Research & Engagement Brief

Third Quarter 2017

The traumatic human and economic impacts of hurricanes Harvey, Irma, and Maria will be felt for months and years to come, as will the severe floods in South Asia and drought in the Greater Horn of Africa. A consensus among scientists warns that warmer oceans and rising sea levels magnifies the fury of seasonal storms, while droughts precipitate hunger crises in vulnerable areas. Extreme global weather helps bring into focus the need for corporate leadership, especially in the context of current US public policy that is steadily dismantling our nation's leadership in addressing climate change. We find hope in significant actions underway by some states, companies, and investors to mitigate climate change and accelerate the transition to a low carbon economy.

CLIMATE CHANGE

Walden's engagement focus is to encourage companies to adopt science-based greenhouse gas (GHG) reduction goals in order to prevent the most catastrophic consequences of climate change. This emphasis is consistent with the objective of the global Paris Climate Accord: to limit the increase of average global temperature to below 2°C above pre-industrial levels, and pursue efforts to contain temperature increase to 1.5°C. Specifically, this goal translates to a global reduction of GHG emissions by 55 percent by 2050 and reaching net zero emissions before the end of the century.

We talk individually with companies to advocate for science-based goals, as well as in investor coalitions, utilizing the leverage of like-minded investors to enhance the effectiveness of engagement. Beginning in 2016, Walden has led an ICCR (Interfaith Center for Corporate Responsibility) initiative that wrote to over 100 US companies that had announced plans to set GHG reduction targets within the following two years. To date, more than thirty companies that we reached out to, individually or in the ICCR coalition, have set science-based goals. Companies held in many client portfolios that have announced such goals in 2017 include **American Express**, **Merck**, **Oracle**, **PNC Financial**, and **Tiffany & Co**.

Walden is encouraged that over 300 global companies have committed to science-based GHG emissions reduction targets according to We Mean Business, a nonprofit coalition that seeks to catalyze business leadership on climate change. We are also pleased to observe burgeoning state-level GHG reduction initiatives such as those in California, Hawaii, and Minnesota, among others (see Renewable Energy Standards, page 2).

EQUALITY

Board Diversity

Each year, after the primary shareholder proxy voting season ends on June 30, Walden writes to portfolio companies from which we withheld support for directors serving on nominating committees because board diversity fell below 15 percent. We set the bar at this level to identify for dialogue below-average companies with respect to the representation of women and people of color serving on boards of directors. This year our letter went to twenty-five companies of which eleven have responded to date. Numerous constructive conversations are underway about steps companies can take to translate their commitment to greater board diversity into specific actions. **Hubbell** updated its corporate governance disclosure in its proxy statement to include gender, race, and ethnicity as factors considered in the director nomination process. **Monro** added a woman director in August.

As co-chair of the Thirty Percent Coalition's Institutional Investor Committee alongside California state pension plan CalSTRS, Walden works with institutional investors who represent $3.2 trillion in assets to make the business case for increasing board diversity through collaborative company engagement. Since this outreach initiative began in January 2012, at least 151 companies have appointed new women directors to their boards, including 31 in the nine-month period ending June 30, 2017.

Inclusive Equal Employment Opportunity (EEO) Policies

We celebrate the good news that it is now a challenge to find portfolio companies that do not explicitly include sexual orientation and gender identity and expression in their nondiscrimination policies. This year we have focused on nine for engagement, primarily small capitalization companies. We were pleased to learn that both **Paychex** and **UniFirst** had inclusive policies, which they agreed to post publicly on their websites to improve transparency for existing and prospective employees. We continue to advocate for this best practice policy at the

North Carolina based retailer **Cato**, despite its successful challenge and subsequent exclusion of our shareholder proposal last season. We sent Cato a copy of an amicus brief submitted by 50 major companies to a US Court of Appeals, who argued forcefully that sexual orientation protections are good for business.

Disclosure of EEO Metrics on Workforce Composition

Walden has a decades-long history encouraging disclosure of diversity metrics as a means to foster a culture of accountability and, in turn, progress in hiring and promoting women and people of color. As far back as 1994, we made this case to the Federal Glass Ceiling Commission—as the only investment firm to testify—which ultimately recommended increasing disclosure of diversity data in its 1995 report *A Solid Investment: Making Full Use of the Nation's Human Capital*. Unfortunately, disclosure of meaningful and comparable data on workforce composition is still not the norm.

In July we wrote to eight companies in the financial and insurance sector with relatively weak diversity disclosure. We chose this sector because human capital management is a key ESG factor for long-term success as well as the identified need for improvement. According to the Equal Employment Opportunity Commission, women account for only 30 percent of senior level officials and managers in this sector despite representing 58 percent of total employees. Similarly, people of color comprise only 12 percent of senior management and 31 percent of total employees. We are pleased that, to date, constructive discussions with six companies are underway.

(Brief continues on next page.)

Renewable Energy Standards

Public Policy at the State Level

The Trump administration is literally scrubbing the words "climate change" from the federal government's lexicon. The US Department of Agriculture prefers the term "extreme weather," while references to "reduce greenhouse gases" have morphed into "build soil organic matter, increase nutrient use efficiency."[1] Much worse, federal-level climate policy is being rescinded at an astounding pace. In this context, state-level policy action on climate change is of paramount importance.

September 20, 2017—Aaron Ziulkowski, Walden's Manager of ESG Integration, testifies at a hearing convened by the Joint Committee on Telecommunications, Utilities, and Energy.

In recent months Walden has had the opportunity to join with other members of the Investor Network on Climate Risk, organized by Ceres, to express our support for state-level climate policy that is consistent with science-based GHG targets. A primary focus is a legislative tool known as a Renewable Portfolio Standard, or RPS.

An RPS requires suppliers of electricity to supply a minimum amount of electricity from eligible sources of renewable energy (see our recent research on the topic here). Twenty-nine states, plus the District of Columbia, currently have an RPS in place. These standards have proven to be an important driver of the deployment of renewable energy. In the 2016 update of its annual status report on RPS in the US, the Lawrence Berkeley National Laboratory found that 60 percent of all growth in renewable electricity generation and 57 percent of capacity since 2000 is associated with RPS requirements. Hawaii currently has the most aggressive RPS: 100 percent by 2045. Other states are also considering aggressive targets.

Walden supported California State Bill SB 100, which included a 100 percent renewable energy target for 2045. Unfortunately, the vote on SB 100 was deferred until next year, but we are optimistic that it will be picked up in January when the legislature reconvenes. In Massachusetts, we had the privilege to provide oral testimony at a hearing convened by the Joint Committee on Telecommunications, Utilities, and Energy. Walden expressed support for establishing a new RPS target of 50 percent by 2030. Several related bills are currently being considered and we expect an update in the coming months.

[1] https://www.theguardian.com/environment/2017/aug/07/usda-climate-change-language-censorship-emails

ESG REPORTING

Walden's efforts to strengthen reporting on how companies measure, manage, and monitor ESG risks and opportunities is ongoing, particularly with smaller companies where sustainability reporting is less prevalent. Recently, **Texas Roadhouse** told us it hired an external expert to help the restaurant chain formalize a sustainability report, which is expected to be finalized this year. **ONE Gas** has assessed ESG reporting frameworks and is considering our input as part of its commitment to expand disclosure. Based on previous conversations we had related to science-based climate goals, **Jones Lang Lasalle** specifically requested Walden's participation in a wide ranging ESG stakeholder consultation led by Ceres. (Its science-based climate goals are forthcoming.)

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The pullback of US policies addressing critical environmental and social issues is a significant headwind to our work. Yet we believe that our positive engagement experience provides optimism that many companies are prepared to help fill the void by assuming greater ESG leadership.

Our Commitment to the Principles for Responsible Investment (UN PRI)

Boston Trust and Walden have been a signatory to the United Nations-backed Principles for Responsible Investment (PRI) network of investors since 2007. Convened by the United Nations Secretary-General and launched in 2006, PRI was developed by an international group of investors committed to integrating corporate ESG assessments into investment decision-making and ownership practices. Today PRI represents investors with US$70 trillion in assets, including many of the world's largest asset owners and portfolio managers.

Signatory of:

PRI Principles for Responsible Investment

PRI signatories are required to complete an annual PRI questionnaire, the RI (Responsible Investment) Transparency Report, and to disclose responses to mandatory questions through the PRI website portal. Boston Trust answers optional questions and discloses those responses as well.

The PRI Principles	
Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes.
Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and engagement practices.
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5	We will work together to enhance our effectiveness in implementing the Principles.
Principle 6	We will report on our activities and progress towards implementing the Principles.

Each year, PRI provides signatories with a private Assessment Report that evaluates their performance with respect to implementation of the PRI Principles. In 2017, Boston Trust scored the highest rating of **A+** in three areas of assessment: Strategy & Governance (median score=A); Listed Equity—Incorporation (median score=A); and Listed Equity—Active Ownership (median score=B). We were assessed an **A** on Fixed Income Engagement—Sovereign (median score=B) and **A** on Fixed Income—Corporate (median score=B), with the latter category representing less than 3% of Boston Trust's assets under management.

While Boston Trust and our Walden Asset Management practice are proud of this assessment of absolute and relative performance implementing the PRI Principles, we continue to monitor and refine our ESG policies and practices and are committed to the goal of continuous improvement.

To read Boston Trust's 2017 RI Transparency Report, visit: www.unpri.org/organisation/boston-trust-investment-management-company-143757. To request a copy of the private 2017 Assessment Report of Boston Trust, please contact info@bostontrust.com. For details on the PRI assessment methodology, visit the PRI website: www.unpri.org/report/about-reporting-and-assessment.