



Task Force on Climate-related Financial Disclosure (TCFD)

We support the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD).

In 2017, the Task Force on Climate-related Financial Disclosure (TCFD) published a voluntary framework intended to guide disclosure of how companies identify, assess, and manage climate change-related risks and opportunities.¹ The TCFD framework includes specific questions for asset managers. In our Boston Trust/Walden TCFD Response, we provide detailed answers to these questions. Highlights from our response, which focuses on how climate change impacts both our investment decision-making and active ownership efforts, are provided below:

■ ***We have built a robust process to identify and assess climate risks.***

The changing climate has enormous economic, environmental and human consequences; however, the extent and path of the societal and market responses are uncertain. Climate-related risks and opportunities are systematically integrated into securities analysis across all investment strategies. We gather information from a variety of sources and perspectives, consider transition and physical risks as highlighted by the TCFD, and utilize proprietary research tools to consider how risks may uniquely impact the companies we invest in. Our process involves members of the board and senior management, ensuring high-level oversight and attention.

■ ***We consider climate change risk in our company engagement and proxy voting practices.***

Our active ownership efforts span decades. In 1990, we filed our first climate-related shareholder resolution, asking the company to commit to the Valdez Principles, one of the first corporate environmental codes of conduct. Today, we work in partnerships with others, including Ceres, CDP, and the Interfaith Center on Corporate Responsibility (ICCR). We ask companies to disclose climate-related risks, to set science-based emissions reduction targets, and to stop obstructing—and even support—smart climate-related public policy. Over the last five years, we have engaged with 76 companies held in client portfolios, and observed improved policies, practices, or disclosures from about two-thirds of them. In 2018, we voted for all shareholder proposals that asked companies to set greenhouse gas emission reduction targets and improve climate risk disclosure.

■ ***The weighted average carbon intensity of our investment strategies is significantly lower (better) than their respective benchmarks.***

In 2018, for the fifth consecutive year, we published carbon footprint metrics for our strategies. In 2018, based on TCFD recommendations, we reported emissions normalized by revenue, in place of market capitalization. Using the weighted average intensity metric, our portfolios were 40 to 81 percent less carbon intensive than their respective benchmarks (see here for details). Additionally, in 2018, we expanded our analysis to track companies in our large cap core strategy with emissions reduction targets, a potentially useful forward-looking indicator.

We are committed to continue climate-related disclosure in the years that come. Please let us know if you have any feedback or questions. We'd love to hear from you.

¹ See here for more information on the TCFD: <https://www.fsb-tcfid.org/>.

Boston Trust/Walden TCFD Report – Complete Response January 2019

In 2017, the Task Force on Climate-related Financial Disclosure (TCFD) published a voluntary framework intended to guide disclosure of how companies identify, assess and manage climate change-related risks and opportunities. The TCFD framework includes specific additional questions for asset managers. This is Boston Trust/Walden's first public disclosure following the TCFD recommendations. As an investment manager with a relatively small operating footprint, our response focuses on the implications of climate risk to our investment strategy. Our firm is committed to continue climate-related disclosure on an annual basis.

1. Governance

Describe the board's oversight of climate-related risks and opportunities. Describe management's role in assessing and managing climate-related risks and opportunities.

Our nine managing directors have both board and management-level roles. They oversee all investment activities of Boston Trust, including investment strategy and implementation, which includes considerations related to climate change.

Three executive managing directors comprise the Office of the Executive. Dedicated senior-level ESG professionals meet regularly, as needed, with representatives of the Executive Committee to establish, monitor, review, and revise objectives and priorities.

A managing director serves as Director of ESG Investing. Reporting to the Chief Investment Officer and Executive Committee, the Director of ESG Investing oversees ESG research, ESG integration, ESG engagement, and proxy voting. All these functional areas have a significant climate component.

The ESG Research and Engagement Committee (REC) also plays an important role. Chaired by the Director of ESG Shareowner Engagement, REC includes two of three members of the Executive Committee and six of nine Boston Trust board members, as well as other portfolio managers, securities analysts, and ESG team members. The committee reviews and guides methodologies on emerging or complex ESG research issues, advises the Chief Investment Officer and ESG Integration Manager to develop policies on ESG factor integration, and reviews and monitors company engagements and public policy priorities. This process incorporates our assessment and management of climate-related risks and opportunities.

2. Strategy

Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

Boston Trust/Walden considers multiple dimensions and timeframes associated with climate change risks and opportunities in securities selection and portfolio construction.

Climate-related risks are apparent in the short, medium and long-term. At Boston Trust we consider short-term to be 1-2 years, medium term to be 3-10 years, and long term to be 10 plus years.

The TCFD has developed a framework that organizes risks into two broad categories: transition and physical impact risks. The risk framework makes clear that climate change risks are relevant to numerous industries and are manifest in a variety of ways. We have long shared this perspective and assess climate change risk resulting from regulations

that impact direct operations and value chains, technological changes, and reputational (brand) damage, among other issues.

Physical risks can be manifest in the short, medium and long term. Rising sea levels will endanger coastal assets in the long term, but parts of the eastern seaboard of the United States are already affected by increased flooding. Severe weather, and its link to climate change, is more complex. In the Fourth National Climate Assessment, researchers note that improvements in climate science now enable a closer link to be made between specific storms and climate change. The devastating wildfires experienced in California in the fall of 2018 provide yet another example.

Transition risk is also apparent across time periods. Regulation that prices greenhouse gas emissions exists in scores of jurisdictions globally. Regulations also continue to evolve, implying regulations could be more (or less) stringent around the globe over time. Technological change, another type of transition risk, is also occurring already. A prime example is electricity generation. In the United States, coal has been displaced by natural gas, a cheaper and more climate-friendly fuel stock, as the most-used fuel for electricity generation. In 2017, 6.3 gigawatts (GW) of coal-fired generation were retired in the U.S., of a total 11.2 GW of retirements. No new coal-fired generators were added. At the same time, capacity and generation of renewable electricity continues to grow at a rapid pace. While the outcome and exact timing are less apparent, the transition from internal combustion engines to advanced mobility solutions is another example of in-process transition risk.

Describe how climate-related risks and opportunities are factored into relevant products or investment strategies.

ESG risks and opportunities are systematically integrated into investment decisions for 100% of assets under management. We believe a thorough assessment of climate-related risks and opportunities is appropriate for all investment strategies, across market caps, styles, and geographies.

Two committees serve as the primary forums for discussion of key risks and opportunities related to ESG issues, the ESG Research and Engagement Committee (REC) and the Investment Committee (IC). REC, routinely assesses climate risks and opportunities relevant to ESG integration (research for investment decision-making), engagement priorities, and public policy advocacy. IC considers climate risks and opportunities related to security selection.

In-house ESG analysts have primary responsibility for identifying climate-related risks and opportunities, communicating with executive leadership and traditional financial analysts regarding their findings, and making recommendations to address risks and opportunities, as appropriate. The ESG analyst team is responsible for staying current on climate trends, data sources, and analytical processes to help guide our decision-making on products and services offered, research and engagement strategies, and public policy advocacy.

Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2-degree C or lower scenario. Describe how each product or investment strategy might be affected by the transition to a lower-carbon economy.

Countless scientific studies describe how a changing climate is driving rising sea levels, changing weather patterns, and increasing severity of storms, all of which have economic, environmental and human consequences. In contrast to the visible and increasingly certain calamitous impacts associated with unmitigated climate change, the extent and path of societal and market responses are far more uncertain. The impact of a transition to a lower-carbon economy on our investment strategies depends on the path taken and the pace of change, among other variables. Like many investors and companies, we are looking for indicators of what path the world is on, and, if the world is indeed on a path to a lower-carbon economy.

Notwithstanding significant uncertainty, there are sectors of the economy that appear more likely to be negatively impacted by a transition to a low-carbon economy. We have generally avoided carbon-intensive industries such as cruise lines and airlines. With respect to investment in the energy sector and fossil fuel companies and utilities, Boston Trust/Walden seeks to identify companies that contribute to more efficient energy production while simultaneously minimizing overall environmental impacts. More specifically, portfolios avoid coal companies (the

most carbon intensive fossil fuel) and have relatively little exposure to oil sands (also among the highest carbon intensity sources). We favor natural gas, a lower carbon fossil fuel that, in combination with resource conservation and energy-efficiency measures, can be an important energy source in the transition to cleaner fuel technologies.

As the TCFD framework makes clear, climate risk is not limited to energy companies and utilities. We have long considered the supply side of climate risk (fossil fuel companies and utilities), as well as the demand side (all other companies). The impact on demand side companies is more challenging to discern and is further affected by the range of potential responses to climate.

For example, if major foreign markets were to put in place carbon prices and establish tariffs for all imported products coming from economies without a price on carbon, U.S. companies exporting more energy-efficient products or services could be advantaged over those with less efficient products and services. U.S. companies that derive substantial profits outside the U.S. could be more negatively impacted than those that sell more domestically in the current U.S. policy environment. In this scenario, smaller cap companies might perform better than larger cap, more globalized companies. However, the same scenario might also result in increased import costs, shrinking profit margins for all companies selling in the U.S. Whether or not companies are able to pass on prices to consumers and defend profit margins will depend on the elasticity of demand for a product, market position, and potential substitutes.

The current state of disclosure from companies makes it especially challenging for investors to systematically consider risks, underscoring the importance of the TCFD framework. TCFD analysis indicates that many companies currently disclose some information, but there is room for significant improvement. One metric frequently disclosed, or estimated, is direct carbon emissions of a company. This has led investors to assess the carbon footprint of portfolios, notwithstanding some of the shortcomings of the tool. On this metric our investment strategies have favorable carbon footprints relative to comparable benchmarks (see below).

3. Risk Management

Describe the organization's processes for identifying, assessing, and managing climate-related risks for each product or investment strategy

Our four-person team of in-house dedicated ESG analysts, three of whom are CFA charterholders, are responsible for performing ESG research and analysis, including climate risk analysis. Together, ESG analysts and securities analysts review a company's climate performance from numerous perspectives, each representing short-to-long term risks:

- Regulatory risk (e.g., how prepared sectors/industries/companies are for carbon regulation)
- Operational risk (e.g., business operations at risk due to impacts of climate change)
- Reputational risk (e.g., how companies are viewed by key stakeholders and customers)
- Litigation risk (e.g., lawsuits against fossil fuel companies for alleged failure to disclose climate risk)

In addition to risks, we also consider opportunities afforded to companies with products, services, or processes that mitigate climate risk. For example, a company with filtration technology stands to benefit from more stringent clean air regulations, and a utility building transmission and distribution infrastructure may benefit from an increase in new renewable energy assets.

During the research process, analysts also consider the potential for shareholder engagement to encourage improved management of climate-related risks and opportunities. Our analyst team utilizes a variety of resources including: company reports, company responses to the CDP climate survey, 3rd-party ESG data providers, academic and NGO research, and, as appropriate, primary company research.

The ESG assessment (inclusive of climate-risk) is reviewed and affirmed by designated members of the Investment Committee, usually including the leader of the relevant investment strategy. The assessment is then presented to

members of the Investment Committee by the securities analyst, and, as needed, the ESG analyst. The Investment Committee, which is comprised of all portfolio managers and analysts, analyzes all material factors in its review of individual securities, including ESG considerations. Most of our investment professionals on the Investment Committee have some cross-functional experience in traditional and ESG research. The work of the Investment Committee results in a thorough assessment of a company's appropriateness for client portfolios. Individual portfolio managers are responsible for constructing portfolios from the firm's approved list of securities, taking into consideration client-specific objectives, including ESG and climate objectives.

Describe, where appropriate, engagement activity with investee companies to encourage better disclosure and practices related to climate-related risks in order to improve data availability and asset managers' ability to assess climate-related risks.

Our active ownership efforts on climate risk have been a priority that spans decades, including filing resolutions. For example, in 1990, we filed our first climate-related shareholder resolution, asking the company to commit to an environmental code of conduct called the Valdez Principles. In 1998, we filed a resolution asking an insurance company to review the potential effects of climate change on its business and financial outlook.

To leverage the impact of our active ownership initiatives we often collaborate through partnerships with other investors. Together with Ceres, CDP, and the Interfaith Center on Corporate Responsibility (ICCR), we ask companies to disclose climate-related risks, set science-based emissions reduction targets, and support—or refrain from obstructing—smart climate-related public policy.

We have tracked substantive engagement with 76 companies held in client portfolios over the last five years, with most interactions spanning two or more years. (The engagement universe as of December 31, 2018 included 267 companies.) Engagement focused on climate change governance, strategy, emissions reduction targets, and public policy. Over the five-year period, 52 of the companies improved climate policies, practices, or disclosures. Many committed to new goals, including:

- American Express- reduce absolute GHG emissions 31% and 85% by 2021 and 2040, respectively, from 2011 levels
- ConocoPhillips- reduce GHG emissions intensity (per unit of output) 5-15% by 2030 from a 2017 baseline
- Hubbell- increase energy efficiency 6% by 2020 relative to the 2016 level
- Merck- reduce absolute GHG emissions 40% by 2025 from a 2015 baseline (and procure 50% or greater of purchased electricity from renewable sources by 2025 and 100% by 2040)
- Oracle- reduce absolute GHG emissions 20% by 2020 and 65% by 2050 from the 2015 level
- PNC Financial Services- reduce absolute GHG emissions 75% by 2035 from a 2009 baseline (including a 50% renewable energy goal)

Our proxy voting record supports our engagement efforts. In 2018, we voted for all shareholder proposals that asked companies to set GHG emission reduction targets and improve climate risk disclosure.

4. Metrics/Targets

Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process. Where relevant, asset managers should also describe how these metrics have changed over time. Where appropriate, asset managers should provide metrics considered in investment decisions and monitoring. Asset managers should provide the weighted average carbon intensity, where data are available or can be reasonably estimated, for each product or investment strategy. In addition, asset managers should provide other metrics they believe are useful for decision making along with a description of the methodology used.

In April of 2018 we published for the fifth consecutive year carbon footprint metrics for our strategies using representative portfolios. The most recent report is available [here](#).

In 2018, based on the recommendations of the TCFD, we began reporting the weighted average carbon intensity of the portfolio, which normalizes emissions based on revenue. In previous years we reported the carbon footprint, which normalizes emissions based on the market value of the portfolio. In 2018 we also expanded analysis to include additional investment strategies in order to disclose carbon metrics for the majority of assets under management.

The results: Using the weighted average carbon intensity metric, our portfolios compare favorably to their benchmarks, ranging from 40 percent to 81 percent less carbon intensive.

Weighted Average Carbon Intensity (tCO ₂ e/\$million sales) as of 12/31/17					
	Small Cap	SMID Cap	Mid Cap	Large Cap	FFF Large Cap
Weighted Average Carbon Intensity—Walden	77	54	59	112	126
Weighted Average Carbon Intensity—Benchmark	166	246	308	211	211
Carbon Intensity (relative to benchmark*)	-54%	-78%	-81%	-47%	-40%
Attribution: Sector Allocation	27	-8	6	-14	-53
Attribution: Stock Selection	-115	-184	-254	-85	-33
#1 Contributing Stock	HE	HP	ED	PX	APD
#2 Contributing Stock	OGS	OGS	DLR	COP	PX
#3 Contributing Stock	CHH	CHH/NJR	OGS	UNP	UNP

Source: Boston Trust/Walden, MSCI

*In order, the benchmarks are as follows: Russell 2000®, Russell 2500™, Russell Midcap®, Russell 1000®, Russell 1000®.

Note: 4% of the small cap benchmark, by market value, discloses GHG emissions; 11% of the SMID cap benchmark discloses emissions; 37% of the mid cap benchmark discloses emissions; and 67% of the large cap benchmark discloses emissions. Boston Trust/Walden references MSCI estimates where data is not publicly disclosed.

The shortcomings of footprinting methodologies are well established. For example, most approaches do not include value chain emissions (Scope 3), which usually dwarf emissions from direct operations. The footprint also gives no indication of industry dynamics in scenarios that incorporate a price on carbon, which may help predict winners and losers. Furthermore, the underlying data do not reflect commitments companies may have made to reduce their carbon footprints going forward, or whether a company's products have a positive or negative impact from a climate perspective.

To address this final concern, in 2018 we provided a new metric: the carbon reduction commitments of companies in our Large Cap Core strategy. Forty-seven of sixty-six companies in the portfolio as of December 31, 2017 had greenhouse gas reduction goals.

In 2018, we also added the weighted average carbon intensity metric to our standard "Portfolio Characteristics" table. This table is used internally and externally to help clients and others understand how our portfolios compare to their respective benchmarks on a range of financial metrics.