

PROFILES OF INVESTOR SYSTEMS AND RELATED APPROACHES

WALDEN ASSET MANAGEMENT (WALDEN)

Asset manager: Responsible/impact investment specialist * Headquarters: United States * AUM: US\$3 billion (2017)¹

AT A GLANCE

Among the first U.S. money management firms to specialize in responsible investment for institutional clients since its founding in 1975, Walden has been a leader in shareholder engagement with corporations on ESG-related issues and in public policy advocacy on such issues. Among issues on which it has focused in recent years are climate change, diversity, human rights, labor relations, LGBT equal employment opportunities, corporate transparency of ESG data, corporate political spending, and shareholder rights. Walden makes notable efforts to quantify and report on the impact of its engagement and security selection. Each year it reports on the progress made by companies with which it has engaged, as well as on the carbon footprints of its portfolios.

TOOLS OF INTENTIONALITY

- | | |
|--|---|
| <input type="checkbox"/> Additionality | <input checked="" type="checkbox"/> Polity |
| <input type="checkbox"/> Diversity of Approach | <input checked="" type="checkbox"/> Self-Organization |
| <input type="checkbox"/> Evaluations | <input type="checkbox"/> Solutions |
| <input type="checkbox"/> Interconnectedness | <input checked="" type="checkbox"/> Standards Setting |
| <input type="checkbox"/> Locality | <input type="checkbox"/> Utility |

ON-RAMPS

- | | |
|---|--|
| <input checked="" type="checkbox"/> ESG integration | <input checked="" type="checkbox"/> Long-term value creation |
| <input type="checkbox"/> Impact investment | <input type="checkbox"/> Universal ownership |
| <input type="checkbox"/> Investment stewardship | |

ASSET CLASSES INTEGRATED INTO

- | | |
|---|---|
| <input checked="" type="checkbox"/> Fixed income | <input checked="" type="checkbox"/> Public equities |
| <input type="checkbox"/> Infrastructure and real assets | <input type="checkbox"/> Real estate |
| <input type="checkbox"/> Private equity | <input type="checkbox"/> Venture capital |
| <input type="checkbox"/> Other | |

YEARS INTEGRATING

Walden Asset Management has incorporated responsible investment principles into its investment policies and practices since its inception **42 years** ago (in 1975), making it one of the earliest firms to publicly commit to the integration of such policies.

SYSTEMS & THEMES FOCUSED ON

- | |
|---|
| <input checked="" type="checkbox"/> Environmental |
| <input type="checkbox"/> Biodiversity |
| <input checked="" type="checkbox"/> Climate change |
| <input checked="" type="checkbox"/> Natural resources |
| <input type="checkbox"/> Oceans |
| <input type="checkbox"/> Renewable energy |
| <input type="checkbox"/> Sustainable land use |
| <input type="checkbox"/> Waste management and pollution |
| <input checked="" type="checkbox"/> Water |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Societal |
| <input checked="" type="checkbox"/> Consumer health and safety |
| <input checked="" type="checkbox"/> Corporate governance |
| <input type="checkbox"/> Corruption |
| <input checked="" type="checkbox"/> Employment, labor rights and working conditions |
| <input type="checkbox"/> Food production and security |
| <input checked="" type="checkbox"/> Human rights |
| <input type="checkbox"/> Income inequality and financial inclusion |
| <input type="checkbox"/> Infrastructure |
| <input checked="" type="checkbox"/> Social equality and diversity |
| <input type="checkbox"/> Other |
| <input checked="" type="checkbox"/> Financial |
| <input checked="" type="checkbox"/> Shareholder rights |
| <input checked="" type="checkbox"/> Stability |
| <input checked="" type="checkbox"/> Transparency |
| <input type="checkbox"/> Other |

TOOLS OF INTENTIONALITY: THE WALDEN "TIIPING" POINT

Walden has taken intentional steps to use the tools of **Standards Setting**, **Self-Organization**, and **Polity** to address a wide range of environmental, social, and governance (ESG) issues. Founded in 1975, its leaders helped to pioneer the development of responsible investment products and services for institutional investors in the United States, notably with organizations such as US SIF where it continues to play a role today. Today, Walden continues to provide leadership through its corporate engagement and public policy advocacy programs. It also incorporates numerous ESG standards and criteria into its stock selection and offers and through providing fossil-fuel-free portfolios to its clients. Serving clients who are long-term investors allows it to pursue through multi-year dialogues with corporations on issues that can improve ESG practices and public policy initiatives that support these practices. To date, such policy dialogue and advocacy has focused on issues such as CEO compensation, regulatory requirements on corporate ESG-related disclosure, and corporate political spending.

ABOUT WALDEN

As the socially responsible investment practice of Boston Trust & Investment Management Company, Walden was among the first U.S. asset managers to specialize in responsible investment. Since its inception, Walden has focused on a broad range of ESG issues in its security selection, engagement and public policy advocacy. It contends that companies “with strong ESG track records often produce good financial results” (Walden 2017a). Among the issues on which Walden has focused include:²

- Board Composition
- Climate change
- Diversity and non-discrimination
- Executive compensation
- HIV-AIDs policies
- Extractive industries operating in politically or environmentally sensitive regions
- Human rights
- Lobbying
- Political spending
- Recycling
- Vendor standard and labor practices
- Water

Boston Trust/Walden is 100% employee-owned.

APPROACHES IN PRACTICE

➤ INVESTMENT ACTIVITIES

Investment beliefs statements

Boston Trust (and Walden) “believes that ESG factors are an appropriate and material part of a comprehensive analysis of long-term investment prospects. [It] therefore believe[s] it is important to consider a company’s ESG performance as part of [its] fiduciary duty to all of [its] clients. . . [It also believes] that companies protect and enhance their long-term profitability if they integrate responsible behavior into the fabric of their business practices” (UN PRI (2016): 16). Boston Trust (and Walden) also believes that engaging with companies over long periods of time generates trust and facilitates collaboration and, ultimately, helps “foster transformative improvement in ESG performance” (UN PRI (2016): 16).

Security selection & portfolio construction

ESG considerations. Walden incorporates a variety of ESG indicators in its framework for the selection of stocks for its equity portfolios. These indicators fall into five broad areas of analysis:

- Products and services
- Environmental
- Workplace policies
- Community engagement
- Corporate governance

Fossil-fuel-free portfolios. Walden manages fossil-fuel-free portfolios for its clients. As of December 31, 2016, fossil-fuel-free clients' assets totaled nearly 16% of Walden assets under management. Throughout the rest of its portfolios, Walden does not invest in coal companies and has “relatively little exposure” to oil sands.³

Corporate engagements

Walden has prioritized engagement with the corporations in which it invests since its inception, and frequently engages on multiple issues with a single firm.

Highlights:

In 2016:

- Engaged with 147 corporations—44% of its portfolio holdings—on: climate change (41 firms); Board diversity (41); Lobbying disclosure (21); sustainability reporting (17); and LGBT equal employment opportunity (16).

In 2017:

- Filed shareholder resolutions with four major managers of mutual funds (Blackrock, JP Morgan T.R. Price and Vanguard) asking that they review and report on their proxy voting policies on climate change; withdrew two of these resolutions (Blackrock and JP Morgan) when the firms clarified their positions. In May 2017, a shareholder resolution at ExxonMobil, asking the company to issue a report on the projected impacts of climate change on its business model, received a 62% vote of support from shareholders, despite management's opposition—up from a vote of support of 38% for a similar resolution the previous year.⁴
- Along with the Interfaith Center on Corporate Responsibility, led a coalition of investors in engaging companies to adopt Science-Based Targets when working toward reduction of their greenhouse gas emissions.
- Successfully encouraged the Vanguard mutual fund company, with approximate AUM of \$4 trillion, to provide more information to the public on its voting and engagement policies and practices on issues including climate change and gender diversity. While Walden praised Vanguard's increased support for shareholder resolutions in these two areas, it noted that Vanguard “still doesn't support the vast majority of environmental and social resolutions on matters of significant concerns to a growing number of investors” (Walden (2017(c))).

Targeted investment programs

N/A

Manager selection, directives & monitoring

N/A

➤ OTHER ACTIVITIES

Participates in public policy advocacy around ESG issues

Walden participates in public policy advocacy because it “complements and strengthens [its] company engagement initiatives” (Walden (2016a): 5). In 2016, it signed on to more than two dozen letters and statements to regulators or standards setting bodies on environmental, social and governance issues, including:

- Advocating that the Securities and Exchange Commission (SEC) incorporate corporate disclosure requirements under its Regulation S-K that include data on climate risk, political spending, board and management diversity and pay equity;
- Urging President Obama to require companies with federal government contracts to report their political expenditures; and
- Commenting on the Equal Employment Opportunity Commission’s proposal for greater disclosure of wage data in its effort to close the gap in compensation that women and persons of color continue to face.

In the late 2000s, Walden played a leading role advocating for a “say on pay” requirement that would give shareholders an advisory vote on proposed compensation for corporate CEOs, a proposal that was ultimately mandated in the Dodd-Frank financial industry reform legislation of 2010.

Supports community economic development

Walden helps clients who are interested in supporting community economic development directly through deposits in community economic development banks and credit unions by including investments in Calvert Foundation Community Investment Notes and Self-Help Federal Credit Union Term Certificates.

Publishes research on social and environmental issues

Walden publishes on its website background research papers on environmental and social issues relevant to its investment policies and practices. Recent publications include ones on the topics of “Transitioning to a Low-Carbon Economy” (2016); “The Value of Carbon Footprints” (2016); “Sustainable Palm Oil: A Human Rights Imperative” (2015); and “Public Policy Advocacy: ALEC” (2014) (Walden 2017a).

➤ STAFFING

Walden has an in-house team of six dedicated to ESG research and engagement, including two director-level positions.

➤ IMPACT MONITORING & REPORTING

Engagement impact. Walden publishes an annual report on its engagement activities that provides:

- Lists of those topics most frequently engaged on;
- Number and percentage of its portfolio companies that it engaged with; and
- Its effectiveness rate—that is, the percentage of engagements for which there was positive impact.

Walden reports whether it observes positive impact from its engagement, in addition to the number of firms engaged with. In 2016 it found positive impact on issues it engaged on during the year from 45 (31%) of the companies with which it engaged—with sustainability reporting having the highest success rate (53%), followed by LGBT equal employment opportunity (38%), board diversity (29%), lobbying disclosure (19%) and climate change (17%).

Recognizing that reporting on “progress” is an imprecise concept, Walden provides definitions of the three indicators it focuses on—better corporate policies, more sustainable business practices, and increased disclosure of ESG-related information. In addition, it discusses the guidelines it uses for establishing when it can declare progress to have been made:

- Since progress can be made in increments toward a larger goal, Walden counts milestones toward that goal as progress.
- The impetus for corporate action can come from multiple inputs and collaborators with Walden. Walden does not attribute progress solely to its own initiatives.
- Some corporate actions represent more significant steps towards a goal than others, although for measurement purposes Walden counts them equally.
- On occasion, it may credit progress in transparency on the basis of private conversations with firms, before they make public their initiatives.
- Progress that it reports on corporate policies is “usually one step removed from real world impacts such as the amount of emissions avoided, a decrease in workplace discrimination incidents, or a diminution of corporate money in politics” (Walden (2016b): 3).

Carbon footprint of portfolio. For its representative small-capitalization, large-capitalization, and fossil-fuel-free portfolios, Walden quantifies and reports on their carbon footprints and compares these to the carbon footprints of the benchmark portfolios in each asset class. In 2017, it reported that relative to these benchmarks its small-cap portfolios were 72% less carbon intense and its large-cap portfolios and fossil-fuel free portfolios were respectively 66% and 63% less intense. Walden also noted several limitations to its assessment methodology, among them that “value chain emissions dwarf emissions from direct operations.” Only emissions from direct operations were included in its calculations.

Walden does not attempt to quantify the impact of its public policy initiatives.

POLICY DEVELOPMENT AND MONITORING

N/A

SUCCESSSES AND CHALLENGES

N/A

SOURCES

Lavelle, Marianne (2017). “Exxon Shareholders Approve Climate Resolutions: 62% Vote for Disclosure”. *Inside Climate News*. May 31, 2017. Accessed from <https://insideclimatenews.org/news/31052017/exxon-shareholder-climate-change-disclosure-resolution-approved> on June 21, 2017.

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Walden (2017b). *Research & Engagement Report: First Quarter 2017*. Retrieved from <http://www.waldenassetmgmt.com/News/shareholder-engagement-updates> on June 21, 2017.

Walden (2017c). “Agreement Reached: Walden Withdraws Shareholder Resolution at Vanguard on Proxy Voting” Accessed from <http://www.waldenassetmgmt.com/> on August 18, 2017.

NOTES

¹ Assets under management total US\$8 billion for Boston Trust & Investment Management Company, of which Walden Asset Management is a division. Walden represents approximately US\$3 billion of Boston Trust’s total assets. It reports that it shares with Boston Trust “the same investment team and staff, philosophy and approach” (Walden (2017a)).

² Walden also considers the following environmental and societal themes as part of its investment approach: biodiversity, oceans, renewable energy, sustainable land use, waste management and pollution, and income inequality and financial inclusion.

³ Walden (2016a).

⁴ Walden (2017b); Lavelle (2017).

Profile developed in: June 2017

Profile developed by: The Investment Integration Project (TIIP). TIIP helps institutional investors understand the big picture, or “systems-level,” context of their portfolio-level decisions. “Systems-level” events, such as economic crises, ecosystems under stress, and societies in turmoil can disrupt the best-laid plans of investors and cost them dearly. Even seemingly “local” issues are now having much greater impact than they once did as the world becomes increasingly interconnected.

TERM DEFINITIONS

What are "Tools of Intentionality"?

Tools of intentionality are specific pathways through which investors can bridge the gap between daily portfolio management decision-making and systems-level investing. Investors use these tools intentionally because the portfolio-level discipline of efficiency alone does not naturally lead them to systems-level considerations. Investors can use these tools to manage risks and rewards at systems levels and facilitate impact in a variety of ways.

What are "On-Ramps"?

On-ramps are investment approaches that represent logical extensions of the concept that investment has impact on the world at large—and on its component environmental, societal and financial systems—and that that impact can be managed to maximize these systems' wealth-creating potential in society.

What are "Asset Classes Integrated Into"?

Into which asset classes does the investor incorporate a systems-related approach?

What are "Years Integrating"?

The number of years since investor initiated systems-related approaches.

What is the "Tipping Point"?

Description of investor's primary approaches to adopting/executing system-related considerations.

What is "About"?

General description of the investor and their approach to systems-related investing.

What are "Approaches in Practice"?

How does the investor's systems-related approach manifest itself? We examine five key investment activities as well as other intentional systems-related undertakings. We also look at staffing and impact monitoring and reporting.

What are "Investment Beliefs Statements"?

Inclusion of observations about environmental, societal or governance considerations in the investor's formal investment belief statements or in more general statements of beliefs about the relevance of these considerations at portfolio or systems levels.

What are "Security Selection & Portfolio Construction"?

The incorporation of environmental, social and governance factors into individual security valuation and portfolio construction.

What are "Targeted Investment Programs"?

Creation of specialized sector or theme-based funds with an explicit environmental or social focus and the stated purpose of serving sustainable or responsible investors.

What are "Corporate Engagements"?

Communication on environmental, social and governance issues with corporations indirectly through proxy voting, or directly through individual or collaborative dialogue, the filing of shareholder resolutions, or other means in order to promote improvements in practice.

What are "Manager Selection, Directives and Monitoring"?

Incorporation of systems-related or on-ramp themes into the selection and monitoring of external managers.

What are "Other Activities"?

Additional investment policies and practices beyond those captured in key investment activities. Those intentional policies and practices that seek to achieve systems-goals are highlighted. They vary considerably across investors.

What is "Staffing"?

When information is available, this section describes investor contracting with external entities to execute systems-related approaches; internal personnel whose responsibilities exclusively or primarily include developing, executing or overseeing investor systems-related approaches; committees/groups with systems-related responsibilities; training provided to staff.

What is "Policy Development and Monitoring"?

When information is available, describes the processes undertaken by the investor to develop systems-related approaches.

What is "Impact Monitoring and Reporting"?

Discusses whether and how the investor measures and reports on the non-financial outputs, outcomes or impacts (effectiveness) of its systems-related approaches, or has plans to do so. Also whether and how the investor reports on the content of its systems-related activities.

What are "Successes and Challenges"?

Discusses the main successes and challenges reported by the investor about its systems-related approaches. This includes successes and challenges reported on a TIIP survey or in an interview, or statements describing successes and challenges in publicly available materials.