Focus Area ***Governance***

THE ISSUE

Corporate governance refers to board and management-level structures, policies, and processes put in place to oversee and guide the achievement of company objectives. Governance also encompasses how corporate leadership balances the interests of, and is accountable to, multiple stakeholders (e.g., shareholders, customers, employees, suppliers, government, and local communities). As such, effective management of significant environmental, social, and governance (ESG) risks and opportunities is an important indicator of good governance that we believe helps protect and enhance long-term company success. Our corporate governance engagement is intertwined with our other focus areas of climate change and equality.

OUR STRATEGY

We have decades-long leadership as an advocate for best practice corporate governance reforms. These reforms include: encouraging companies to adopt policies requiring independent board chairs and annual elections of directors; increasing representation of women and people of color on boards of directors; and promoting executive compensation accountability through shareholder approval of pay packages (known as Say-on-Pay). Our current focus is to encourage companies to:

1) Publish comprehensive sustainability reports that include actionable ESG metrics and goals. Sustainability 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. We expect inaugural reports to emphasize the most material ESG factors and subsequent reports to provide more granular information.

2) Be transparent regarding lobbying policies, oversight, and expenditures. This request covers indirect lobbying activities through third parties such as trade associations and think tanks. Such transparency recognizes that lobbying activities have the potential to conflict with stated company policies or goals and may pose reputational risk.

3) Integrate ESG considerations into proxy voting and engagement (investment firms only). Conscientious proxy voting and engagement with portfolio companies on issues such as climate change, board diversity, supply chain management, and sustainability reporting are essential to fulfilling the role of investment fiduciary. Large asset managers have the potential to meaningfully impact voting outcomes given their significant ownership stake in portfolio companies. Historically, however, many large investment firms have voted against, or abstained from, nearly every environmental or social proposal on proxy ballots. We urge investment firms and proxy advisors to strengthen their proxy voting policies, practices, and accountability. Recent trends in proxy voting indicate progress.

Our firm is a signatory to the United Nations-backed Principles for Responsible Investment (PRI), a global investor network representing approximately $70 trillion in assets. More than 1,750 signatories have committed to incorporate ESG considerations into investment decision-making and active ownership practices, including seeking appropriate ESG disclosure from the entities in which they invest.

The U.S. Chamber of Commerce alone spent more than $82 million on lobbying in 2017.[1] Corporate lobbying seeks to influence public policy on a wide range of ESG issues including climate change, drug prices, financial regulation, immigration, and workers' rights.

[1]https://www.opensecrets.org/lobby

According to the Sustainable Investments Institute, the average support for 229 environmental and social policy shareholder resolutions was 21.2% in 2017. Only six earned majority votes. Walden typically supports more than 75% of shareholder sponsored resolutions.