



Research & Engagement Brief

Second Quarter 2017

A stunning, recent vote on a shareholder resolution filed by New York State Common Retirement Fund may signify a tipping point: 62.3 percent of shares tallied at the May 31 annual general meeting (AGM) of ExxonMobil called for a detailed report on climate change risk. Shareholders challenged ExxonMobil to analyze the impacts of achieving the globally recognized goal to restrict global temperature rise to a maximum increase of 2 degrees Celsius above pre-industrial levels. Last year, 38.1 percent voted in favor.

We think we know the reason behind the higher vote. After decades of nearly automatic support for management recommendations, a growing number of large investment managers have begun to incorporate environmental and social considerations into their proxy voting practices. Earlier this year, Walden filed resolutions at several major asset managers including BlackRock, JP Morgan, T. Rowe Price, and two Vanguard equity index funds, on their fiduciary duty to vote environmental and social issue proxy items in a thoughtful manner (see page 4). With the exception of T. Rowe Price, each firm elaborated publicly on changes to their proxy voting policies. While official reporting on how these institutions voted is not yet available, we are confident that their influence at the ballot box mattered (BlackRock and Vanguard are among ExxonMobil's largest investors).

Ironically, the ability to file shareholder resolutions is now imperiled by a provision (Section 844) in the Financial CHOICE Act of 2017, which passed in the U.S. House of Representatives in June. The Act would reverse many of the protections in the 2010 Dodd-Frank reform legislation enacted in the aftermath of the financial crisis. Had Section 844 been in effect this proxy season, New York State Common Retirement Fund's majority-winning resolution would not have been on ExxonMobil's proxy ballot.

Section 844 revises the holding requirement to file a shareholder proposal from a \$2,000 minimum investment held for one year to a threshold of one percent of a company's outstanding shares held for three years. The proposed ownership requirement would be prohibitively high for nearly all shareholders to exercise the right to file resolutions at large companies. For example, Walden clients collectively would need to hold approximately \$2.75 billion of Wells Fargo stock (as of June 30) to file the proposal we discuss on the following page—a position that is out of reach for more than 99 percent of Wells Fargo shareholders.

The Business Roundtable (BRT), an association of CEOs of major companies, is championing substantial changes to the shareholder resolution process and supports the CHOICE Act. BRT states that shareholder resolutions are used primarily by "activist investors with insignificant stakes in public companies [to] pursue social or political agendas unrelated to the interests of the shareholders as a whole." Walden, along with shareholders that control 62.3 percent of ExxonMobil shares, could not disagree more.

Our own experiences employing shareholder resolutions to engage effectively with portfolio companies on matters that are financially material and affect long-term risk demonstrate the fallacy of the BRT claim. In 1986, in our capacity as subadvisor, Walden filed the first shareholder resolution ever sponsored by a mutual fund. The action helped resolve deadlocked labor-management contract negotiations and the resolution was withdrawn before going to a vote. Since then, shareholder proposals have increasingly become an important vehicle to engage with companies and effect positive change.

While the CHOICE Act is not expected to pass in the Senate, Walden is pursuing multiple strategies to defend this crucial shareholder right.

Walden 2017 Shareholder Resolution Summary		
Topic	# Filed	Outcome (% Vote in Favor)
Lobbying Disclosure	7	7 voted (ranging from 13% to 35%)
Proxy Voting Processes	4	1 withdrawn, 1 pending, 2 voted (6% and 9%)
Board / Workforce Diversity	3	2 withdrawn, 1 voted (12%)
Inclusive EEO Policy	3	2 withdrawn, SEC allowed 1 to be omitted from proxy
Sustainability Reporting	2	2 withdrawn
Product Waste Management	2	1 withdrawn, SEC allowed 1 to be omitted from proxy
Climate Change	1	1 voted (34%)
Ethics / Risk Management	1	1 voted (22%)
Independent Chair	1	1 voted (47%)
Total	24*	

*Walden was the lead shareholder proponent on 16 resolutions.

PROXY SEASON SUMMARY

This report continues our annual practice of summarizing our shareholder resolution and proxy voting activity. We do not include company engagement via dialogues with management, which is included in other quarterly reports as well as our annual summary of the impact of shareholder engagement.

In 2017, Walden led or co-led 16 resolutions at company AGMs on a variety of environmental, social, and governance (ESG) topics and co-filed 8 more resolutions led by other investors. Eight of the 24 resolutions were withdrawn, almost all based on reaching meaningful agreements with the companies.

ENVIRONMENTAL IMPACT

Climate Change

Walden's primary focus of engagement on climate change is to encourage companies to adopt science-based greenhouse gas (GHG) reduction goals, entailing global reduction of GHG emissions by 55% by 2050 and reaching net zero emissions by 2100. A second-time resolution asking **Emerson Electric** to set science-based GHG goals received 34% support.

Product Waste Management

A proposal at **Costco Wholesale*** requesting a report on efforts to reduce and manage food waste was withdrawn with the company agreeing to increase disclosure on food waste in its next sustainability report. A proposal asking **Johnson & Johnson*** to issue a report assessing its policies for safe consumer disposal of prescription drugs to prevent water pollution and illicit drug use was allowed to be omitted from the proxy by the Securities and Exchange Commission (SEC).

SOCIAL IMPACT

Inclusive Non-Discrimination Policy

Proposals requesting that **Brown & Brown** and **NETGEAR** amend their equal employment opportunity (EEO) policies to include "sexual orientation and gender identity or expression" were successfully withdrawn. Brown & Brown modified its EEO policy and both companies posted their inclusive policies to their websites, making them more accessible to existing and prospective employees. Though a similar proposal at **CATO** was allowed to be omitted from the proxy statement by the SEC, Walden continues to encourage a more inclusive policy. Ninety-two percent of Fortune 500 firms now have inclusive EEO policies.

Workplace Diversity Disclosure

Transparency on the gender and racial composition of a company's workforce across job levels and on wage differentials can be a precursor to progress on equal employment opportunity. A third-year proposal requesting advertising company **Omnicom Group** to disclose its workforce diversity data was withdrawn when the company agreed to expand reporting, which shows progress over time for both women and people of color in management. A proposal at **American Express*** requesting that the company analyze and address any wage gap between male and female employees received 12% support.

GOVERNANCE PRACTICES

Board Composition

Walden's shareholder proposal urging **Hub Group** to take additional steps to increase board diversity was withdrawn when the company agreed to strengthen its corporate governance policies by committing to a diverse candidate pool and expanding recruitment networks.

Separating the roles of CEO and board chair is a best practice that helps ensure independent board oversight of corporate management. Close to a majority of shares (47%) supported a second-time independent chair resolution at **Express Scripts***.

Ethics

Following a highly publicized **Wells Fargo** settlement for the widespread, illegal practice of opening unauthorized deposit and credit card accounts, most shares in Walden client portfolios were sold although some were retained

2017 REPORT ON PROXY VOTING

Conscientious voting of company proxies is an essential component of an investment manager's fiduciary duty to clients. Walden has long held the view that this includes a thoughtful consideration of proxy items addressing environmental, social, and governance (ESG) policies and practices. We are certain that strong shareholder support at the ballot box has contributed to more sustainable business conduct. For Walden, proxy voting also serves as a platform to launch or buttress discussions that are at the core of our engagement activity.

Proxy resolutions are formally introduced and voted at company annual general meetings (AGMs), most of which occur in March through June. This proxy voting report summarizes voting practices beginning in January 2017 through June, representing approximately 85 percent of the current holdings in Walden client portfolios across all U.S. strategies. Most of the remaining AGMs take place in the fall.

One way to assess proxy voting practices is to consider the percentage of votes that are contrary to management recommendations. Minimal divergence from management positions could signal a process that reflexively supports corporate leadership. Overall, Walden voted against management recommendations on both management and shareholder sponsored resolutions 13 percent of the time. Importantly, different voting patterns emerge when management and shareholder resolutions are viewed separately.

Shareholder Resolutions

Virtually all resolutions addressing environmental and social topics are filed by shareholders. For these proposals, Walden voted against management recommendations 89 percent of the time. In other words, we continue to vote for, or occasionally abstain from, the vast majority of shareholder proposals.

Of the 157 shareholder proposals, more than 40 percent addressed the following 5 topics: lobbying and political spending disclosure (22 resolutions), independent board chair (14), shareholder right to call a special meeting (13), climate change (11), and proxy access that allows shareholders to nominate directors via a company's proxy statement (8).

Management Resolutions

Nearly two-thirds of all proxy votes relate to elections of directors since multiple director nominees appear on all ballots. Walden did not vote for about 6 percent of director nominees, primarily due to insufficient board diversity or for serving on too many boards ("over-boarded" directors). Notably, we did not support the full director slate at more than one-quarter of portfolio companies. We also communicate directly with companies subject to Walden's policy of withholding support for directors serving on nominating committees when companies lag on board diversity. Company executives are more likely to respond positively when they understand the rationale for votes against their recommendations.

Most proxy ballots include an annual advisory vote affirming executive compensation, known as "say on pay." Walden voted against 15 percent of executive compensation packages, usually reflecting a misalignment between performance and pay or a significant concern about the structure of the compensation plan. In a representative Walden Large Cap Equity portfolio, votes against compensation rise to 25 percent of portfolio companies. In the years since Dodd-Frank legislation mandated the advisory vote on executive pay, we have observed numerous companies reach out to investors as part of their stakeholder review process and strengthen compensation policies.

to enable shareholder engagement. A proposal** asking the bank to issue a report on improvements in its risk management and controls received 22% support. Wells Fargo's extended Statement of Opposition in the proxy statement provided substantial information that was responsive to the shareholder proposal.

Lobbying Disclosure

Comprehensive disclosure of lobbying activities helps investors assess how companies utilize shareholder capital to influence public policy as well as any risks associated with lobbying that does not align with expressed corporate goals. Along with AFSCME, Walden coordinates an investor coalition that sponsored over 50 shareholder resolutions this year. These proposals seek better lobbying policies, oversight, and disclosure on direct lobbying as well as indirect activity through trade associations and think tanks. Walden filed 7 resolutions this year, all going to a vote: **Alphabet** (formerly Google, 13% support), **AT&T** (35%), **Comcast*** (17%), **Conoco Philips** (24%), **ExxonMobil*** (28%), **International Business Machines** (27%), and **United Parcel Services** (20%).

Sustainability/ESG Reporting

Proposals seeking a report on ESG policies, performance, and goals including GHG goals at **Nordson** and **Oceaneering International** were withdrawn when the companies agreed to develop annual sustainability reporting and strengthen disclosure over time.

Vote-Counting Procedures and Proxy Voting

As highlighted previously, Walden filed resolutions at several investment firms to encourage more thoughtful proxy voting policies and practices. While these companies state publicly their commitment to incorporate ESG analysis into investment processes, they appeared to largely ignore significant environmental and social considerations raised by shareholders through proxy proposals. Resolutions at **BlackRock†** and **JP Morgan** were successfully withdrawn and a proposal at **T. Rowe Price*** received 9% support. Walden also filed resolutions with two **Vanguard** equity index funds. These resolutions are pending because, as a private company, Vanguard

can schedule a fund holder meeting at its discretion. Still, Vanguard revised its proxy voting policies in a manner that signaled greater openness to some environmental and social resolutions.

Evidence from the proxy season, including majority votes on climate change (e.g., ExxonMobil and Occidental Petroleum) and board diversity resolutions (e.g., Cognex and Hudson Pacific Properties), suggests that voting practices of these and other major money managers are beginning to improve. If true, the impact of proxy voting on corporate policies and practices could be transformative.

In addition, a third-time **Amgen*** resolution requesting vote-counting procedures that more accurately depict investor support for shareholder proposals received 6% support.

Undoubtedly, Walden's proxy voting policies and practices, in conjunction with the shareholder resolutions we file with and on behalf of clients, have contributed significantly to our past successes in company engagement. That's why we are working diligently to block passage of the Financial CHOICE Act and protect the crucial shareholder right to file resolutions. Thus far, we are optimistic that Walden and like-minded investors will prevail.

*In order, these shareholder resolutions co-filed by Walden were led by: Trillium Asset Management, As You Sow, Arjuna Capital, John Chevedden, Friends Fiduciary, United Steelworkers, Zevin Asset Management, and Investor Voice.

**Walden co-led this resolution with the Sisters of St. Francis.

†Walden assisted a client in filing this resolution, and it is not included in our overall resolution tally.