ESG Impact Report

First Quarter 2019

This quarterly ESG Impact Report (formerly known as the "ESG Research & Engagement Brief") highlights our firm's active ownership initiatives, environmental, social, and governance (ESG) research, and other pertinent news.

Equality

A glass half-full perspective would emphasize the progress of diversity and inclusion efforts by U.S. companies. But the half-empty reality is that executive suites and boards of directors remain largely the realm of white men. Women and people of color comprise approximately 30% and 15% of senior executive positions,[1] respectively, and 20% and 11% of directorships.[2] Yet, we are encouraged by recent developments that could inspire companies to make more rapid progress recruiting and advancing women and people of color within their workforces and boards of directors.

- In March, a U.S. District Court agreed that the Equal Employment Opportunity Commission (EEOC) can require data to be added to information already collected from virtually all publicly traded companies on the gender and racial composition of employees across job categories. At least for now, this stops a Trump Administration effort to block the EEOC from effective investigation and remediation of wage bias.
- California's new law mandating minimum thresholds for women directors at publicly traded, California-headquartered companies went into effect in January. By July 2021, companies with 6 or more directors must have at least 3 women on their boards. While the bill may be challenged in the courts, other states are considering similar legislation.
- The two primary proxy advisory firms, Glass Lewis and ISS, are implementing new guidance that recommends a vote against nominating committee chairs at companies with zero women directors. These changes could trigger votes against directors at over 500 Russell 3000® companies.[3]

In our 2018 Annual Impact Report published in January, we reported on significant progress on board diversity made by numerous portfolio companies following engagement prompted primarily by our proxy voting policy. Specifically, board diversity of less than 30% triggered a vote against directors serving on board nominating committees. In 2018, 18 portfolio companies increased board diversity through appointments of 22 directors who are women or people of color. Many firms strengthened governance documents and nomination processes, such as making a public commitment to diversify candidate pools.

In recognition of progress on board diversity as well as earnest commitments to dialogue, we recently updated our proxy policies to provide explicit voting flexibility at responsive companies. The result: In the 2019 proxy season, we are supporting directors serving on nominating committees at these companies that do not yet meet our board diversity threshold.

But, we do not just vote, we communicate. Before any votes were cast in 2019, we began writing to all the companies affected by our new policy to urge continued improvement and dialogue. Initial responses have been encouraging. For example, **Minerals Technologies** followed up immediately to express appreciation for our voting support, and then again shortly afterward to announce the appointment of a new woman director.

We were pleased to reach an agreement in March that led to the withdrawal of our shareholder proposal at **SEI**. The resolution sought information and metrics on workforce composition as a means to increase accountability. SEI committed to disclose annually the gender and racial make-up of employees across several job categories, including

[1] 2016 Patterns for Minorities and Women in Private Industry (EEO-1), U.S. Aggregate, EEOC.
[2] ISS U.S. Board Study (S&P 1500), Board Diversity Review, April 11, 2018.
[3] Equilar's Gender Diversity Index, https://www.equilar.com/reports/61-equilar-q3-2018-gender-diversity-index.html
Companies highlighted in bold are held in Walden representative portfolios.

executive and mid-level management. The company is also providing more information on diversity and inclusion programs. In addition, we co-filed a resolution with Zevin Asset Management asking **Alphabet**'s Board Compensation Committee to report on the feasibility of integrating diversity metrics into performance evaluations of senior executives. Out of Alphabet's top 290 managers in 2017, approximately one-quarter were women and 17 were under-represented people of color.

Climate Change

Walden recently issued a report on a two-year collaboration with the Interfaith Center for Corporate Responsibility (ICCR) to encourage companies to adopt science-based greenhouse gas (GHG) emissions targets (SBTs). The results demonstrate meaningful corporate action to mitigate and respond to climate change. Specifically:

- Nearly half of the 105 companies engaged have set SBTs, of which one-quarter were validated by the high standards of the Science Based Targets Initiative (SBTI).
- 39 companies indicate that they intend to set an SBT, with nearly half planning for SBTI validation.

Separately, we were pleased to withdraw our shareholder resolution asking **Emerson Electric** to establish GHG reduction goals. Emerson agreed to engage an environmental consultant to help it set goals and develop a plan for implementation. The company expects to provide a status update in its 2019 Corporate Social Responsibility Report.

As part of our commitment to demonstrate how we consider investment risk associated with climate change, the table above presents portfolio carbon intensity relative to their respective benchmarks across our investment strategies as of year-end. Overall, our investment strategies range from 49% to 78% less carbon intensive than their relative benchmarks, similar to last year's reported results.

For more details on our assessment, management, and mitigation of climate risk, see our 2019 report following the guidelines provided by the Task Force on Climate-Related Financial Disclosures (TCFD). We continue to note important limitations of footprint analyses such as data challenges and their failure to incorporate forward-looking GHG goals and targets.

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Table 1: Walden Portfolio Carbon Intensity

Walden Strategy	Benchmark	Weighted Average Carbon Intensity (relative to benchmark)
Large Cap Core	Russell 1000®	49% lower
Large Cap Value	Russell 1000® Value	77% lower
Mid Cap	Russell Midcap®	78% lower
SMID Cap	Russell 2500™	70% lower
Small Cap	Russell 2000®	53% lower

Source: Boston Trust/Walden, MSCI.
Note: We applied the most recent available carbon data (2017) to portfolios as of 12/31/18. Weighted average carbon intensity measured as tCO_2e/$million sales. Strategy metrics are based on a strategy's representative portfolio.

Governance

This year's investor collaboration seeking greater corporate accountability on lobbying activities, co-led by AFSCME and Walden, includes more than 70 investors and accounts for 33 shareholder proposals. To address potential reputational and financial risk associated with lobbying, we are encouraging companies to disclose lobbying payments inclusive of third parties such as trade organizations as well as their board oversight processes. We withdrew shareholder resolutions at two companies after reaching agreements to expand disclosure of lobbying practices, **JP Morgan Chase** and **Verizon** (these follow similar agreements at **AT&T** and **IBM** noted in our 2018 Annual Impact Report). Additionally, **Comcast** informed us that it is no longer a member of American Legislative Exchange Council, an influential organization with a record of opposing effective policies and regulation addressing climate risk.

Expedia, **Hub Group**, and **Texas Roadhouse** committed to strengthen reporting on management and disclosure of ESG risks and opportunities.

Protecting Shareholder Resolutions

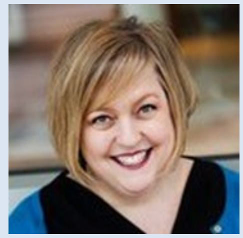
Influencing companies to integrate key sustainability issues such as climate change and equality into business strategies and to strengthen the accountability and disclosure mechanisms by which they govern them takes patience and persistence. A formal process for shareholders to express to company management and boards their priorities and concerns is of paramount importance.

In our 2018 Annual Impact Report, we discussed the critical work we are undertaking to protect the shareholder resolution process, a tool we and other investors have effectively used for decades to prompt meaningful change to corporate policies and practices across a multitude of ESG issues. Unfortunately, this tool is under attack by those seeking to curtail this shareholder right through blatant mischaracterization of the motives of investors utilizing the resolution process and sheer disregard for its effectiveness.

Recognizing how crucial this process is to our success at advancing and scaling impact, we continue to engage members of the Securities and Exchange Commission (SEC) on this issue and to collaborate with industry peers and partner organizations to preserve this shareholder right. In February, we submitted comments to the SEC making the case that most investors who engage in the shareholder resolution process are appropriately focused on protecting shareholder value and are well-attuned to their fiduciary duty. In March, we followed up with a letter to SEC Commissioner Roisman stressing that the majority of ESG-related issues represented in this year's proxies are clearly linked to the respective company's business interests, and the notable votes garnered by these issues reflect the fact that voting investors see these issues as financially relevant.

Our patience and persistence, honed over more than 40 years of active ownership, has prepared us to stay the course in protecting this essential shareholder right.

Welcome Amy Augustine



In February Amy Augustine joined the firm as Director of ESG Investing. Amy oversees our ESG research, integration, investor engagement, and proxy voting efforts. She works closely with the firm's ESG leadership team, including Heidi Soumerai, Managing Director and Tim Smith, Director of ESG Shareowner Engagement.

In her former role as Senior Director for the Company Network at Ceres, Amy advised corporations on integrating sustainability into business strategies and decision-making and led a team bringing together companies, investors, and civil society experts in face-to-face dialogues to find smart business solutions to sustainability challenges. Prior to Ceres, she worked at Calvert Investments where she helped develop the Calvert Women's Principles, the first global code of conduct focused on empowering, advancing, and investing in women worldwide, and its companion Gender Equality Principles' Initiative.