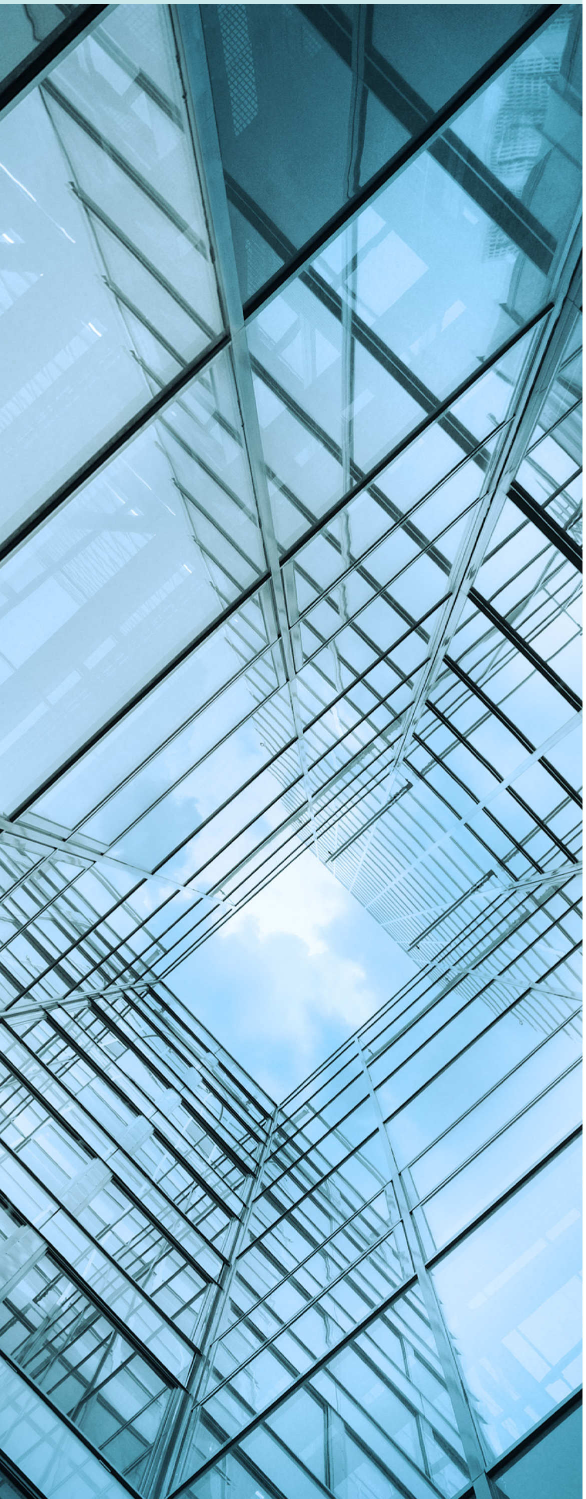
Boston Trust Walden
Principled Investing.

ESG IMPACT REPORT

Third Quarter 2020



Amidst a global pandemic, a climate crisis, and pervasive and persistent inequality, our society is at risk of losing, rather than gaining, ground. We're seeing entire regions on fire, supply chains disrupted, workers across industries losing their livelihoods, and resources that had been devoted to advancing solutions being diverted to keep the doors open and the lights on. Business as usual is no longer an option.

All of this makes our commitment at Boston Trust Walden to leveraging our active ownership and incorporation of material environmental, social, and governance (ESG) factors into investment decision-making more important than ever.

We have a long history advocating for the planet and its people—and concrete, measurable results we are proud of—yet the urgency and complexity of the issues before us require bold and swift action. In this quarterly report, we share examples of recent actions taken to accelerate progress on climate and equality, as well as the governance mechanisms that underpin it all.

COMPANY ENGAGEMENT

Shining Light on Workforce Diversity

Both the pandemic and the national debate over persistent, unequal treatment of people of color call for greater corporate transparency on human capital management, including workforce composition, hiring and promotion practices, and diversity and inclusion initiatives. With renewed urgency to address racial injustice, Boston Trust Walden recognized an opportunity to leverage and expand numerous conversations already underway with portfolio companies on board diversity.

Our longstanding practice to foster greater board diversity integrates proxy voting and company engagement in a cyclical, self-reinforcing process. Every portfolio company that does not meet our threshold of 30% diversity, inclusive of both gender and racial and/or ethnic diversity, can trigger a vote against directors serving on nominating committees. Our individualized company follow-up encourages leading practice governance policies, processes, and proxy disclosure, including public commitments to have people of color and women in each board candidate pool.

This year, we broadened each communication with portfolio companies to include a call for both board and workforce diversity disclosure, including information contained in annual "EEO-1" reports to the Equal Employment Opportunity Commission, which provide workforce demographics by job category, race, ethnicity, and gender. We explained that additional transparency ensures corporate accountability on workplace equality and provides a platform for companies to demonstrate their progress and discuss challenges. Even before the pandemic that led to a disproportionate loss of employment by people of color, national aggregate EEO-1 data painted a dire picture—despite comprising 41% of the workforce, racial and ethnic minorities represented just 25% of management positions.[1]

Results of our outreach to nearly one hundred companies thus far in 2020 demonstrate good progress on board diversity but early days on EEO-1 disclosure. Nineteen companies added 15 women directors and 8 people of color, the latter comprising Black, Latinx, and Asian directors. Eight more companies committed to include people of color and women in board candidate pools. Though improved workforce composition disclosure is in the works at just 5 companies currently, numerous constructive conversations give reason for optimism that others will follow suit. Our confidence is boosted knowing that other major institutional investors and investment firms agree. Such alignment is a great example of how impact can be scaled through collaboration.

Boston Trust Walden's journey for greater corporate accountability on workforce demographics is not new. In 1994, we brought the same message to the bipartisan [Federal Glass Ceiling Commission] created to address barriers to advancement faced by racial minorities and women—the only investment manager to testify.[2] Our efforts since have never ceased. We are hopeful momentum is finally building in a meaningful and sustainable way —and determined to do our part to ensure company rhetoric on the value of diversity and inclusion is backed up with visible, measurable action.

LEVERS WE USE TO ADVANCE EQUALITY

ESG Research & Integration

Company Engagement

Shareholder Resolutions

Proxy Voting

Public Policy Advocacy

Thought Leadership

Leading by Example

PUBLIC POLICY ADVOCACY

SEC Vote Weakens Shareholder Rights

Filing a shareholder resolution (or proposal) for a vote by all stockholders at a company's annual general meeting is among the most effective tools to foster more sustainable environmental, social, and governance (ESG) policies and practices. Resolution proponents bring the collective voice of supportive stockholders to bear on critical business issues such as climate risk, human capital management, and executive compensation. Boston Trust Walden is disappointed with a recent Securities and Exchange Commission (SEC) decision that significantly curtails this essential shareholder right. Tim Smith, our Director of ESG Shareowner Engagement worked to oppose this SEC action through his role in the Shareholder Rights Group and as co-Chair of US SIF's Public Policy Committee. We explore with Tim what happened and what remains on the horizon.

Question: A nearly two-year process that began in November 2018 when SEC Chair Jay Clayton hosted a Staff Roundtable on the proxy process culminated with an SEC vote on September 23rd instituting new rules governing shareholder resolutions. A torrent of headlines followed describing the changes as undermining the rights of shareholders. What were the most important revisions?

Tim: The stock ownership requirement to file shareholder resolutions increased substantially from $2,000 in shares held for one year to $25,000, decreasing to $15,000 and $2,000 if held for two and three years, respectively. Also, the right of investors to aggregate shares to meet the filing threshold has been eliminated. Resolution resubmission thresholds were changed to a 5% vote in the first year, 15% in the second year, and 25% in the third year (and beyond)—an aggressive shift from previously required shareholder support of 3%, 6%, and 10%, respectively.

Question: Why the alarm—do these rule changes really matter?

Taken together, the new rules represent a wholesale disenfranchisement of shareholders, markedly limiting their ability to address ESG issues with companies—issues that often can have a significant impact on the bottom line and shareholder value. Ironically, at the very same time the SEC's Office of Investor Education and Advocacy touts its focus on empowering retail investors, small investors bear the brunt of the higher dollar thresholds for filing. Dissenting Commissioner Crenshaw lamented that about three-quarters of retail accounts for most S&P 500 companies are now unable to file a proposal.[3] It's concerning since small investor proponents have often earned strong shareholder support—even a majority—at the ballot box. Because emerging ESG issues can take years to build significant shareholder support, we are equally troubled by changes to resubmission thresholds that could result in nearly 20% more proposals losing eligibility.[4] And our concerns are compounded at companies that have significant insider control or shares with unequal voting rights.

Question: Do you expect these new rules to affect how Boston Trust Walden engages with companies and files resolutions, or the impact of those efforts?

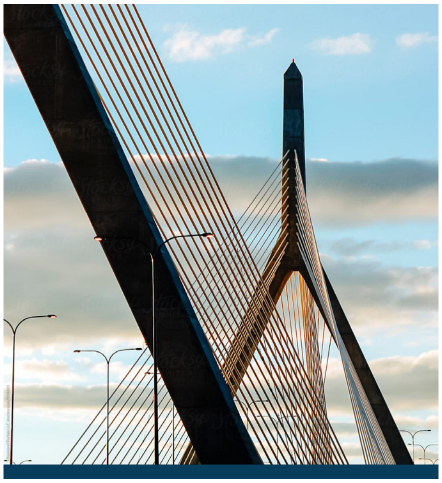
We are fortunate that our ability to file resolutions will not be affected by new stock ownership requirements. But we are disappointed that some of our clients may no longer be able to file resolutions in their names. We also expect that more of the resolutions we file will be ineligible for multiple-year submissions—a change that could provide less incentive for companies to collaborate on important ESG topics. But the greatest impact we anticipate revolves around the suppression of shareholder resolutions by smaller investors. We simply expect to have fewer voting opportunities to support improvements in ESG policies and practices. And with our rich history of successful engagement utilizing the proxy process, it is discouraging to see the rights of any shareholder abridged.

Question: Is this chapter over for now or should we expect additional changes to the proxy process?

Alas there is more to come, this time from the Department of Labor, which is proposing changes to proxy voting processes that would make it harder to integrate ESG considerations into voting decisions. While the SEC action adds restrictions to what can be put on the proxy ballot, the Department of Labor is challenging our ability to vote on proposals that appear in the proxy. A real squeeze play! Astoundingly, this is happening when addressing the climate crisis, diversity & inclusion, and human rights have never been more urgent. Yet our resolve to push back—individually and in collaboration with other investors—remains unwavering.

The new rules markedly limit shareholders' ability to address ESG issues with companies—issues that can have a significant impact on the bottom line and shareholder value.

Climate Policy in Massachusetts



We continue to seek opportunities to support the advancement of smart, equitable climate policies recognizing their role in addressing the urgency the climate crisis demands. In September, we joined an investor coalition requesting the Massachusetts Department of Public Utilities (DPU) perform an assessment of the future of the natural gas industry, including goals that also achieve a fair and equitable transition.

Similar proceedings have begun in California and New York. There is an emerging view that natural gas-reliant companies need to establish more concrete transition plans to ensure their business models are resilient for the long term—and to ensure they are aligned with the goals of the global Paris Agreement. Deliberate, early planning can also help ensure low income communities are not burdened with increased costs as higher socioeconomic communities electrify. The logic is that as the pool of gas ratepayers shrinks, remaining ratepayers will have to absorb increased costs, including the cost of maintaining increasingly outdated infrastructure. Early planning can also identify "just transition" opportunities for utility workers, avoiding unexpected job disruptions as the industry shifts.

Our request to the Massachusetts DPU is congruent with other recent policy engagements, including outreach we made to policymakers who are finalizing the Commonwealth's Net Zero climate legislation. While our public policy work at the federal level continues, we welcome these opportunities to advocate for policy change in our own backyard.

[1] 2018 EEO-1 National Aggregate Report (most recent)
[2] https://www.bostontrustwalden.com/public-disclosure-and-the-corporate-glass-ceiling
https://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1118&context=key_workplace
https://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1117&context=key_workplace
[3] https://www.sec.gov/news/public-statement/crenshaw-14a8-2020-09-23-0#_ftnref14
[4] https://www.iccr.org/sites/default/files/page_attachments/mid-year_2020_analysis_of_shareholder_proposal_outcomes_july_2020_final.pdf

Boston Trust Walden Company
1 Beacon Street, 33rd Floor
Boston, MA 02108
(617) 726-7250
www.bostontrustwalden.com