



## Engaging Asset Managers on Active Ownership

Walden's Rationale for Engagement and Summary of Impact

### RATIONALE FOR ENGAGEMENT

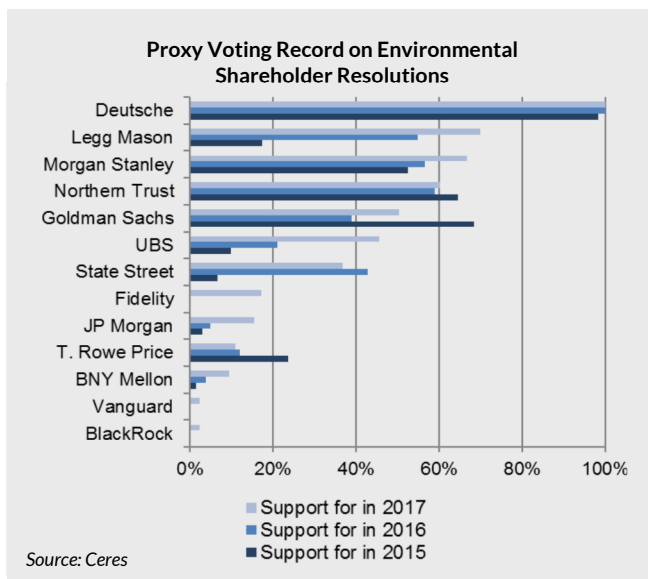
Conscientious voting of company proxies is an essential component of an investment manager's fiduciary duty to clients. This includes thoughtful consideration of proxy items addressing environmental, social, and governance (ESG) policies and practices. Proxy resolutions are formally introduced and voted on at company annual general meetings (AGMs). Strong shareholder support at the ballot box can contribute to management's willingness to adopt more sustainable business practices.

Large asset managers have the potential to meaningfully impact voting outcomes given their significant ownership stake in portfolio companies. The world's two largest asset managers, BlackRock and Vanguard, collectively oversee nearly \$11 trillion in assets. BlackRock and Vanguard have historically voted against, or abstained from, nearly every environmental or social proposal on the proxy ballot. Nearly all resolutions addressing environmental and social topics are filed by shareholders. In 2017, Walden voted in support of the vast majority of shareholder proposals, voting against management recommendations 89 percent of the time.

Many of the world's largest investment firms, including BlackRock and Vanguard, have joined the Principles for Responsible Investment (PRI). PRI members agree to six principles including a commitment to "be active owners and incorporate ESG issues into our ownership policies and practices." The thoughtful exercise of proxy voting consistent with long-term ESG considerations is a primary means to fulfill this PRI principle. PRI has made it clear that members must meet their commitments. Asset managers systematically voting against ESG proposals are therefore under scrutiny and subject to reputational risk if found not to be complying.

Additionally, asset owners, including some of the largest U.S. pension funds that are also members of PRI, increasingly expect asset managers to demonstrate incorporation of ESG factors.

Several large asset managers vote against, or abstain from, the majority of environmental and social shareholder proposals



### ACTIVE OWNERSHIP

The power of proxy voting and active ownership is substantial. Walden is working to translate that potential into transformative corporate change.

For over a decade, Walden has actively encouraged mainstream investors and proxy advisors to improve their proxy voting or voting recommendations on issues like climate change. Our long-term investment horizon is conducive to such multi-year engagement efforts.

We have intensified our focus on proxy voting practices over the past two years. Walden and several other investors engaged nearly a dozen investment managers and mutual funds on their proxy voting policies, specifically challenging voting records on shareholder resolutions addressing significant environmental and social issues. Walden, in partnership with our clients and others, filed resolutions with BlackRock and Vanguard, as well as Bank of New York Mellon, Franklin Resources, JPMorgan Chase, and T. Rowe Price Group, requesting that their boards of directors initiate a review and issue a report on proxy voting policies and practices related to climate change.

## RESULTS

Walden reached agreements with BlackRock, JPMorgan Chase, and Vanguard and withdrew the resolutions. Subsequently, these asset managers announced important changes not only to their approach to proxy voting but also to engagement with companies, particularly on the topics of climate change, board diversity, and corporate governance.

We have observed that the announced changes in policies are translating to changes in voting practices. On May 31, 2017, 62 percent of the shares voted at the ExxonMobil annual general meeting were cast in support of a shareholder resolution asking for more disclosure on the potential impact of regulations and technology to address climate change on the company's operations and the value of its assets. A similar resolution in 2016 did not receive majority support. The change in outcome can in part be attributed to BlackRock and Vanguard, ExxonMobil's largest shareholders, voting in support of the resolution in 2017.

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## NEXT STEPS

Walden believes 2017 represented an important turn in the road. We used our leverage to influence larger investors, and larger investors added their voices and votes to encourage companies to address environmental concerns. Yet there is more work to be done. Walden has continued to engage BlackRock, JPMorgan, and Vanguard this proxy season. We are pleased to see their active role in developing and promoting the Taskforce on Climate-Related Financial Disclosure (TCFD) recommendations, as well as more public statements related to climate risk and ESG governance. However, the record of improvement is not substantial enough, as BlackRock and Vanguard continued in 2017 to vote against almost all environmental and social proposals on matters of significant concern to a growing number of investors.

Year-to-date 2018 we are pleased that two investment firms we engaged—Cohen & Steers and Eaton Vance—updated their proxy voting policies. This led us to withdraw a resolution we filed at Cohen & Steers.

Walden is closely monitoring the current proxy season to assess how investment firms are voting on environmental and social shareholder proposals. We hope to see continued improvements in proxy voting and active ownership practices among asset managers.