Annual Impact Report 2017

In the early months of 2017, an onslaught of pronouncements and initiatives from the new Trump Administration raised a concern that many of our company engagement priorities—environmental stewardship, workplace equality, and transparent governance—might face significant headwinds in a dramatically changed political context. Notwithstanding significant challenges, as we look back on the year in this sixth annual report on the impact of Walden's engagement, we are pleased to report substantial progress by companies held in client portfolios. On a range of environmental, social, and governance (ESG) topics, Walden's achievements continue to demonstrate that investors can be effective catalysts for improvement in corporate conduct and accountability.

WALDEN'S REACH & IMPACT IN 2017

Walden engaged 46 percent of companies held in client portfolios across investment strategies in 2017 (Table 1). These initiatives include written communications, private conversations with company representatives, shareholder resolutions, outreach through ad hoc groups of investors with common holdings, and organized coalition actions that address pertinent ESG issues across sectors or industries. Walden's primary engagement issues over the year, in order of frequency, were climate change, board diversity, sustainability (or ESG) reporting, equal employment opportunity (EEO) disclosure, LGBT EEO policies, and lobbying practices and disclosure.

More importantly, Table 2 presents the effectiveness or "impact" of this engagement—our assessment of positive corporate change observed subsequent to Walden's involvement. Expressed as the percentage of companies demonstrating improvement relative to the companies reached through engagement, Walden achieved an impact rate of 34 percent in 2017. Table 2 also shows that impact rates by primary ESG topic areas ranged from 20 to 70 percent. (See Appendix 1 for more details on impact measurement.)

What constitutes improvement in ESG performance? Unlike recording and counting the numbers of companies engaged and the issues addressed, assessing impact is a subjective process. We consider engagement to be successful when we observe progress toward one or more of three potential outcomes: better corporate policies (e.g., amending board nominating charters to include explicit consideration of gender and race), more

Table 1: Walden's Reach in 2017	
Reach	
# of Portfolio Companies Engaged	148
Reach Rate: % of Portfolio Holdings Engaged*	**46%**
Most Frequent ESG Topics (# of Companies)	
Climate Change	44
Board Diversity	40
Sustainability Reporting	23
EEO Disclosure	11
LGBT Equal Employment Opportunity	10
Lobbying Practices and Disclosure	10

Table 2: Walden's Impact in 2017	
Impact	
# of Portfolio Companies	51
Impact Rate: % of Companies Engaged (148)	**34%**
Impact Rates for Most Frequent ESG Topics	
Climate Change	23%
Board Diversity	25%
Sustainability Reporting	52%
EEO Disclosure	36%
LGBT Equal Employment Opportunity	70%
Lobbying Practices and Disclosure	20%

*There are 324 companies in the engagement universe this year. The universe includes companies held across all Boston Trust and Walden strategies and mutual funds in 2017, excluding companies that are unique to the Walden International Equity Fund. The latter holdings are currently excluded from the universe, pending an evaluation of the opportunities for engagement and strategy assets. In addition, the total includes private mutual fund company Vanguard Group since we filed and subsequently withdrew shareholder resolutions submitted for two of its mutual funds held in some client portfolios.

Read the 2016 Annual Impact Report here: http://bit.ly/2iJsv5F.

sustainable business practices (e.g., adoption of science-based GHG goals), and increased transparency (e.g., initiating or substantially improving sustainability reports).

Tables 1 and 2 do not represent the entirety of Walden's engagement activity as they exclude outreach to companies that are not held in Walden client portfolios. Such outreach often includes participation in collaborative engagements spanning entire sectors or industries (e.g., signatory to an investor coalition letter championing ethical recruitment practices among retailers). Walden also engages directly with companies not held in client portfolios if we believe there is a compelling reason to be involved. For example, helping to convince a major investment firm to consider thoughtfully environmental and social factors in their proxy voting sets the stage for other investment firms to follow suit (see page 4).

In addition, Walden's frequent practice of engaging on multiple ESG issues at a single company is obscured in the summary metrics. For example, in 2017 we had meaningful discussions about energy efficiency and board diversity at Hubbell. While the company exhibited progress on both fronts, Hubbell is counted one time in our overall reach (Table 1) and impact (Table 2) metrics. However, within impact rates by topic area in Table 2, Hubbell is counted under Climate Change and Board Diversity.

We also note the interplay between reach and impact that comes from participating in investor collaborations that involve numerous companies in a low touch approach. These partnerships, which oftentimes function to build corporate awareness, increase the reach reported in Table 1 but dilute the calculated impact rate in Table 2. For example, in 2017 we joined ShareAction's new Workforce Disclosure Initiative, a signatory letter to nearly 80 companies to encourage comparable reporting of data related to human capital management. We believe it is important for investors to signal their interest and support of this and other group initiatives, but Walden does not intend to follow up individually with each company.

The positive impact at 51 companies in 2017 demonstrates a productive year of engagement.

Reach and Impact Relative to the Sustainable Development Goals (SDGs)

The United Nations' Sustainable Development Goals (SDGs) represent 17 goals and 169 sub-targets that serve as a global framework for sustainable development through 2030. In a recent publication, Walden explained what the SDGs are, why they are important to our clients and to our role as an investment manager, and where opportunities exist for us to advance their mission. Company engagement is a central component to our approach to advancing the SDGs. In 2017, our engagement work touched on topics related to 11 out of the 17 goals. See Appendix 2 for the full list of goals.

Chart 1: Number of Companies Engaged by SDG

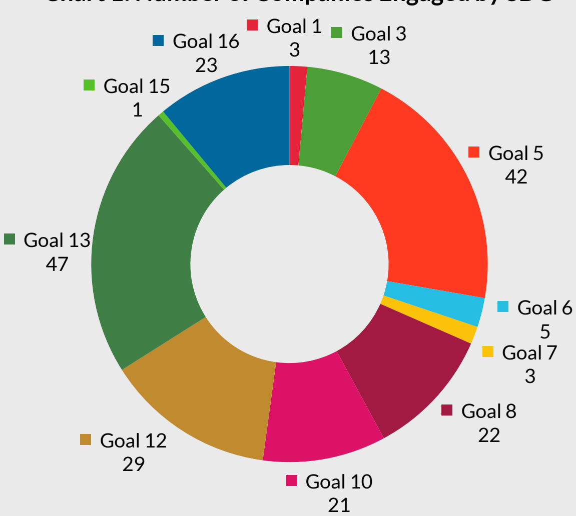
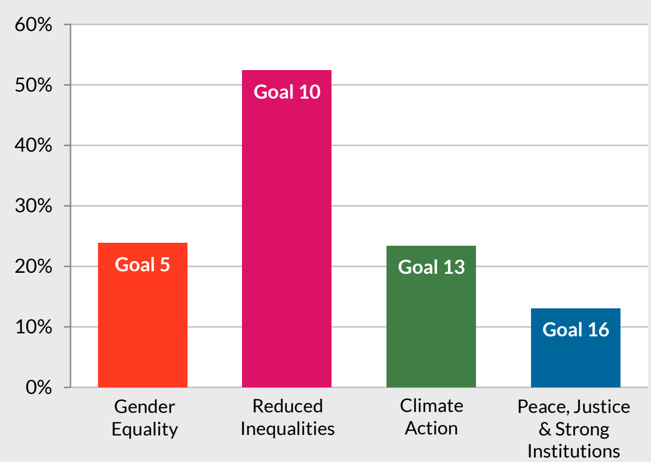


Chart 2: Impact Rate by Priority SDGs



Impact Rate is expressed as the percentage of companies demonstrating improvement relative to the companies reached through engagement. Not all Walden engagements align with the SDGs. For instance, our work encouraging companies to have separate CEOs and Board Chairs—while good governance—does not directly relate to the SDGs.

EXAMPLES OF IMPACT IN 2017

Climate Change

The Trump Administration dramatically shifted federal policy on climate change in 2017 with its announcement of the U.S. withdrawal from the global Paris climate agreement and the repeal of the Clean Power Plan, the foundation of the former Obama Administration's efforts to curb U.S. greenhouse gas (GHG) emissions. These actions and others underscore the importance of investor engagement to encourage companies to be a leading force for aggressive action to mitigate the most catastrophic consequences of climate change. Walden's focus is two-fold: We encourage companies to adopt science-based GHG goals, entailing global reduction of GHG emissions by 55% by 2050 and reaching net zero emissions between 2050 and 2100. We also seek to influence companies to support effective climate-related public policy because we believe a vocal corporate constituency is crucial for continued progress.

Mitigation Goals: Walden, both individually in company dialogues and as the leader of a collaborative initiative with ICCR that advocated science-based GHG goals, is pleased to report substantial progress as a number of portfolio companies committed to new goals in 2017:

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 procuring 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)

Climate Policy and Lobbying: Walden wrote and spoke with several corporate members of ALEC (American Legislative Exchange Council), an organization of state legislators and stakeholders that have a history of promoting model legislation that hinders progress on climate change. We asked these firms to speak publicly against an ALEC member initiative to reverse the "Endangerment Finding" of the Environmental Protection Agency (EPA). The EPA's finding that greenhouse gases endangered public health was backed by a 2007 U.S. Supreme Court decision that held greenhouse gases to be pollutants under the Clean Air Act. **Exxon Mobil** and **United Parcel Services**, among other companies, disagreed in a high profile manner and, fortunately, the initiative floundered.

Corporate Governance

Board Diversity: Despite an overwhelming investor consensus about the business benefits of diverse boards of directors, women and people of color collectively hold less than 31 percent of board seats among the largest U.S. companies (approximately 20 percent are seats held by women and 14 percent by people of color).[1] Fortunately, widespread investor engagement to foster greater board diversity has strengthened Walden's interactions with portfolio companies, which focuses on those with the lowest representation of women and people of color on their boards of directors. Our conversations seek updates on efforts to add diverse directors to the board as well as the adoption of best practice governance policies, recruitment processes, and proxy statement disclosure to assure that board diversity will improve over time.

In 2017, five companies we engaged added gender or racial diversity to their boards of directors: **Cabot Oil & Gas**, **Dorman Products**, **Eagle Bancorp**, **Monro**, and **O'Reilly Automotive**. Four other companies—**Anika Therapeutics**, **Dentsply Sirona**, **Dril-Quip**, and **Hubbell** improved their corporate governance policies and proxy disclosure on director selection processes. This generally takes the form of governance policies or charters that explicitly reference gender and race as considerations in the director nomination process as well as a corporate commitment to a diverse candidate pool.

Companies held in Boston Trust/Walden portfolios are highlighted in bold.
[1]Missing Pieces Report: The 2016 Board Diversity Census of Women and Minorities on *Fortune 500* Boards

A CLOSER LOOK: ENGAGING MAJOR INVESTMENT FIRMS

HEADLINE NEWS IN 2017

"Exxon Investors Defy Board on Climate Reporting," *Financial Times*, May 31

"Exxon Shareholders Pressure Company on Climate Risks," *Wall Street Journal*, May 31

On May 31, 2017, sixty-two percent of the shares voted at ExxonMobil's annual meeting supported a shareholder resolution asking for more disclosure on the potential impact on its operations and the value of its assets of regulations and technology to address climate change. (Similar resolutions also received majority votes at Occidental Petroleum and PPL.) While Exxon had recommended a vote against the proposal, seven months later, the company essentially agreed to new disclosure. In a year filled with numerous notable events, we believe this majority vote is remarkable.

A substantially similar resolution filed by shareholders at Exxon in 2016 did not receive majority support. What changed? In 2017, in contrast to 2016, the resolution was supported by Exxon's largest shareholders: BlackRock and Vanguard. The change of vote, of course, was the result of numerous factors.

First, 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. Fiona Reynolds, PRI Managing Director, 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 to not be complying.

Second, 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. Large investment firms, therefore, recognize it is in their direct interest to be involved in PRI and other ESG-related initiatives. Further, both asset owners and managers increasingly recognize the materiality of climate change. Turning a blind eye to climate risk could be construed as a breach of fiduciary duty.

Finally, major asset managers faced their own shareholder resolutions. Walden and several other investors 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 board of directors initiate a review and issue a report on proxy voting policies and practices related to climate change.

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 and board diversity.

Walden believes 2017 represents 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. There is more work to be done. In the coming year, Walden will continue to engage BlackRock, JPMorgan, and Vanguard. 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, we note that BlackRock and Vanguard, in particular, continue to vote against almost all environmental proposals.

We and our investor allies are in conversations with other asset managers to continue to develop a critical mass that will meaningfully consider and vote for shareholder proposals and engage on significant ESG risks and opportunities. The power of proxy voting and active ownership is substantial. Walden is working to translate that potential into transformative corporate change.

Companies held in Boston Trust/Walden portfolios are highlighted in bold.

Equality

Workforce Composition Disclosure: In 2017, Walden returned to an engagement topic that was a previous area of focus—encouraging the disclosure of workforce composition statistics as a means to increase corporate accountability on recruitment, retention, and advancement of women and people of color. We ask companies to disclose publicly data that is already collected and reported annually to the Equal Employment Opportunity Commission (the EEO-1 Report), a breakdown of employees according to specific gender, racial, and job categories. We further ask companies to provide context about their diversity and inclusion policies, programs, and challenges. We believe that this information enables investors to assess and monitor EEO progress.

The burgeoning #MeToo movement provided constructive context in many conversations with executives as there was broad agreement that greater gender equality in the workplace would foster cultural change helpful in preventing sexual harassment. Though no companies committed to disclose the full EEO-1 Report, **Discover Financial Services**, **Morningstar**, **Omnicom**, and **SunTrust** were receptive to improved reporting on diversity programs and EEO-1 metrics. (Our ongoing EEO conversation with Omnicom also addresses board diversity as the firm works its way through a multi-year refreshment process driven by its retirement age policy. In 2018, a majority of Omnicom's directors are expected to be women and people of color—a rare occurrence in the U.S.).

LGBT Workplace Equality: New federal policies delivered significant setbacks for LGBT (lesbian, gay, bisexual, and transgender) rights in 2017. Protections for transgender youth to use bathrooms of their choice in schools were rescinded; an executive order announced a military service ban for transgender individuals (later abandoned); and the Justice Department reversed the Equal Employment Opportunity Commission's previous interpretation of Title VII that protected LGBT people from workplace discrimination on the basis of sex. In this environment, Walden has continued to advocate for inclusive company EEO policies that are public and explicitly protect employees from discrimination based on sexual orientation or gender identity and expression. **Brown & Brown**, **The Ensign Group**, and **IPG Photonics** adopted more inclusive policies and posted them to their websites. **NetApp**, **Netgear**, **Paychex**, and **UniFirst** also posted inclusive EEO policies to their websites. We are gratified that companies continue to be responsive.

Walden considers engagement to be successful when we observe progress toward one or more of three potential outcomes: better corporate policies, more sustainable business practices, and increased transparency.

Sustainability (or ESG) Reporting

Walden's ongoing work to encourage meaningful measurement, management, and reporting of significant ESG risks and opportunities also bore fruit. **Dril-Quip**, **Forum Energy Technologies**, **Oceaneering International**, and **SunTrust** agreed to improve ESG disclosures and are in the early stages of reporting. **Nordson's** inaugural report was published last October and we have already provided feedback to the company for round two.

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As we look back on the year, we are generally heartened by the receptiveness of portfolio companies to Walden's input. Like us, most appear to recognize the link between good ESG performance and long-term business prosperity. We hope to continue to demonstrate the veracity of this connection in 2018 and beyond.

PUBLIC POLICY ADVOCACY

Walden believes that investors are a critical constituency to hold policymakers accountable on matters of social and environmental responsibility. In a year when the U.S. federal government has been repealing laws and regulations that protect workers, communities, and the environment, Walden remains committed to making our voice heard in the public policy arena. Despite the difficult federal policy environment, we continue to be a vocal advocate defending environmental, social, and governance (ESG)-related policies at the local, state, national, and international levels that we believe are good for society, business, and our clients' investments.

Policy advocacy takes many forms including: participation in investor coalition letters or statements to governmental entities and standard-setting organizations; responding to requests for comment on new or proposed changes to policies; and in-person visits to legislators or agencies that have direct policy-making responsibilities.

In 2017, Walden participated in more than 40 public policy actions, many led by NGOs and other stakeholders. As examples, public policy initiatives we joined called for:

- Continued support for implementing the Paris climate agreement
- Ending the use of child labor in global cocoa supply chains
- Establishing strong renewable energy and carbon reduction policies at the state level (namely California and Massachusetts)
- Improved corporate disclosure of climate risk and human capital management
- Passage of a clean DREAM Act, legislation that is not tied to other immigration-related proposals

Protecting shareholders' right to file proxy resolutions was a substantial focus of our public policy work in 2017. The Business Roundtable (BRT), an association of CEOs of major companies, called for substantial changes to the shareholder resolution process. These included increasing the requirement to file a proposal from a $2,000 minimum investment held for one year to one percent of a company's outstanding shares held for three years—a provision that would effectively bar most investors from being able to file proposals at large companies. Some of the BRT's recommendations were then included in Section 844 of the Financial CHOICE Act, which passed the House of Representatives in June but failed to gain traction in the Senate. Business groups also turned to the SEC to lobby for new, restrictive rules.

Early in the year we partnered with California pension fund CalSTRS to write numerous corporate members of BRT to explain our objections to the organization's proposals and ask them to speak favorably about the positive value of shareholder engagement. **PepsiCo** told BRT it disagreed with its position and issued a statement about the value of shareholder proposals. In March, we joined investors representing $65 trillion in assets in a letter to the Director of the National Economic Council for the Trump Administration, emphasizing the importance and efficacy of the current shareholder proposal process. In July, Walden was among 166 institutional investors, coordinated by ICCR (the Interfaith Center on Corporate Responsibility), who asked all U.S. Senators to vote against the Financial CHOICE Act. Also in July we participated in a US SIF and Ceres-organized "Lobby Day" during which we met with the offices of fifteen senators and two staff members of the Senate Banking Committee to communicate our position.

To further amplify our message and concern, Walden partnered with Pax World Management in a publication for the Harvard Law School Forum on Corporate Governance and Financial Regulation entitled "The Value of the Shareholder Proposal Process." We also assisted Ceres in documenting for the SEC the positive impact of shareholder resolutions as well as counterpoints to a U.S. Chamber of Commerce petition to change the resolution process.

While investor advocates have held the line in 2017, we expect that defending shareholders' right to file resolutions will be an ongoing battle in 2018.

Companies held in Boston Trust/Walden portfolios are highlighted in bold.

APPENDIX 1: WALDEN'S MEASUREMENT OF IMPACT

Walden is committed to developing sound processes to record, monitor, and measure the impact of our company engagement. Best practice standards call for an assessment approach that is comparable, replicable, efficacious, and transparent. While there is no common industry approach to measure and report on the impact of company engagement, we continue to refine our own processes and hope that our approach can serve as a model for other investors. We also support efforts to develop an accepted industry-wide framework for measuring and reporting on impact.

A NOTE ON PROCESS

ESG professionals at Walden are responsible for tracking, monitoring, and assessing their engagement activity in a common platform on an ongoing basis. Recording company interactions—Walden's engagement reach—is relatively straightforward. Assessment of impact in the form of improved policies, practices, or transparency is more subjective. In each reporting period, under the oversight of the Director of ESG Investing, ESG professionals review together these assessments to assure consistency. The final step is Executive Committee review and affirmation of all positive outcomes that are counted as impact.

CHALLENGES AND LIMITATIONS

With our commitment to measure and communicate impact comes the responsibility to describe significant challenges and limitations inherent in our approach. We have identified five primary challenges:

The Continuum of Progress

Corporate progress is often incremental and can span multiple years. For example, a successful engagement on greenhouse gas (GHG) emissions reduction goals may include the following company milestones: commit to set a science-based GHG goal, implement a process to obtain baseline data for analysis, establish and announce publicly a science-based GHG goal, and report on the progress toward achieving the goal. This continuum could proceed over the course of 2-3 years and then cycle through again. As long-term investors committed to report on our impact annually in calendar years, Walden "counts" significant advancements observed along this continuum (but no more than one per year), even while the engagement is expected to continue to progress in the future. The onus is on Walden to monitor and engage companies to ensure their continued progress.

The filing and withdrawal of shareholder resolutions presents a special challenge. Most shareholder resolutions are filed in the fall of the year preceding the annual general meeting in which they are introduced. For example, shareholder resolutions filed for the 2018 proxy season are generally submitted in the fall of 2017 (exceptions include companies with fiscal years that differ significantly from the calendar year). Shareholder resolutions that are withdrawn successfully through negotiated agreements sometimes occur in the final weeks of December. In these cases, we count the action and successful conclusion in both years in order to accurately reflect the results of the resolutions that we file.

Attribution

Cause and effect cannot always be isolated. While sometimes progress is primarily catalyzed by Walden's engagement, observed improvement often represents the hard work of, and collaboration with, other investors and stakeholders. For example, one successful engagement on board diversity in 2017 involved direct, private conversations with Walden as well as separate conversations with other institutional investors and the Thirty Percent Coalition (Walden co-chairs its Institutional Investor Committee). Additionally, our input and encouragement sometimes supports corporate advocates who are already committed to continuous ESG improvement or are motivated to make changes for other business reasons.

Quality vs. Quantity

Our assessment and reporting of impact treats all forms of progress equivalently. In part this neutral context is reasonable because clients have different ESG priorities. Yet efforts required by companies to improve ESG practices vary substantially (e.g., amending a corporate governance policy is significantly less time and resource intensive than developing and implementing science-based GHG goals). Also, while most of our engagement involves multiple points of contact with company representatives, our metrics do not distinguish those efforts from one-time interactions. Moreover, some progress is more transformative (e.g., encouraging successfully one of the largest global investment firms to consider environmental and social factors in its proxy voting). Hence, simplistic interpretation of Walden's reported results can blur distinctions regarding the magnitude of observed progress.

Transparency

Ideally, Walden would report publicly on each company for which we have identified progress. However, some conversations are confidential until a company announces new policies or practices. In other instances we believe that full transparency could detract from progress by jeopardizing the trust Walden has established with companies. In these annual reports, we respond to this challenge by providing a broad range of examples of impact that collectively represent the majority of positive outcomes observed over the year (companies counted appear in bold in this report).

Real World Progress vs. Corporate Change

We are mindful that corporate change defined as improvement in policies, practices, or transparency does not necessarily translate into real world impacts such as reduced GHG emissions (mitigation of global warming), fewer incidents of discrimination in the workplace, or the creation of well-paying jobs. However, we believe that corporate impact as we measure it is often a precursor to the broader progress we and our clients seek. Better ESG policies and practices should contribute to better real world outcomes. Greater transparency brings public accountability that, in turn, should also foster progress.

APPENDIX 2: THE SUSTAINABLE DEVELOPMENT GOALS