leverage and voice to encourage the Chamber to halt its campaign against the Clean Power Plan and to publicly distance their companies from the organization's current actions in opposition to the Plan.

Thus far, most company responses to our letter have focused on their own climate policies and GHG reduction goals and progress, while also indicating that trade associations do not necessarily represent their views. Several companies told us that they spoke with Chamber leadership directly, informing the organization that their companies do not share its opposition to the Clean Power Plan. Walden believes this is a sign of progress since we rarely see companies challenge the Chamber's actions.

Walden continues to have numerous other conversations encouraging companies to speak out for smart climate policies and adopt robust, science-based GHG goals. Specifically, we are advocating for a reduction in GHG emissions of 55 percent globally by 2050, the likely minimum required to avoid the most catastrophic consequences of climate change according to scientific consensus (as reported by the International Governmental Panel on Climate Change of IPCC).

We have been pleased to observe significant progress. **PepsiCo** endorsed the American Business Act on Climate Pledge that supports a successful Paris 2015, stating: "We recognize that limiting global warming to 2º Celsius is absolutely critical to our future and reiterate our call for collective action and our commitment to implementing solutions that will help achieve this goal." Similarly, six major U.S. banks including **Bank of America**, **Citigroup**, and **JPMorgan** issued a joint statement calling for a price on carbon emissions as well as "leadership and cooperation among governments for commitments leading to a strong global climate agreement." **Becton Dickinson** recently announced 2020 sustainability goals that include significant GHG and energy reduction targets as well as a commitment to procure half of its total energy from renewable sources. In addition, Becton Dickinson told Walden it intends to significantly expand lobbying disclosure.

Walden also supports public policies that complement our company dialogues. We joined companies and investors across the country asking the National Governors Association and 29 state governors to act promptly in implementing plans to comply with the Clean Power Plan. In addition, we supported a separate climate initiative of the Administration that addresses methane emissions by energy companies, a potent greenhouse gas that is increasing partly due to greater U.S. production from unconventional sources of natural gas.

ENCOURAGING EQUAL OPPORTUNITY

Walden can confirm an important milestone in client core equity portfolios. For the first time, all companies in this strategy include sexual orientation in their equal employment opportunity (EEO) policies. More than 80 percent of these companies also include gender identity, representing a dramatic increase in recent years. Smaller companies continue to be responsive as well. Both **Commerce Bancshares** and **Interval Leisure Group** agreed to post inclusive EEO policies to their websites, the latter after updating its policy to incorporate sexual orientation and gender identity. We also wrote to commend the following seven companies for their support of the Equality Act that calls for comprehensive federal protections

[1] Kaeser, Joe, "Industry Can Lead on Climate Change," *New York Times*, September 22, 2015.

for LGBT individuals in employment, housing, and access to credit: **Apple**, **Google**, **IBM**, **Microsoft**, **Nike**, **Oracle**, and **Symantec**.

In August, we wrote to 28 companies to explain that Walden voted proxies against directors serving on nominating committees due to insufficient board diversity. To date, about half have responded and many conversations about the value of diverse leadership on the board and in senior management are underway. We are asking companies to explicitly identify gender and racial diversity among the factors considered for nominating directors and to commit to a diverse candidate pool in new searches. **Franklin Electric** and **Plantronics** each recently added a woman director, one of whom is Latina.

Walden also provided written testimony in support of Massachusetts' Resolution S.1007, a bill asking private companies to adopt policies to increase board diversity, increase disclosure, and strive for a minimum representation of three women on boards of nine directors or greater within three years. The resolution passed in the state Senate and will be introduced in the House soon.

REWARDING PERSISTENCE

Since 2010, Walden has filed shareholder resolutions annually seeking a sustainability report at medical devices company **C.R. Bard**. Shareholder support was always strong and reached a high of 38 percent in 2014. We are delighted to report that C.R. Bard recently published a substantial inaugural 2014 Sustainability Report. We look forward to providing feedback to help enhance their reporting over time.

This positive outcome underscores our belief that being a long-term shareholder is often a key component of successful company engagement.

CARBON PRICING: A FRONTIER OF CORPORATE RISK & COST MANAGEMENT

The foundation of an effective global strategy to mitigate climate change is the successful implementation of a carbon pricing mechanism. Either through a tax on carbon or a cap-and-trade system, putting a price tag on carbon pollution is widely believed to be the most effective way to catalyze the transition to a lower-carbon economy. Unfortunately, U.S. legislative efforts to price carbon have stalled in our nation's divided and acrimonious political environment.

Walden has long brought an investor voice to U.S. and global public policy debates on the importance of a carbon pricing mandate. At the same time, we have encouraged companies to set science-based greenhouse gas reduction goals and back smart climate policies. We believe that support from corporate leaders will help end the political quagmire that currently prevents legislative progress in the U.S.

We find reason for optimism in a new publication of CDP, the world's largest repository of company reported responses to climate change. *Putting a price on risk: Carbon pricing in the corporate world* documents the increasing number of companies that internally assign a price on carbon to account for the estimated costs of greenhouse gas emissions, provide incentives for investment in energy efficiency and renewable energy, and manage risks associated with anticipated future regulation and action on carbon pricing. Nearly 100 U.S. and Canadian companies now price internal carbon emissions, more than twice the number in 2014, with an approximately equal number pledging to have a pricing mechanism in place within two years.

Examples include:

- **Colgate Palmolive** allocates the cost of green power purchases to global locations according to their greenhouse gas emissions. This practice provides incentives to local managers to further reduce carbon pollution.
- **EMC** incorporates a risk-based cost of carbon, defined as the "expected long-term costs associated with increased emissions," into capital investment decisions.
- **Google** reports that carbon prices are incorporated in its risk assessments, and provided an example of using a shadow price for carbon to estimate future energy costs at data centers.
- **Microsoft** collects fees from business units based on carbon emissions associated with office use, software development labs, data centers, and air travel. These funds are used for energy efficiency improvements, green power purchases, and carbon offset projects.

The CDP report, along with our own assessments and engagement experience, suggests that companies are ahead of policy-makers in tackling the century-defining issue of climate change. We are hopeful that corporate leadership on carbon pricing may just help crack the current political stalemate.