



Research & Engagement Brief

Walden Asset Management ✿ Advancing sustainable business practices since 1975

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Self-described as the “voice of business,” the U.S. Chamber of Commerce (the Chamber) purports to represent three million businesses across all industries and sizes. The Chamber exercises immense influence in legislative and regulatory spheres. Unfortunately for investors concerned about corporate environmental, social and governance (ESG) performance, the Chamber has been remarkable in its opposition to legislation and regulation addressing priorities such as climate change, healthcare, political spending transparency and Wall Street reforms. In August 2010, for example, the Chamber sued the U.S. Environmental Protection Agency (EPA), challenging the agency’s assessment that greenhouse gases endanger human health and welfare.

Faced with this formidable force, Walden is pursuing multiple investor strategies to challenge companies’ inefficient and counterproductive use of firm resources related to Chamber membership and initiatives. Our recent dialogues, investor open letters and shareholder resolutions have focused on companies represented on the Chamber’s board of directors who “determine the U.S. Chamber’s policy positions on business issues and advise the U.S. Chamber on the appropriate strategies to pursue” (U.S. Chamber of Commerce website). In all of these initiatives we point out the contradictions in the companies’ own commendable ESG performance and the public positions advocated by the Chamber that we believe pose meaningful reputational, legal, regulatory and/or operational risks.

We are challenging these firms to hold themselves and the Chamber leadership accountable. Thus far one company quietly withdrew its membership and others indicate that they are expressing dissenting opinions privately. In 2011 shareholder resolutions led by Walden on political spending accountability, we noted explicitly discrepancies between corporate ESG policies and practices and the Chamber’s mission at **3M**, **IBM**, **PepsiCo**, **Pfizer**, **Target** and **United Parcel Service (UPS)**.

Resolutions Withdrawn

Walden withdraws resolutions before they are included in company proxy statements if there is sufficient progress addressing the issue at hand. To date in the

2011 proxy season, Walden is the lead or co-lead sponsor of 18 shareholder proposals, 9 of which have been withdrawn. A political spending resolution at **Pfizer** was withdrawn based on additional disclosure, a pledge not to provide corporate funds for political campaigns and a commitment to ongoing discussion about its role as a Chamber board member. The resolution was also withdrawn at **UPS** after the company clarified its position on political spending. We withdrew resolutions at five companies that agreed to adopt more inclusive equal opportunity employment (EEO) policies or to disclose them publicly: **Ambassadors Group**, **eHealth**, **Nutraceutical**, and **Southside Bancshares**. A resolution requesting that **Varian Medical Systems** disclose comprehensive ESG information was withdrawn when the company committed to produce a report with guidance from best practice Global Reporting Initiative (GRI) standards.

Our resolution asking **Hewlett-Packard (HP)** to adopt a policy separating the roles of CEO and Chairman, filed in the wake of the abrupt departure of former CEO-Chair Mark Hurd, was also withdrawn. HP recently appointed a new CEO and brought in a new independent director to serve as Chair. In our discussions HP has expressed a clear preference for continuing to separate the roles going forward, underscored by November revisions to its corporate governance guidelines that reference the merits of an independent board chair. Substantially the same resolution was withdrawn at **State Street**, where we have been engaged in a constructive dialogue on governance at the senior management and director level. Still, the company continues to defend its decision to maintain a combined CEO-Chair structure.

To Be Voted

Including resolutions that Walden co-filed with other investors, 12 remain headed toward the ballot for shareholder votes (see *Walden’s 2011 Shareholder Resolutions* on reverse side). Led by the Presbyterian Church (USA) with expert consultant CANICCOR, Walden co-filed its first resolution addressing the ongoing mortgage foreclosure crisis. Failure to stabilize the housing market remains a critical business concern with enormous human costs. In hardest hit Nevada, for example, one in every 79 properties received foreclosure notices in October alone (RealtyTrac). To

encourage more progress, our resolution at **J.P. Morgan Chase** asks the bank to develop policies to ensure that the same mortgage modification methods for similar loan types are applied uniformly to loans owned by the company and those serviced for others (the latter representing the vast majority of the bank's mortgages).

The voting results are in from the November 2010 annual meeting of **Cisco Systems**. Walden co-filed a resolution asking the technology firm to assess steps it could reasonably take to reduce the likelihood that its business practices could contribute to human rights violations, including freedom of expression and privacy rights in countries such as China. Despite continued strong shareholder support of 34 percent, Cisco lags sector leaders such as **Google** who address human rights more explicitly.

Update on Dialogues

In the height of the autumn resolution filing season Walden does not overlook the importance of ongoing company dialogues. Resolutions are an important shareholder tool, but no more so than other interactions with companies that promote more sustainable business practices. In recent months there have been many fruitful conversations with portfolio companies.

ESG reporting: We are providing input to **AptarGroup** as it upgrades the *Sustainability* section on its website and experiments with GRI reporting in Latin America. Similarly we have provided feedback to **Walt Disney**, **Kellogg** and **Under Armour** as they expand ESG disclosure, with water risk assessment and disclosure a central part of the Kellogg discussion.

Inclusive nondiscrimination policy: **Parkway Properties** added sexual orientation to its EEO policy after we demonstrated that the company was an outlier in its industry. **NutriSystem** published its inclusive nondiscrimination policy on its website.

Annual advisory vote on executive compensation: The

recently passed Frank-Dodd financial reform legislation mandates that all firms provide shareholders with an advisory vote on the compensation package of senior executives, but the frequency of such votes may range from one to three years. **Apache** responded positively to a Walden-led investor sign-on letter asking for full accountability through an annual vote.

Walden's 2011 Shareholder Resolutions	
Corporate Governance	<ul style="list-style-type: none"> • <i>ESG Reporting</i> C.R. Bard, Emerson Electric, Gentex, Layne Christensen, St. Jude Medical, Varian Medical** • <i>Political Spending Transparency</i> 3M, IBM, PepsiCo, Pfizer**, Target, UPS** • <i>Separate CEO and Chair</i> Hewlett-Packard**, State Street**
Workplace	<ul style="list-style-type: none"> • <i>Inclusive Nondiscrimination Policy</i> Ambassadors Group**, eHealth**, Nutraceutical**, Southside Bancshares**
Environmental Impact	<ul style="list-style-type: none"> • <i>Climate Change Mitigation</i> ExxonMobil* • <i>Oil Sands Development</i> ConocoPhillips*
Community Impact	<ul style="list-style-type: none"> • <i>Mortgage Loan Modification</i> JPMorgan Chase*
<p>*Walden is a co-filer of this resolution. Primary filers are, in order of appearance, Sisters of Saint Dominic of Caldwell NJ, CalSTRS, and Presbyterian Church (USA). Walden is the lead or co-lead sponsor of all other resolutions. **This resolution was withdrawn after productive negotiations with the listed company.</p>	

Board diversity: **Dime Community Bancshares** shared more detailed information on its policies, programs and results addressing board and management diversity. The bank is also considering our request to amend corporate governance policies and practices and increase public disclosure of EEO information.

Public Policy Advocacy

In October 2010 Walden joined other investors in a letter opposing California's Proposition 23 ballot initiative, subsequently defeated in the November election. Prop. 23 would have stopped implementation of the state's landmark clean energy law. We also joined the Investor Network on Climate Risk and other investor coalitions, together representing over \$15 trillion in assets, asking the new U.S. Congress to take meaningful action on climate

change. Signatories called for innovative public policy encouraging renewable energy, energy efficiency, low-carbon infrastructure, and an international agreement on climate change mitigation.

We reported previously on our request to the U.S. State Department to endorse the United Nations Declaration of the Rights of Indigenous Peoples (UNDRIP). Along with other investors who encouraged endorsement, in December we celebrated President Obama's announcement of his support of UNDRIP at the second

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