



ESG Research & Engagement Brief

Third Quarter 2018

Given all the special privileges that corporations have enjoyed for so long, it's high time corporate boards include people who constitute more than half the 'persons' in America.

- California Governor Jerry Brown, September 30, 2018

With these words, Governor Brown signed SB 826 into law. The first bill of its kind in the U.S., SB 826 requires the board of directors of all publicly traded corporations headquartered in California to include at least one woman by the end of 2019 and a minimum of three women by the end of 2021 for boards of six or more members. With hundreds of companies affected, such legislation boosts the efforts of investors and other stakeholders who advocate for greater board diversity.



EQUALITY

Momentum is building regarding corporate efforts to increase board diversity, which is widely considered to be an indicator of good corporate governance. We recently completed our annual follow up with portfolio companies that did not meet our 30% threshold level of diversity required to vote proxies in support of directors serving on board nominating committees. To date, of 68 companies we wrote, 31 (46%) have responded and are in various stages of dialogue with us. We commend several firms for recent appointments of diverse directors, including **American Campus Communities, ONE Gas, Texas Roadhouse, Waters, and Zimmer Biomet**. Other firms have made public commitments to diversify candidate pools, develop lists of qualified diverse candidates, and embark on other strategies that we believe will enhance board diversity in the coming months and years.

Our initiatives to encourage workforce diversity are no less important, especially in the context of the #MeToo

movement. Walden believes that equitable demographic representation across job categories will help foster needed culture change. We are longtime advocates of company disclosure of workforce composition data to enhance accountability and, in turn, progress. In recent months, several companies have expanded such disclosure following engagement with Walden including **BB&T, Discover Financial Services, Morningstar, and SunTrust**. We continue to have similar discussions with several other firms.



CLIMATE

We are pleased to observe progress on Walden's two primary engagement strategies to address climate change.

First, we encourage companies to adopt science-based greenhouse gas (GHG) emissions reduction goals—entailing a decline of 55% by 2050 and net zero emissions in the second half of the century. Examples of recent adopters include **Ball** and **CVS Health**, which announced absolute GHG emission reduction goals of 27% and 36%, respectively, by 2030 (from 2017 levels). We anticipate that additional companies will be announcing new goals soon.

Our second engagement strategy is to encourage companies to support effective public policy solutions to climate change and to avoid association with policy initiatives that could block progress. We were encouraged by **ExxonMobil's** vocal opposition to efforts by the American Legislative Exchange Council (ALEC) to rescind the Environmental Protection Agency's authority to regulate GHG emissions. Moreover, ExxonMobil announced in July that it discontinued its membership in ALEC, a relationship that Walden and others had challenged for many years. **Verizon** similarly cut ties with ALEC recently, though this time in response to ALEC's association with an anti-Muslim activist.

More recently, Walden joined a collaboration called Climate Action 100+, representing approximately 300 investors with more than US\$30 trillion in assets under management, that is encouraging the largest global GHG emitters to achieve the goals of the Paris Agreement. With a focus on climate-related governance, goals, and disclosures, the Climate Action 100+ companies we are engaging include **Conoco Phillips**, **Equinor** (formerly Statoil), **Nestlé**, and **PepsiCo**. We will communicate on progress in future quarterly reports.



GOVERNANCE

Walden filed and subsequently withdrew our 2018 resolutions on proxy voting practices at **BlackRock**, **JP Morgan**, and **Vanguard** when they updated and disclosed how environmental considerations would be incorporated into proxy voting and engagement practices. Now, the votes are in. To their credit, all three supported more shareholder resolutions requesting reports on climate change risk.¹ Relative to the handful of proposals these investment firms backed last year, their support of climate disclosure resolutions in 2018 ranged from 21% to 33%. Still, their voting on climate proposals lagged industry peers and they showed little support for other environmental and social shareholder proposals. For example, none supported shareholder resolutions seeking greater disclosure of corporate political influence. In contrast, Walden supported the vast majority of shareholder proposals, voting against management 83% of the time.

With As You Sow Foundation, Walden approached several portfolio companies that are members of the Plastics Industry Association to express concern about the organization's lobbying for state-level preemption laws that prohibit local communities from enacting plastic bag ordinances. We asked companies to explain to the industry group how this lobbying activity conflicted with their environmental goals. The best response came from global medical technology company **BD** (formerly known as Becton Dickinson), a leader in waste and emissions management. BD agreed that the Association's positions were inconsistent with company goals and plans to withdraw its membership.

¹<https://5050climate.org/wp-content/uploads/2018/09/FINAL-2018-Climate-Scorecard-1.pdf>



**GLOBAL
IMPACT
SOURCING
COALITION**

Walden Joins GISC to Address Global Poverty

Global poverty continues to be one of the largest humanitarian challenges of our time. According to World Bank estimates, in 2015 approximately 750 million people lived below the extreme poverty line of \$1.90 a day.

Recognizing that corporations should be part of the solution, BSR and the Rockefeller Foundation recently formed the Global Impact Sourcing Coalition (GISC) to promote a practice called "Impact Sourcing." Impact Sourcing aims to increase the number of individuals employed within companies' direct operations or supply chains who are long-term unemployed or living under their countries' respective national poverty line. Impact Sourcing provides corporations an opportunity to reduce poverty while simultaneously experiencing benefits associated with stable supply chain partners and positive community relations. To date, GISC has 26 members including major global companies such as Bloomberg, Facebook, Google, Microsoft, and Nielsen.

Walden joined GISC in September, the first investment firm to do so. We intend to encourage companies to partner with GISC and adopt Impact Sourcing practices. We also hope to expand GISC's impact by encouraging other investors to join the Coalition. We look forward to sharing more about this new collaboration as our work evolves.

Walden is Working to Protect the Shareholder Resolution Process

We have been here before, but we are more concerned than ever.

For decades, resolutions at the annual meetings of company shareholders have catalyzed businesses to improve environmental, social, and governance policies and practices believed to enhance long-term company success. Now, business groups, including the Business Roundtable, National Association of Manufacturers (NAM) and U.S. Chamber of Commerce are urging reforms that would curtail Walden's and other shareholders' ability to file shareholder resolutions appearing in the company proxy statements that precede annual meetings.

A case in point is NAM's membership and funding of the Main Street Investor Coalition (MSIC). MSIC promotes questionable research discrediting shareholder resolutions as insignificant or worse, potentially harmful to investors. More galling is how MSIC pretends to represent small retail investors who they deem need protection from "politically-charged shareholder proposals." Noting its big business ties through NAM, *New York Times* financial columnist Andrew Ross Sorkin called out MSIC for this falsehood. He further stated, "The truth of Main Street Investors Coalition is that it is an organization aimed at preventing investment firms from raising issues like climate change."²

In a two-pronged approach, Walden is partnering with others to protect shareholders' right to file proxy resolutions.

First, we are urging companies to challenge NAM. Alongside California State Teachers' Retirement System and New York State Common Retirement Fund, Walden is leading more than [80 investors](#) in a [letter](#) campaign asking [45 companies](#) that serve on NAM's Executive Committee and Board to encourage NAM to stop its assault on shareholder resolutions. Many of these companies are leaders in addressing climate change and enjoy positive relationships with shareholders. For example, a response from **Intel** affirmed the value of shareholder proposals as one tool to support engagement with companies to protect long-term value.



Intel plans to share its perspective on constructive engagement with NAM.

Second, Walden is part of the Shareholder Rights Group established in 2016 to "defend share owners' rights to engage with public companies on governance and long-term value creation." The investor collaboration is currently focused on Securities and Exchange Commission (SEC) Chairman Jay Clayton's announcement that the SEC will host a Staff Roundtable in November on the proxy process. Among the topics to be addressed at this meeting are the criteria required to submit (and re-submit) shareholder resolutions and whether "the voices of long-term retail investors" are appropriately represented in shareholder engagement. In preparation for the Staff Roundtable, our investor group wrote Chair Clayton and provided a resource addressing the value of the shareholder resolution process ([ShareholderRightsGroup.com](#)). The letter concludes: "We believe that the Commission would be ill advised to take up time of the Roundtable on potential reforms to the shareholder proposal process. Based on a substantial body of evidence, the shareholder proposal process is functioning effectively today."

Not surprisingly, efforts to limit shareholder resolutions come at a time when such proposals are garnering record levels of voting support. Through these partnerships and more, Walden will continue to bring our voice, and those of our clients, to the public square.

²New York Times: What's Behind a Pitch for the Little-Guy Investor? Big Money Interests, Andrew Ross Sorkin, July 24, 2018.