



THE SUSTAINABLE DEVELOPMENT GOALS

Walden's Framework for Incorporation and Advancement



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EXECUTIVE SUMMARY

In this paper we explain what the Sustainable Development Goals (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. There are two primary focus areas for the SDGs in our work: (1) investment decision-making, and (2) active ownership.

Every sustainable development goal is relevant to Walden's investment process. Each goal identifies an ESG risk or opportunity that can affect long-term shareholder value. On a macro level, the SDGs provide a good framework for investors and businesses to identify global systemic risks and evaluate how they contribute or provide solutions to such risks. On a micro level, the SDGs supplement our existing investment framework for assessing financial materiality.

Company engagement and strategic public policy advocacy are central to Walden's approach to advancing the SDGs. Walden prioritizes engagement on a subset of the SDGs to maximize our impact.

INTRODUCTION

The 193 nations of the United Nations General Assembly unanimously approved the Sustainable Development Goals (SDGs) in September 2015. The 17 goals and their corresponding sub-targets provide a global framework for sustainable development through 2030. The full list of goals is included in Appendix 1 on page nine.

The SDGs supersede the eight Millennium Development Goals (MDGs) that helped reduce the number of people living in extreme poverty (defined as living on less than \$1.25 a day) by more than 50 percent from 2000 to 2015. Compared to the MDGs, the SDGs are more specific. For example, the 7th goal of the MDGs, "Ensure Environmental Sustainability," has now been spread across several goals in

the SDGs, including Goal 6: "clean water and sanitation," Goal 7: "affordable and clean energy," Goal 12: "responsible consumption and production," and Goal 13: "climate action." Another key difference is that the SDGs include more stakeholders. The MDGs were widely seen to be the responsibility of governments and civil society groups. In contrast, the UN's publication "Transforming our World: the 2030 Agenda for Sustainable Development" states that in order to achieve the SDGs the "journey will involve governments as well as parliaments, the UN system and other international institutions, local authorities, indigenous peoples, civil society, business and the private sector, the scientific and academic community—and all people." This is a crucial call to action that investors should not ignore.

At Walden Asset Management, we are committed to doing our part. We recognize the SDGs as an important development in global efforts to end poverty, reduce inequality, protect the natural environment, and pursue peace and stability. We further believe that the realization of the goals will be good for our clients, their investments, and the global economy.

Walden has assessed how our work incorporates the SDGs and where opportunities exist for us to advance their objectives. In doing so, we believe that there are two primary focus areas for SDGs in our work: (1) investment decision-making, and (2) active ownership.

INVESTMENT DECISION-MAKING

The SDGs are a globally agreed upon vision for the world. As nations implement the 2030 development agenda, companies and investors will face new risks and

opportunities. Astute companies will recognize the SDGs as guidance on the likely, future regulatory environment. If a company offers a product that advances the goals, or if it manages its operations and supply chain in a way that is in-line with the SDGs, then—all else equal—it will likely be a more sustainable business long term relative to companies with operations and products that are antithetical to the goals.

The SDGs are consistent with our long-held view that environmental, social, and governance (ESG) factors can have a material impact on corporate financial performance.

We mapped the 17 goals against the three broad categories of ESG (see Figure 1) to examine the synergies between the goals and our current research process, as well as to identify areas to augment our research to better identify risks and opportunities. Admittedly, this exercise required some arbitrary decision-making given the interconnected and

Figure 1: SDGs Mapped Against Environmental, Social, and Governance Categories



We found that each sustainable development goal identifies an ESG risk or opportunity that can affect long-term shareholder value.

indivisible nature of the global goals (as explored by Appendix 2). We determined that each goal identifies an ESG risk or opportunity that can affect long-term shareholder value and is therefore a relevant consideration for Walden's investment process. The SDGs supplement our existing research framework for assessing companies, which considers a spectrum of financial outcomes that range from generally detrimental to those that are substantively beneficial: license to operate, risk reduction, operational efficiencies, competitive positioning, and new market opportunities. Examples of how the SDGs are applied in concert with Walden's materiality matrix are included in Table 1 (see page 4).

On a macro level, the SDGs address issues that are important to the successful functioning of the global economy. Climate change and increasing inequality are two examples noted below. While these issues may not be material to each individual company or industry, every company will be affected negatively should these challenges escalate at the current pace. Furthermore, nearly every company can conduct business today in a manner that increases or lessens these risks (e.g. by reducing carbon emissions or paying wages more equitably).

Climate Change

Walden believes that climate change is the world's foremost environmental challenge. Failure to address it will lead to devastating consequences, both forecast and unforeseen. More and more investors, issuers, and economists are making the case that climate change is bad for business. Moreover, several studies estimate trillions of dollars in potential future economic losses from climate change under business-as-usual scenarios. Climate change risks can be divided into two broad categories: physical risk

and transition risk. Physical risk relates to unexpected costs, loss of operations, or loss of revenue related to extreme weather events. The estimated \$300 billion¹ in direct and indirect costs associated with hurricanes Harvey, Irma, Maria, and the California wildfires in 2017 are recent examples. Transition risk relates to increased compliance and operational costs due to changes in how greenhouse gas emissions are regulated. Recognizing that climate change poses an existential, economy-wide threat, Walden seeks to identify companies that are well positioned to manage investment risks associated with climate change, and encourages companies to adopt science-based greenhouse gas reduction goals through shareholder engagement.

Inequality

In 2017, the World Economic Forum named rising income and wealth disparity as the number one trend in determining global developments over the next 10 years. Some level of inequality is to be expected in any free market economy and can serve as an incentive to catalyze innovation, entrepreneurship, savings, and investment. However, most economic research has concluded that extreme inequality leads to low or unsustainable growth. Increasing inequality has been found to degrade the skill base available in a society, which reduces labor productivity and makes it increasingly difficult for employers to find qualified employees. Furthermore, when more and more wealth is held by a concentrated minority, the majority has less disposable income to spend on economic goods. These impacts on labor force productivity and consumption can have profound negative effects on companies in the long term. Inequality may also increase social resentment, reduce trust, and fuel populist and protectionist sentiments, which can lead to political instability, further complicating the environment in which businesses operate.

The SDGs provide ambitious targets for climate action and reducing inequalities through SDG 13 and SDG 10, respectively. We believe addressing macro risk factors such as climate change, inequality, and other similar issues will foster long-term global economic growth.

¹<https://news.nationalgeographic.com/2017/09/climate-change-costs-us-economy-billions-report/>

Table 1: Investment Decision-Making: Examples of SDGs and Fundamental Analysis**License to Operate**

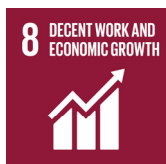
The amount of water available on earth is finite. Furthermore, only 2.5% of that total is considered to be fresh water. Fresh water is critical to human survival and is also a valuable production input for numerous industries including: energy, food and beverages, technology hardware, pharmaceuticals, healthcare, and textiles. In 2010, the United Nations affirmed that access to fresh water for drinking and sanitation is a human right. Understanding that societal demand for water for drinking and sanitation purposes will supersede corporate demand for water in circumstances when the two conflict can provide early warning regarding a company's license to operate risk. Coca-Cola is a noteworthy example: the company was forced to close a bottling factory in Northern India after allegedly extracting groundwater above legal limits while local citizens had inadequate access to fresh water for consumption and hygiene.

Risk Reduction

SDG sub-target 11.C: "support least developed countries...in building sustainable and resilient buildings" provides important risk reduction guidance for any company that sources from developing nations. Validating building structure and fire safety is an important, but often missing, component of vendor compliance programs. This was evident in the tragic 2013 collapse of Rana Plaza, an eight-story commercial building in Bangladesh, resulting in the death of over one thousand garment workers who were producing clothing for several US and European brands such as Primark and Wal-Mart. Inadequate vendor standards and processes enabled suppliers to produce garments in a hazardous environment, contributing to loss of life and reputational damage for the implicated brands.

Operational Efficiency

SDG 13: "climate action" and SDG 7: "affordable and clean energy" provide clear guidance to investors and companies about the global need to evolve toward a low-carbon economy. Companies that are proactively doing so ahead of anticipated regulation may have lower compliance costs in the future and can be more strategic with capital expenditures over a longer period of time. Walden believes that companies with strong science-based greenhouse gas reduction goals, renewable energy targets, or energy efficiency programs are best positioned to take advantage of existing and emerging opportunities from government incentives. Moreover, efficient use of resources can result in significant cost savings outright.

Competitive Positioning

According to Great Place to Work[®], the global authority on building, sustaining, and recognizing high-trust, high-performing workplace cultures, "great workplaces benefit from stronger financial performance, reduced turnover, and better customer and patient satisfaction than their peers. What's more, work environments with trust at the foundation are ripe for innovation, agility, resilience, and efficiency." Providing workers with competitive compensation is a key factor in cultivating a reputation as a great employer. Furthermore, fair compensation also demands "equal pay for equal work" irrespective of gender, age, race, or disability (SDG sub-target 8.5). In the US, differentials in compensation between gender and ethnic groups is well documented. Yet, top talent is not a homogenous group: women now earn more advanced degrees than men (a trend that has persisted for nearly a decade) and people of color make up more than a third of the US workforce. In order to continue to attract and retain the best employees, companies will need to close any gender or racial compensation gaps that exist within their operations. Already top employers such as Facebook and Google are addressing this issue. Eliminating the wage gap will not only help companies compete for top talent but will also help reduce risks and improve operational efficiencies due to reduced turnover.

New Market Opportunities

Investors can also support the SDGs by investing in companies with products or services that directly address one or more goals. According to the Business and Sustainable Development Commission, pursuit of the SDGs' objectives could unlock economic opportunities worth approximately \$12 trillion. Several SDGs highlight new market opportunities. For example, SDG 12: "responsible consumption and production" advocates for the sustainable management and efficient use of natural resources (sub-target 12.2) as well as reducing waste through prevention, reduction, recycling, and reuse (sub-target 12.5). This global goal is a tailwind for companies that provide products and solutions addressing resource efficiency. For example, IPG Photonics produces high-power fiber laser systems, which help to minimize waste compared to traditional welding on manufacturing lines.

ACTIVE OWNERSHIP

Company engagement and strategic public policy advocacy are central to Walden's approach to advancing the SDGs. The companies in which we invest client assets have vast supply chains that extend to almost every corner of the globe. We believe convincing a multi-national corporation to adopt a more sustainable policy or practice can have a positive ripple effect on communities and ecosystems around the world.

Walden's past and current engagement work aligns with the SDGs. When the SDGs were first launched in 2015, we mapped our engagement activity to the individual SDGs. In the first year of tracking this data, we found that we engaged companies on topics related to 11 out of the 17 goals. However, Walden prioritizes engagement on a subset of the SDGs to maximize our impact. Table 2 on page six identifies our priorities.

Investors also have a unique and powerful voice in policy making at the local, state, national, and international levels.

Walden's advocacy efforts in the public policy arena often link to the objectives of the SDGs (see Table 3 for more detail). Public policy initiatives also enable us to provide support for SDGs outside of our prioritized focus areas of direct engagement.

CONCLUSION

Achievement of the SDGs will be necessary to protect the long-term health and stability of global financial markets. Furthermore, pursuit of the SDGs' mission will promote positive environmental and social impacts across the globe. We believe the Sustainable Development Goals are aligned with our mission to help our clients achieve both financial growth and social and environmental impact. We will continue to incorporate the SDGs into our work and advance the objectives of the goals through investment decision-making and active ownership.

Walden's Partnerships in Support of the SDGs

In order for the SDGs to succeed, investors and businesses need to play a role. In 2016, Walden spoke on a panel at the UN Principles for Responsible Investment (UN PRI) Conference in Singapore to encourage asset owners and asset managers to start incorporating the goals into their investment decision-making and active ownership processes. Since then, Walden has also joined the UN PRI Advisory Committee on the SDGs and the UN PRI Working Group on the Sustainable Development Goals and Active Ownership. We find our partnership with UN PRI to be a valuable platform for connecting to other investors on this issue.

Investors need good data from issuers relating to the goals in order to measure their impact and benchmark progress. In September 2017, Walden spoke at an event with the "Corporate Action Group," a joint project of the UN Global Compact and GRI (formally the Global Reporting Initiative) focused on corporate reporting on the SDGs. The meeting focused on investors' perspectives and expectations from issuers on the goals.

In October 2017, Walden Asset Management and Boston Trust & Investment Management Company joined leading European investors as a signatory to the Stockholm Declaration. The Declaration took form during a meeting in May 2017 on investing for sustainable development and impact, hosted by the GRI and the UN Global Compact. The Declaration communicates investor support for the SDGs and calls for a reliable reporting framework so that companies, other issuers, and investors can better articulate their contribution to the goals. Walden is proud to be the first US-based signatory to the Stockholm Declaration.



Table 2: Active Ownership: Walden's Priority SDGs and Sub-Targets for Engagement





Goal	Detail
	<p>While the ultimate goal is to have senior leadership better reflect the workforce population at large, Walden prioritizes engagement with below average companies that have just one or no women or people of color on their boards of directors. We withhold our support for the directors serving on nominating committees at these companies and write the committee chairs as well as management to explain our rationale and engage these companies in a dialogue. In addition to the societal benefits of increasing the presence of women in leadership roles, the business case for board (and workplace) diversity includes a larger candidate pool from which to pick top talent, better understanding of consumer preferences, a stronger mix of leadership skills, and improved risk management. This engagement is consistent with SDG sub-target 5.5: "Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision making in political, economic and public life."</p>
	<p>Walden has a decades-long history encouraging disclosure of diversity metrics as a means to foster a culture of accountability and, in turn, progress in hiring and promoting women and people of color. We believe this work champions, SDG sub-target 10.2: "By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status." Our work encouraging portfolio companies to adopt public equal employment opportunity (EEO) policies that explicitly include sexual orientation and gender identity supports SDG sub-target 10.3: "Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard."</p>
	<p>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. 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. This work buttresses the objectives of SDG sub-target 13.3: "Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning."</p>
	<p>Following <i>Citizens United</i>, a 2010 Supreme Court decision that effectively opened the door to unlimited corporate money in politics in the United States, corporate political spending and lobbying accountability became a major emphasis of Walden's engagement activities. Companies have considerable influence over public policy decisions at the federal and state level through direct lobbying as well as through third party trade associations and think tanks. 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. Furthermore, unlimited corporate spending risks creating unequal representation of corporate special interests over the public interest. Our pursuit of greater transparency and accountability help to promote SDG sub-targets 16.6 and 16.7, respectively: "Develop effective, accountable and transparent institutions at all levels" and "Ensure responsive, inclusive, participatory and representative decision-making at all levels."</p>

Table 3: Select Public Policy Initiatives by Walden in 2017 and Their Connections to the SDGs

Description of Public Policy Initiative	SDG Link
Walden signed an Amicus Brief drafted by the American Sustainable Business Council to the 6th Circuit Court of Appeals	"By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes" (6.6)
Walden submitted comments to the SEC continuing our support for corporate disclosure of CEO-to-Median-Worker Pay ratio. This was in response to SEC Acting Chairman Piovoski reopening the comment period for this directive.	"Reduce inequality within and among countries" (10)
Walden has signed several statements from the Cotton Campaign supporting improved labor practices in Uzbekistan and Turkmenistan related to their annual cotton harvest. In 2017, we signed a Cotton Campaign coordinated letter to U.S. Secretary of State Tillerson, urging the U.S. government not to upgrade either Uzbekistan or Turkmenistan off of the State Department's Watch List while they continue to practice large scale, state-sponsored forced labor during the annual cotton harvest.	"Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms" (8.7)
Walden signed an investor statement on the Bangladesh Accord for Fire and Building safety urging companies on the 4th anniversary of the Rana Plaza collapse to remediate safety hazards that remain and to support the continuation of worker safety trainings to build a proactive sustainable presence in factories for the future.	"Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials" (11.C)
Walden supported California State Bill SB100, which included a 100 percent renewable energy target for 2045. In Massachusetts, we provided oral testimony at a hearing convened by the Joint Committee on Telecommunications, Utilities, and Energy expressing support for establishing a new Renewable Portfolio Standard (RPS) target of 50 percent by 2030.	"By 2030, increase substantially the share of renewable energy in the global energy mix" (7.2)

APPENDIX 1: THE SUSTAINABLE DEVELOPMENT GOALS

- Goal 1. End poverty in all its forms everywhere
- Goal 2. End hunger, achieve food security and improved nutrition, and promote sustainable agriculture
- Goal 3. Ensure healthy lives and promote well-being for all at all ages
- Goal 4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- Goal 5. Achieve gender equality and empower all women and girls
- Goal 6. Ensure availability and sustainable management of water and sanitation for all
- Goal 7. Ensure access to affordable, reliable, sustainable, and modern energy for all
- Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all
- Goal 9. Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation
- Goal 10. Reduce inequality within and among countries
- Goal 11. Make cities and human settlements inclusive, safe, resilient, and sustainable
- Goal 12. Ensure sustainable consumption and production patterns
- Goal 13. Take urgent action to combat climate change and its impacts
- Goal 14. Conserve and sustainably use the oceans, seas, and marine resources for sustainable development
- Goal 15. Protect, restore, and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation, and halt biodiversity loss
- Goal 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels
- Goal 17. Strengthen the means of implementation and revitalize the global partnership for sustainable development







APPENDIX 2: INTEGRATED AND INDIVISIBLE

The preamble to the SDGs highlights that the goals “are integrated and indivisible and balance the three dimensions of sustainable development: the economic, social and environmental.” The intertwined nature of the goals allow Walden to focus our engagement efforts and expertise on a handful of SDG targets and sub-targets while simultaneously addressing the substance of all 17

goals. The table below illustrates the interlinkages between the goals Walden has prioritized for engagement with the remaining SDG targets. Bullet points in the chart represent a connection between the SDG in the horizontal axis with those in the vertical axis.

Interlinkages between SDGs Prioritized by Walden and the 17 Goals

	5 GENDER EQUALITY 	10 REDUCED INEQUALITIES 	13 CLIMATE ACTION 	16 PEACE, JUSTICE AND STRONG INSTITUTIONS 
1	•	•	•	•
2	•	•	•	
3	•	•	•	
4	•	•	•	
5	•	•	•	•
6	•		•	
7	•	•	•	
8	•	•		•
9		•		
10	•	•		•
11			•	•
12		•	•	
13			•	
14			•	•
15			•	•
16	•	•		•
17	•			

Interlinkages based on: ngosbeyond2014.org/storage/3387Annex_interlinkages_1903.pdf