



Walden Asset Management
Advancing sustainable business practices since 1975

Research & Engagement Brief

4th Quarter 2014 and Calendar Year 2014

In 1975 the Vietnam War ended, Microsoft was founded, and Saturday Night Live premiered. That year also marked the formation of Walden Asset Management, first known as the “Socially Sensitive Investing division of United States Trust Company of Boston.” As 2015 commences, Walden is proud to celebrate 40 years of helping our clients achieve financial growth *and* environmental and social impact.

Our most recent year was as impactful and productive as any in Walden’s history. Through investment selection, company engagement, and public policy advocacy, we successfully encouraged significant progress toward more sustainable business policies and practices across a range of environmental, social, and governance (ESG) topics.

2014 ENGAGEMENT SUMMARY

Walden continues to utilize all of the primary tools of engagement—company dialogue, shareholder resolutions, and proxy voting—to foster greater corporate responsibility. To leverage our voice and extend our reach, we also collaborated with like-minded investors, both in small groups and in large, formal coalitions. All told, in 2014 we engaged over 120 companies in client portfolios across all investment strategies, representing nearly 40 percent of our investment universe. Granted, some interactions are brief, one-time events, but the majority are multi-faceted conversations with companies that span several years. Walden’s approach, which emphasizes investing long-term, is central to our ability to forge meaningful relationships with corporate leaders.

The breadth of our engagement matters, but the impact of these efforts is much more important. As we have reported previously, Walden considers engagement to be effective when we observe progress toward one or more of three potential outcomes: better corporate policies (e.g. board nominating charters that are amended to include explicit consideration of gender and race), more sustainable business practices (e.g. adoption of science-based greenhouse gas emission reduction goals), and increased transparency (e.g. implementing comprehensive lobbying disclosure or best practice sustainability reporting). Increased transparency brings greater accountability to all stakeholders, often a necessary precursor to changes in company policies and practices.

In 2014, Walden identified improvement in policies, practices, and transparency at over 50 companies in areas where we encouraged better ESG performance. We translate this assessment into an *impact rate* of 44 percent (number of companies demonstrating improvement/total companies engaged), a very strong result for the year. We hasten to point out that progress is often incremental over multiple years and made possible through the hard work of, and collaboration with, other investors and stakeholders. Frequently our input and encouragement supports corporate advocates who are already committed to continuous ESG improvement.

Below, we highlight examples of engagement impact in three main categories—environmental, social, and corporate governance.

ENVIRONMENTAL IMPACT

No engagement issue in 2014 claimed more of Walden’s attention than our advocacy for comprehensive and rigorous corporate responses to climate change. Specifically, we continue to encourage setting aggressive greenhouse gas (GHG) emissions reduction goals that align with consensus recommendations of climate scientists (i.e. absolute GHG reduction of 55 percent globally by 2050) and incorporate renewable energy commitments; climate risk management encompassing a company’s entire value chain; public policy actions that support effective climate and energy policy; and full transparency through CDP’s climate disclosure questionnaire, the leading global repository for corporate responses to climate risk.

Walden is pleased to report that numerous companies demonstrated substantial progress. **Colgate-Palmolive** and **Intel** set the bar high with GHG goals that are consistent with climate science and goals as expressed by the Intergovernmental Panel on Climate Change. For example, in May Colgate-Palmolive announced two new goals, an absolute reduction in GHG emissions of 25 percent by 2020 (from a 2002 baseline) and 50 percent by 2050. Energy company **ConocoPhillips** established its first facilities-wide GHG target, a 3-5 percent decrease for 2015. Precision instruments manufacturer **Mettler-Toledo** published its first sustainability report since 2011, featuring energy efficiency initiatives, GHG emissions management, and a goal to reduce

its carbon footprint 20 percent by 2020 (relative to 2010 levels). Walden and co-lead filer Boston Common Asset Management withdrew a resolution for **Qualcomm's** 2015 annual meeting with its commitment to set GHG targets this year and to communicate in the interim on the nature of the targets.

On the energy policy front, **EMC** and **Johnson Controls** joined other companies, including Walden, as endorsers of the World Bank's *Put a Price on Carbon* statement that was launched to coincide with the U.N. Climate Summit in September. We were also pleased to be part of a wide-ranging discussion with former EPA Administrator Lisa Jackson, now Chief Sustainability Officer at **Apple**. Subsequently, Apple resumed participation in the CDP climate survey and joined the Climate Declaration, a platform for business leaders to call for coordinated action to combat climate change "regardless of politics." **PepsiCo** also endorsed the Climate Declaration. Additionally, several companies—including **Emerson Electric**, **Google**, and **Microsoft**—decided to cease their affiliation with ALEC (American Legislative Exchange Council), an organization promoting model legislation that impedes state renewable energy initiatives and other legislative and regulatory actions addressing climate change.

Palm oil production, historically accompanied by massive deforestation and destruction of peatlands in Indonesia and Malaysia, is a leading contributor to global GHG emissions. For the first time, Walden urged several companies to source palm oil in a sustainable manner. In an initiative co-led by Walden and Calvert Investments, **International Flavors & Fragrances** agreed to update its palm oil procurement policy, set a specific timeframe for implementation, and report on progress. Led by the Racine Dominican Sisters, similar conversations with **Sysco** produced a comparable, positive outcome.

SOCIAL IMPACT

Walden has long believed that there is a compelling ethical and business case for companies to have inclusive equal employment opportunity (EEO) policies that explicitly prohibit discrimination against lesbian, gay, bisexual, or transgender (LGBT) employees and job candidates. Over the years we have successfully encouraged dozens of companies to adopt and publicize inclusive EEO policies and practices. Our engagement currently focuses on smaller capitalization companies that have been slower to adopt comprehensive policies. In 2014, **Cullen Frost**, **IDEX**, and **Texas Capital Bancshares** implemented more inclusive EEO policies and, along with many other companies we engaged, increased transparency by posting their policies on their websites.

In several collaborative engagements Walden addressed health, safety, and human rights concerns in company supply

chains. An investor coalition led by Domini Investments complemented GreenAmerica's campaign to eliminate the use of toxic chemicals benzene and n-hexane among **Apple's** suppliers. After investigating, Apple announced steps to prohibit the use of these chemicals including new specifications for suppliers, independent testing, creation of an expert advisory board, and roundtable sessions for stakeholders. As part of the Interfaith Center for Corporate Responsibility (ICCR), we spoke with **Costco** about disturbing reports of slave labor on fishing vessels in Thailand that supply the company with shrimp. Costco pledged to bring greater accountability and traceability within its shrimp supply chain and stated a long-term goal of establishing monitoring systems on every ship. With the Investor Environmental Health Network Walden has led a multi-year discussion with **Johnson Controls** regarding management of lead at its battery recycling facilities. In response to the request for more meaningful disclosure of employee blood lead levels, Johnson Controls began reporting employee exposure data using a lower, more stringent reference point (half of the previous threshold). This improvement in transparency will enable stakeholders to better observe and substantiate progress in reducing employee exposure to lead, a potent neurotoxin.

CORPORATE GOVERNANCE IMPACT

How a company is governed determines its direction and performance, including sustainability performance. Corporate governance is about director oversight and management structures as well as relationships with stakeholders including customers, employees, local communities, suppliers, federal and local governments, and, of course, shareholders. Walden's engagement in this area emphasizes transparency and accountability to all stakeholders because we believe these are critical features of good governance and corporate responsibility.

Among our top priorities is advocating for comprehensive sustainability reporting that includes actionable ESG metrics and goals. These reports help investors and other stakeholders understand how companies manage and measure ESG risks and opportunities as well as evaluate progress toward achieving their goals. In 2014 **Calgon Carbon** and **Wabtec** published their first sustainability reports, **Darling Ingredients** agreed to report in 2015, and **Donaldson** stated that its first Global Reporting Initiative (GRI)-based report is in progress (GRI is a best practice framework for sustainability reporting). Also, **McDonald's** launched a Corporate Social Responsibility & Sustainability Framework with substantial 2020 goals addressing sustainable sourcing, nutrition, waste, and energy efficiency. Walden was a member of McDonald's stakeholder team that provided input in a multi-year process.

Comprehensive disclosure of political spending and lobbying

activity and expenditures are other priority areas for Walden. Such disclosure enables investors to assess the consistency of company policies and goals with expenditures in the political sphere and to evaluate the potential for reputational risk. **Accenture** and **PepsiCo** increased disclosure of lobbying activity, including indirect lobbying through third parties such as trade associations and think tanks. **Apple** is also expanding website disclosure while simultaneously strengthening corporate policies and oversight.

J.P. Morgan produced a wide-ranging “How We Do Business” report, honoring a commitment made to investors, including Walden, in the previous year. The report responds to multiple legal controversies and hefty fines and settlements in recent years over failures in risk management and control. J.P.

Morgan describes these challenges, and importantly, the significant steps taken to prevent recurrence. Additionally, in response to Walden’s (and a client’s) encouragement to separate the positions of CEO and Chair, J.P. Morgan hosted and organized a colloquy exploring the topic with the New York Chapter of Society of Corporate Secretaries and Governance Professionals. Walden was pleased to welcome over 50 participants.

UNTIL THE NEXT MILESTONE

We are grateful to all of our clients for 40 years of partnerships. Together we have proved that investing responsibly can make a difference. We look forward to continuing our journey with you in 2015, and beyond.

Selected Public Policy Advocacy Highlights, 2014

Walden pursues public policy advocacy to complement and buttress company engagement initiatives and to address broad-based ESG concerns that require policy solutions. We expand our leverage as investors by working with diverse coalitions representing large pools of assets, in many cases well into U.S.\$ trillions.

ENVIRONMENTAL

- Joined statements supporting EPA’s carbon pollution standards for new and existing power plants under the Clean Air Act. Electric power generation accounts for approximately one-third of total U.S. greenhouse gas emissions.
- Endorsed a World Bank statement *Putting a Price on Carbon* launched at the September 2014 United Nations Climate Summit. Carbon pricing is a critical component of a rigorous global response to climate change.
- Signed an investor letter to EPA Administrator Gina McCarthy calling for comprehensive national regulation of methane emissions in the oil and gas sector. According to EPA, this greenhouse gas is 25 times more potent than carbon dioxide.

SOCIAL

- Supported Department of Labor enforcement of the Fair Labor Standards Act “hot goods” provision in agriculture. Organized by Farmworker Justice, the provision addresses minimum wage and child labor protections that are critical for farmworkers.
- Signed investor statement commending legislators supporting the Business Supply Chain Transparency on Trafficking and Slavery Act of 2014. The Act requires disclosure of policies and management systems addressing human trafficking.
- Backed Cotton Campaign comments to the U.S. State Department seeking a continuation of “Tier 3” classification for Uzbekistan (assigned to governments that do not fully comply with the Trafficking Victims Protection Act). Also signed a statement urging the Uzbek government to address labor abuses in the cotton harvest and give access to independent monitors from the International Labour Organization.

GOVERNANCE

- Spoke at a rally outside the D.C. headquarters of the Securities and Exchange Commission (SEC) calling for Chair Mary Jo White to put mandated political spending disclosure back on the SEC’s agenda. The rally celebrated 1 million comments submitted to the SEC—mostly in favor of such disclosure—the highest level of interest in the history of the organization.
- Signatory to an investor letter asking the International Organisation of Securities Commissions (IOSCO), the global association of stock exchanges, to support ESG disclosure requirements for listed companies. The letter underscored the importance of ESG factors in investment analysis and valuation.
- Joined investors in a letter to SEC Chair White expressing concerns about SEC Commissioner Daniel Gallagher’s public remarks against shareholder resolution proponents. The letter affirmed the important right of shareholders to sponsor resolutions and their contribution to positive outcomes toward more sustainable business practices.