



This is the first impact report published under our refreshed brand. We believe the new corporate name reflects our reputation as a manager with a principled, integrated investment approach and leadership position in the impact investing industry. We invite you to read about our history in the *Impact Investing* section of our website, located under “Investment Services,” at [www.bostontrustwalden.com](http://www.bostontrustwalden.com).

## Board Diversity: Progress Report

A reason to celebrate: 45% of new directors on corporate boards are women as compared to 12% about a decade ago.<sup>1</sup> Without a doubt, the pace of change has improved dramatically, in part due to encouragement by investors large and small who believe board diversity is an indicator of good governance. But just beneath the surface of this positive trend lies the stark reality that US corporations have a long way to go to fully tap the richness and diversity of America’s workforce.

Where do we stand today? Among Russell 3000® companies, 19% of board seats are held by women and 10% by people of color.<sup>2</sup> Yet among the most senior executives – the top 1.6% who are generally the focus of director recruitment – women comprise 30% and people of color 15% of the positions.<sup>3</sup> Clearly, there is ample talent available for faster progress on board diversity.

Boston Trust Walden remains committed to engaging and influencing companies in client portfolios to meet this challenge. Our approach integrates proxy voting and company engagement in an ongoing, self-reinforcing process. Most conversations stem from our annual follow-up with every portfolio company that does not meet our threshold of 30% diversity, inclusive of both gender and racial and/or ethnic diversity, which generally triggers a vote against directors serving on nominating committees.<sup>4</sup> We have also supported the vast majority of shareholder proposals addressing board diversity and have sponsored many of our own over the years.

## Protecting Shareholder Rights

We remain determined to protect shareholder rights.

Two recent SEC announcements put at risk investors’ rights to exercise their fiduciary duty through responsible proxy voting and, when necessary, the shareholder resolution process.

In late August 2019, the SEC issued an interpretation stating proxy voting advice constitutes “solicitation” and as such should be governed under SEC solicitation rules<sup>5</sup> that many, including us, worry may hamper proxy advisory firms’ ability to provide independent, timely, and cost-effective research and analysis...

*Continues on page 4.*

Our “asks” of each company are specific and customized based on its corporate policies, practices, and transparency regarding board diversity. We encourage corporate governance policies that describe the value of board diversity and explicitly consider gender and race and/or ethnicity in the nomination process. We support director searches that do not limit candidates to C-suite experience, but also consider qualified individuals from academia, government, and non-governmental organizations. Robust board evaluation and refreshment practices are also key to progress. Most importantly, borrowing from the National Football League’s “Rooney Rule” process, we communicate that best practice director searches commit to include gender and racial and/or ethnic diversity in each candidate search. Finally, we ask all companies to be transparent about these policies and practices, as well as any challenges they face, through enhanced proxy disclosure.

The results of our 2019 outreach through September 30 are promising. We have written or spoken with 102 companies, or approximately 40% of US-based companies across Boston Trust Walden’s investment strategies. Just over half, 53 companies, have responded this calendar year. Many evolve into ongoing conversations with direct input on specific, proposed revisions to policies and practices. We are pleased to report that 16 companies have added one or more diverse directors and 9 others have adopted or committed to Rooney Rule disclosure.

While numerous investors engage with portfolio companies on board gender diversity, dialogues focused on racial and/or ethnic diversity appear to be far less common. In part this may be contributing to slower progress for people of color, who accounted for just 15% of new directors in 2019.<sup>6</sup> Still we have been pleased with company commitments to improve, including at those companies in our client portfolios where women account for well over 30% of directors.

When we have the ears of management on board diversity, we often raise broad questions about workforce diversity and inclusion. We know that for every woman or person of color elevated to a senior management position, so grows the pool of candidates for board director searches nationwide.

So, yes, let’s celebrate progress *and* get back to work.



## SPOTLIGHT

### Engaging Companies on Corporate Lobbying

Corporate lobbying on climate policy, both directly and indirectly through trade associations, has become a significant concern among investors. In September 2019, Boston Trust Walden co-led a global investor letter that asked 47 of the largest US publicly traded companies to align their climate lobbying with the goals of the Paris Agreement.<sup>7</sup> Our own Tim Smith, Director of ESG Shareowner Engagement, and Laura Devenney, Senior ESG Research Analyst, shared a Q&A discussion to summarize the state of play.



**Laura (moderator):** *Boston Trust Walden has been advancing responsible lobbying and political spending practices at major corporations for over a decade, recognizing that complex issues like climate change need public policy solutions to bolster company-by-company efforts. The recent investor letter to companies is indicative of that. Tim, what are the key facts to know about climate lobbying and our expectations of companies today?*

**Tim:** First, it's important to highlight the significant influence companies wield through their lobbying expenditures – a company's lobbying activity can either complement or contradict public commitments it has made on climate. Favorable or not, those activities can have a major multiplier or negating effect on the policies needed to catalyze rapid emissions reductions across the market. Despite the urgency of the climate crisis, we still see a good number of companies whose lobbying efforts are misaligned with their stated commitments to manage effectively the climate risks they are facing.

**Laura:** *Hence the recent letter that was sent to US companies.*

**Tim:** That's right. Remarkably, the letter was sent from 200 institutional investors representing \$6.5 trillion in assets under management and included a detailed expectation framework informed in large part through the leadership of our European investor peers. We were lucky to have the support of investor networks like Ceres and the PRI.

**Laura:** *The focus of the initiative is companies considered to be the largest corporate greenhouse gas emitters – or those so influential in their industries that they have the opportunity to drive the energy transition. What specific expectations have we and other investors set out for them?*

**Tim:** We presented four key expectations to them, all of which are reasonable and straightforward: a) lobby positively in line with the Paris Agreement; b) establish robust governance procedures, including board oversight, monitoring, and review of policy alignment; c) act when company policies are unaligned with public policies or positions taken by third party trade associations, and; d) be transparent and disclose the company's governance approach to climate policy.

**Laura:** *Those are straightforward expectations given the climate crisis. So, Tim, where will these engagements go from here?*

**Tim:** Company engagements will continue, of course, and we expect the issue will progress as the 2020 proxy season advances. It's crucial that companies get this right and play a constructive role in steering climate policy that protects both the planet and our clients' investment portfolios.

---

## Protecting Shareholder Rights

... In early September 2019, the SEC announced a significant change to the shareholder resolution process whereby SEC staff may choose not to publish its rulings on corporations' no-action requests seeking SEC approval to omit the resolutions from their proxies and, in fact, may not weigh in at all on certain requests.<sup>8</sup> We worry this lack of transparency and uncertainty will undermine shareholder rights and have a chilling effect on what has proven to be an effective process for shareholders to express to company management and boards of directors their priorities and concerns.

These SEC actions come at a time when nearly 200 prominent members of the Business Roundtable issued a statement on redefining “the purpose of a corporation” to include taking into account employees, customers, communities, and supply chains.<sup>9</sup> We find this situation both troubling and ironic — troubling because of the apparent disconnect between the SEC and these leading corporate executives; ironic because the Business Roundtable itself has been a vocal proponent to limit shareholder rights.

In the coming months, we will continue to prioritize efforts to preserve these essential shareholder rights through direct engagement and in partnership with industry peers.

## Resources

Corporate Lobbying Letter: <http://bit.ly/3346930>

List of Companies Receiving Letter: <http://bit.ly/2oTx42l>

## Endnotes

<sup>1</sup> ISS Analytics: U.S. Board Diversity Trends in 2019, an analysis of 2,175 Russell 3000® companies as of May 30, 2019.

<sup>2</sup> Ibid.

<sup>3</sup> 2017 EEO-1 aggregate data from the Equal Employment Opportunity Commission (most recent available).

<sup>4</sup> Excludes foreign headquartered companies, primarily in the Walden International Equity Fund.

<sup>5</sup> <https://www.sec.gov/news/press-release/2019-158>

<sup>6</sup> ISS Analytics: U.S. Board Diversity Trends in 2019, an analysis of 2,175 Russell 3000® companies as of May 30, 2019.

<sup>7</sup> <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

<sup>8</sup> <https://www.sec.gov/corpfin/announcement/announcement-rule-14a-8-no-action-requests>

<sup>9</sup> <https://opportunity.businessroundtable.org/ourcommitment/>

## Disclosures

Boston Trust Walden Company is a Massachusetts-chartered bank and trust company. The information presented should not be considered as an offer, investment advice, or a recommendation to buy or sell any particular security. The information presented has been prepared from sources and data we believe to be reliable, but we make no guarantee to its adequacy, accuracy, timeliness or completeness. Opinions expressed herein are subject to change without notice or obligation to update. Russell Investment Group is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.