

Carleton College

One North College Street
Northfield, Minnesota 55057

January 22, 2012

Dear Mr. Weitz and Members of the Investment Committee:

Please find enclosed the 2012 Report for the Trustees from the Committee on Responsible Investment at Carleton (CRIC). This year CRIC continued with its usual initiative of reviewing, and making recommendations about, 2012 shareholder resolutions. We have, however, embarked on a new initiative, *viz.* the development of a **Proxy Voting Proposal** that we are bringing to the Investment Committee for discussion (and hopefully approval). The remainder of this letter gives an overview of each initiative.

Shareholder Resolutions

First, we are pleased to inform you that we have completed our review of 2012 shareholder resolutions. We request that the Board of Trustees Investment Committee authorize the Carleton Fund Managers to vote in favor of the following 18 shareholder resolutions affecting 13 companies:

Corporate Governance

1. *Lobbying Expenditures Disclosure* (3M, Altria Group, Coca-Cola Company, Goldman Sachs, IBM, Johnson & Johnson, Kraft Foods, PepsiCo, Union Pacific Corp., and United Health Group)
2. *Political Contributions – Trade Associations* (IBM)
3. *Legislative Risks of Aggressive Tax Strategies* (Amazon.com)
4. *Offshore Banking Secrecy Risks* (Goldman Sachs)

Environmental and Sustainability Issues

5. *Report on BPA Use* (Coca-Cola Company and Safeway, Inc.)
6. *Adopt Greenhouse Gas Reduction Goals* (ExxonMobil)
7. *Hydraulic Fracturing – Community Impact* (ExxonMobil)

Human Rights and Worker Rights

8. *Gender Identity Non-Discrimination* (ExxonMobil)

Proxy Voting Policy Proposal

This year, CRIC has put together a proposal for a **Proxy Voting Policy**. The reasons for having such a policy are explained in depth in the following report, but let us briefly explain our motivation. As the Committee is surely aware, shareholder resolutions are filed year round. CRIC, however, is only able to recommend action on a small percentage of those resolutions given the timing of their release in relation to the annual Trustees meeting in February. The purpose of the proxy voting policy is to allow CRIC to propose “Yes” votes to the Investment Office year round *on those resolutions and issues that the Investment Committee has already approved at least twice in previous years, and subsequently approved for the Proxy Voting Policy.*

To be clear, the proposed policy is not meant to replace the current system of presenting an argument for voting “Yes” to the Trustees on resolutions. It is, however, meant to restrict that process to *new* resolutions, or resolutions that the Investment Committee has only seen once. Our hope is that as the years pass, and more resolutions are approved multiple times at the February meeting of the Investment Committee, a greater number of resolutions and issues will be added to the policy after approval by the Investment Committee. Having a proxy voting policy in place will allow CRIC to work year round to help Carleton’s investments align with Carleton’s values. We look forward to discussing this proposal with you.

Proposed Proxy Voting Policy – List of resolutions and issues to be covered

1. Greenhouse Gas Reduction Goals
2. Hydraulic Fracturing (Toxic Chemicals)
3. Executive Compensation – Say on Pay
4. Political Contributions
5. Separate Chair & CEO
6. Equal Employment Opportunity

Summary

Pursuant to our mandate, we present these resolutions and the proxy voting policy after having conducted independent research and having followed the values of the Carleton community to the best of our ability. In the process of compiling this report, we based our recommendations on the responses of the survey done in the past and through our various contacts with our constituent groups.

Please find attached summaries of the resolutions, the committee’s arguments for supporting them, and the details of proxy voting policy. In order to save on paper, we have not included the *full* texts of the resolutions we discuss in the report. They are, however, available online at go.carleton.edu/CRIC2012. There you will find links to two files: “Supplementary Materials I” and “Supplemental Materials II.” The first contains the resolutions texts for shareholder resolutions we are asking you to vote “Yes” on for this year. The second contains full texts of the kinds of resolutions we are proposing be covered in a proxy voting policy.

We hope that the board accepts our recommendations in the near future and instructs the Fund Managers to vote in favor of these proxy ballots. Please let us know if you require any additional information. Thank you for your time and your consideration.

Committee Members:

Rafadi Hakim ’13 (Co-Chair)
Daniel Groll (Faculty Co-Chair)
Kristen Vellinger ’12
Christopher Clark (Staff)
Sara Hooker ’13
Mihaela Czobor-Lupp (Faculty)
Joe Concannon ’13
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CRIC REPORT FOR TRUSTEES

January, 2012

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1 Resolution Summaries

The full text for the following resolutions can be found in “Supplemental Materials I”, which is available for download at go.carleton.edu/CRIC2012.

1.1 Corporate Governance

1.1.1 Lobbying Expenditures Disclosure

Companies: 3M, Altria Group, Coca-Cola Company, Goldman Sachs, IBM, Johnson & Johnson, Kraft Foods, PepsiCo, Union Pacific Corp., and UnitedHealth Group

Resolution RESOLVED, shareholders request that the Board authorize the preparation of a report, updated annually, disclosing:

1. Company policy and procedures governing the lobbying of legislators and regulators, including that done on our company’s behalf by trade organizations. The disclosure should include both direct and indirect lobbying and grassroots lobbying communications.
2. A listing of payments (both direct and indirect, including payments to trade organizations) used for direct lobbying as well as grassroots lobbying communications, including the amount of the payment and the recipient.
3. Membership in and payments to any tax-exempt organization that writes and endorses model legislation.
4. Description of the decision making process and oversight by the management and Board for
 - (a) Direct and indirect lobbying contribution or expenditure; and
 - (b) Payment for grassroots lobbying expenditure.

For purposes of this proposal, a “grassroots lobbying communication” is a communication directed to the general public that (a) refers to specific legislation, (b) reflects a view on the legislation and (c) encourages the recipient of the communication to take action with respect to the legislation.

Both “direct and indirect lobbying” and “grassroots lobbying communications” include efforts at the local, state and federal levels.

The report shall be presented to the Audit Committee of the Board or other relevant oversight committees of the Board and posted on the company’s website.

1.1.2 Political Contributions – Trade Associations

Companies: IBM

Resolution: RESOLVED: Shareholders request that independent Board members institute a comprehensive review of IBM’s policies and oversight processes related to political spending and public policy, both

direct and indirect including through trade associations, and present a summary report by September 2012. The report may omit confidential information and limit costs. Items for review include:

- Risks and responsibilities associated with serving on boards of and paying dues to trade organizations where their positions contradict IBM's own positions.
- How IBM's Board representatives on trade associations can more effectively advocate IBM's sustainability agenda and influence policy.
- Management and Board trade association oversight processes.
- The case for IBM publicly explaining why they differ from a trade association on a priority issue.
- Review and disclosure of any direct and indirect expenditures supporting or opposing candidates, for issue ads designed to affect political races, including dues and special payments made to trade associations, such as the U.S. Chamber of Commerce.

1.1.3 Legislative Risks of Aggressive Tax Strategies

Companies: Amazon.com

Resolution RESOLVED, that shareholders of Amazon.com, Inc. ("Amazon") request that Amazon's board annually prepare a report, at reasonable cost and omitting proprietary information, disclosing its assessment of the financial, reputational and commercial effects of changes to, and changes in interpretation and enforcement of, US federal, state, and local tax laws and policy that pose risks to shareholder value.

1.1.4 Offshore Banking Secrecy Risks

Companies: Goldman Sachs

Resolution RESOLVED: Shareholders request that the board of directors annually prepare a report to shareholders disclosing the financial, reputational and commercial risks related to changes in, and changes in interpretation and enforcement of, US federal, state, local and foreign tax laws and policies, at reasonable cost and omitting proprietary information.

1.2 Environmental Policy and Sustainability

1.2.1 Report on BPA Use

Companies: Coca-Cola Company and Safeway, Inc.

Resolution RESOLVED: Shareholders request the Board of Directors to publish a report by September 1, 2012, at reasonable cost and excluding confidential information, updating investors on how the company is responding to the public policy challenges associated with BPA, including summarizing what the company is doing to maintain its position of leadership and public trust on this issue, its role in adopting or encouraging development of alternatives to BPA in can linings, and any material risks to the company's market share or reputation in staying the course with continued use of BPA.

1.2.2 Adopt Greenhouse Gas Reduction Goals

Companies: ExxonMobil

Resolution RESOLVED: Shareholders request that the Board of Directors adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations; and that the Company report to shareholders by November 30, 2012, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost.

1.2.3 Hydraulic Fracturing – Community Impacts

Companies: ExxonMobil

Resolution RESOLVED: Shareholders request that the Board of Directors prepare a report to investors by September 2012, at reasonable cost and excluding confidential or legally prejudicial data, on the short-term and long-term risks to the company's operations, finances and gas exploration associated with community concerns, known regulatory impacts, moratoriums, and public opposition to hydraulic fracturing and related natural gas development.

1.3 Worker Rights and Human Rights

1.3.1 Gender Identity Non-Discrimination

Companies: ExxonMobil

Resolution RESOLVED: The Shareholders request that ExxonMobil amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity and to substantially implement the policy.

2 Reports on Resolutions

The following CRIC reports on the above resolutions are organized by topic, so that more than one corporation may be included in a given item.

2.1 Corporate Governance

2.1.1 Lobbying Expenditures Disclosure & Political Contributions – Trade Associations

The shareholders' resolutions for Lobbying Expenditures Disclosure and Political Contributions are nearly identical and we have therefore prepared a blanket recommendation for the following companies (the value of our position as of 12/31/2011 is in parentheses):

1. 3M Company: \$ 1,134,985 (13,887 shares)
2. Altria Group, Inc.: \$ 779,100 (21,000 shares)
3. Coca-Cola Company: \$ 1,648,703 (23,563 shares)
4. Goldman Sachs Group, Inc.: \$ 821,557 (9,085 shares)
5. International Business Machines (IBM) Corp.: \$ 424,211 (2,307 shares)
6. Johnson & Johnson: \$ 399,776 (6,096 shares)
7. Kraft Foods, Inc.: \$911,584 (24,400 shares)
8. PepsiCo, Inc.: \$ 1,316,583 (19,843 shares)
9. Union Pacific Corp.: \$ 425,879 (4,020 shares)
10. UnitedHealth Group Inc.: \$ 969,914 (19,138 shares)
11. International Business Machines (IBM) Corp.: \$ 424,211 (2,307 shares)

Proposal Summary

Assumptions:

- Companies have the right to express opinions to legislators and regulators on public policy issues.
- Shareholders have the right to know about the company's influence on legislation and regulation and how these expenditures might interact with the fiscal and ethical concerns of shareholders.

Issues:

- Over a two-year period starting in 2009, the companies in the list above have spent at least \$ 3.89 million each on direct federal lobbying activities; Altria and UnitedHealth topped the list at approximately \$ 23.1 million spent on federal lobbying over two years. However, this is not a comprehensive figure on company political activities.
- Not all states require disclosure of lobbying expenditures to influence legislation or regulation.
- Under current policies, companies are not required to disclose contributions to tax-exempt organizations that write and endorse model legislation, or expenses incurred for grassroots lobbying

communication.

Shareholder Requests:

- An annually updated report disclosing company policy and procedures governing the lobbying of legislators and regulators,
- An annually updated report containing a listing of payments used for direct and indirect lobbying, including the amount of the payment and the recipient, related expenses for grassroots lobbying communications, as well as membership in any tax-exempt organization that writes and endorses model legislation.
- That these reports be presented for the Audit Committee of the Board and relevant oversight committees, and made available on the company's website.
- For IBM's resolution on trade association membership, shareholders request a report on the risks and responsibilities on serving on boards of and paying membership dues to trade associations, including a case for why the company differs from trade associations on a priority issue.

Company Response:

The 2012 Proxy Statements for these companies are not yet available, but the following are past arguments used against similar resolutions:

- In a 2011 response to a resolution on political contributions, Goldman Sachs states that it does not contribute to Political Action Committees (PAC) or other Section 527 entities, thereby remaining uninvolved in political elections.
- In a 2011 response to a resolution on political contributions, IBM and Goldman Sachs claim that they do participate in a number of trade organizations and industry groups and pay the necessary member fees and dues; there might be instances when the political views of such organizations and groups differ from that of the company.
- Protecting shareholder investments would require participation in the political process.

CRIC's Position:

After the 2010 Supreme Court ruling on *Citizens United vs. FEC*, companies can exert significantly greater influence than single persons or groups regarding access to legislators and regulators. They may also promote interests unknown and contrary to the fiscal and ethical concerns of their shareholders. Given the danger of monopoly and disproportionate influence that comes with the greater financial and political-lobbying power of companies, CRIC agrees that transparent disclosure and accountability about lobbying expenditures is both equitable and in shareholders' best interest.

Such beliefs have been gradually accommodated into industry standards, with 52 S&P 100 companies already disclosing their political contributions on their websites. Shareholders have also demonstrated sustained interest in promoting further disclosure, as resolutions on political contributions have gathered an average of 30% of votes in 2010 and 2011.

Finally, industry veteran John C. Bogle, President of Bogle Financial Markets Research Center and former chief executive and then senior chairman of The Vanguard Group has recently sent a letter to the

SEC that not only “endorse[s] without reservation the petition for corporate disclosure of political contributions presented by the Committee on Disclosure of Corporate Political Spending,” but goes further in proposing that “corporation[s] shall make no political contributions without the approval of the holders of at least 75% of its shares outstanding.”¹

CRIC believes that the level of disclosure requested in the resolutions would address the discrepancies between the companies’ stated goals and the policies developed by the tax-exempt groups that the companies support. The shareholder resolution has mentioned the following specific instances:

- While Coca-Cola aims to be a “leader in climate protection” and adopts policies on sustainable packaging and water stewardship, the company serves on the private enterprise board of the American Legislative Exchange Council (ALEC), which drafts and endorses bills against EPA regulations.²
- While Johnson & Johnson has adapted a Climate Friendly Energy Policy, the company serves on the private enterprise board of ALEC, which drafts and endorses bills against EPA regulations.
- While Kraft Foods, Inc. has adopted policies on reducing its impact on climate change, the company serves on the private enterprise board of ALEC, which drafts and endorses bills against EPA regulations.
- IBM and PepsiCo has strong environmental policies, but both companies serve on the board of the U.S. Chamber of Commerce, thereby putting dues and membership fees in ways that contradicts their environmental policies.
- Altria, UnitedHealth, Kraft Foods, and Union Pacific Railroad did not disclose their respective \$ 50,000 contribution to the 2011 annual meeting of ALEC to shareholders. ALEC is a tax-exempt group that drafts and endorses model legislation.³
- Goldman Sachs has donated more than \$8 million in the last 3 years to foundations of the U.S. Chamber of Commerce that has adopted critical positions towards growing federal financial regulation.⁴

We argue that such discrepancies between the company’s objectives and values and their concrete activities, as well as their questionable lobbying activity may pose risks to the company’s reputation when controversial positions are embraced. This might prove financially non-beneficial for the company, thus, negatively influencing our holdings.

NB: The case for IBM for the Political Contributions – Trade Associations resolution is slightly different since it specifically requests accountability from the company regarding its position as a board member of the U.S. Chamber of Commerce. Board members help determine the U.S. Chamber’s policy

¹See www.sec.gov/comments/4-637/4637-22.pdf.

²See: *EPA’s Regulatory Train Wreck: Strategies for State Legislators* (Published by the American Legislative Exchange Council (ALEC)): www.alec.org/docs/EPA-TRAIN-WRECK-2011-Final-Full-printres.pdf.

³See Zaid Jilani, “Exposed: The Corporations Funding the Annual Meeting of The Powerful Right-Wing Front Group ALEC”, Think Progress, August 5, 2011: thinkprogress.org/politics/2011/08/05/288823/alec-exposed-corporations-funding/.

⁴“Top Corporations Aid U.S. Chamber of Commerce Campaign.” The New York Times, October 21, 2010, Page A1: www.nytimes.com/2010/10/22/us/politics/22chamber.html?pagewanted=all.

position on business issues, thereby indirectly involving the company in the U.S. Chamber's partisan political activities, including lobbying against proposed EPA regulations on restricting emissions of toxic substances.⁵ Here we feel that our recommendation to support these resolutions links up additionally to Carleton values with respect to sustainability and the environment. Carleton has adopted an Environmental Statement of Principles that commits the college to be a "model of stewardship for the environment" and has set a goal to be carbon neutral in coming decades through its Carbon Neutrality Value Statement.

For the aforementioned reasons, CRIC recommends that we vote in favor of 3M, Altria, Coca-Cola Company, Goldman Sachs, IBM, Johnson & Johnson, Kraft Foods, PepsiCo, Union Pacific, and United-Health's "Lobbying Expenditures Disclosure" proposals, and IBM and PepsiCo's "Political Contributions – Trade Associations."

2.1.2 Legislative Risks of Aggressive Tax Strategies

As of 12/31/11, the value of our position in Amazon.com, Inc. is \$250,130 (1,445 shares).

Proposal Summary

Assumptions:

- Current tax strategies adopted by the company, including not collecting sales tax on items or using transfer pricing, are threatened by legislation curtailing the use of such strategies.
- Aggressive tax strategies can present both financial and reputational risks to the financial circumstances of shareholders.

Issues:

- Amazon does not charge sales tax on online purchases in the 45 states where it has no facilities.
- Amazon's tax returns from 2005 to 2010 are under scrutiny from the IRS for disputed transfer pricing policies with foreign subsidiaries that would result in an additional \$ 1.5 billion dollars in federal tax expenses.⁶
- Studies have shown a positive correlation between corporate tax avoidance strategies and firm-specific stock price crash risk.⁷

Shareholder Requests:

- To prepare a report disclosing its assessment of the financial, reputational and commercial effects of changes to, and changes in interpretation and enforcement of, US federal, state, and local tax

⁵"EPA Endangers Economy with 'Lights Out' Rule, Donohue Says." *Free Enterprise Magazine*, December 30, 2011. Published by the U.S. Chamber of Commerce: www.uschambermagazine.com/article/epa-endangers-economy-with-lights-out-rule-donohue-says.

⁶See "Form 10-Q for Quarter ended September 30, 2011." Submitted by Amazon.com, Inc. to the Securities and Exchange Commission (SEC): phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MTEyNjIzfnENoaWxkSUQ9LTF8VHlwZT0z&t=1.

⁷See "Corporate Tax Avoidance and Stock Price Crash Risk, July 2010": blogs.law.harvard.edu/corpgov/2010/08/30/corporate-tax-avoidance-and-stock-price-crash-risk/. See also "Earnings Management, Corporate Tax Shelters, and Book-Tax Alignment," January 2009, p. 20.

laws and policy that pose risks to shareholder value.

Company Response:

As of January 15, 2011, there is no official company response; however, the following are possible arguments against the proposal:

- Current company tax practices are adopted after considering local, state, and federal tax policies, and they are enacted on behalf of the company's fiduciary duty to shareholders.
- The company will continue to advocate against tax legislation changes that would be unfavorable to shareholders

CRIC's Position:

CRIC recommends that the shareholders vote in favor of this resolution on the grounds that it ascertains the security of our investment amid recent changes to online sales tax law. This resolution sends a message from the shareholders to act on recent legislation in this period of increased risk of litigation before punitive measures damage Amazon's financial status and reputation.

In light of continuing concerns over U.S. governmental budgets, changes in US federal, state, and local tax laws are likely to be proposed to curb aggressive tax strategies such as those adopted by Amazon.com, Inc. State and local governments lose an estimated \$23 billion a year due to uncollected taxes on electronic commerce, and \$ 100 billion in U.S. tax revenue is lost to shifting corporate incomes.⁸

Current political situations in California and in Minnesota, for instance, are likely to support bills introducing taxes to online sales.⁹ Amazon.com has faced financial threats of litigation in the past, with the Texas Deputy Comptroller charging company for \$ 269 million in back sales taxes in 2010.¹⁰ Future expansion of the company's operations in the U.S. might be severely restricted if risks from pursuing current tax strategies are unaccounted.

Additionally, CRIC supports the encouragement of online retailers to collect sales tax, considering the substantial hole created in states' tax bases. There is a form of corporate responsibility to contribute to the states they conduct business in regardless of physical presence.

For the aforementioned reasons, CRIC recommends that we vote in favor of this Amazon.com Inc proposal.

2.1.3 Offshore Banking Secrecy Risks

As of 12/31/11, the value of our position in Goldman Sachs Group, Inc. is \$821,557 (9,085 shares)

⁸"States look to internet taxes to close budget gaps," AP, June 19, 2011: cnsnews.com/node/96669.

⁹See "A Post Labor Day Look at Amazon's Jobs and Tax Strategy," *Forbes*, September 5, 2011: www.forbes.com/sites/janetnovack/2011/09/05/a-post-labor-day-look-at-amazons-jobs-and-tax-strategy/. See also "Internet Sales Coming to Minnesota?" Fox News 9, Twin Cities, January 11, 2012: www.myfoxtwincities.com/dpp/news/internet-sales-tax-mn-jan-11-2012.

¹⁰See "Amazon's Tax Evasion Strategies Hurts State Budgets," *The Fiscal Times*, June 8, 2011: www.thefiscaltimes.com/Columns/2011/06/08/Amazons-Tax-Evasion-Strategy-Hurts-State-Budgets.aspx#page1.

Proposal Summary

Assumptions:

- The transparency, credibility, and public purpose of the disclosure policies adopted by major financial institutions continue to be questioned by the public, putting a reputational, if not financial, risk to the company.
- Undisclosed offshore banking practices could withhold vital information regarding company accounts and executive bonuses from shareholders and public auditors.

Issues:

- Goldman Sachs has set up a company offshore in the British Virgin Islands called Goldman Sachs Services Ltd. (GSSL), which was involved in a £million tax avoidance controversy in the United Kingdom.¹¹
- Goldman Sachs has come under public light for its lack of transparency regarding its involvement in the recent financial crisis, and the company has paid \$ 550 million in a civil fraud settlement regarding controversial mortgage securities to the SEC in 2010.
- Recent investigations from the US Department of Justice's Offshore Compliance Initiative resulted in approximately 150 investigations of offshore-banking clients, of which 36 client cases have been charged, with 31 guilty pleas having been entered, 2 convicted after trial, and 5 awaiting trial.¹²

Shareholder Requests:

- An annual report disclosing the financial, reputational and commercial risks related to changes in, and changes in interpretation and enforcement of, US federal, state, local and foreign tax laws and policies, at reasonable cost and omitting proprietary information.

Company Response:

As of January 15th, 2012, there is no official proxy statement from the company regarding this resolution, yet the following are likely arguments against the shareholder proposal:

- The company has ensured that shareholders have an advisory vote over the amount and options of executive compensation packages.
- The company complies with the banking disclosure policies of every country in which it operates.

CRIC's Position:

CRIC recommends that the shareholders vote in favor of this resolution to ascertain the security of our investment amidst recent negative public attitudes and legal scrutiny toward the compensation practices of major financial corporations. In addition to reputational risks, recent studies in financial economics

¹¹See "Goldman Sachs' Interest Tax Avoidance," *The Guardian*, October 11, 2011: www.guardian.co.uk/business/2011/oct/11/goldman-sachs-interest-tax-avoidance. See also "Goldman Sachs 'Escaped Paying £20 million National Insurance Bill in HMRC Deal,'" *The Telegraph*, October 11, 2011: www.telegraph.co.uk/finance/newsbysector/banksandfinance/8821083/Goldman-Sachs-escaped-paying-20m-National-Insurance-bill-in-HMRC-deal.html.

¹²See "Offshore Compliance Initiative", U.S Department of Justice Internet portal: www.justice.gov/tax/offshore_compliance_intiative.htm.

within the past decade have shown a positive correlation between corporate tax avoidance strategies and firm-specific stock price crash risk.¹³

Proposed bills against the abuse of tax havens by corporations have been introduced in July 2011 in the Senate and the House of Representatives, and future investigations initiated by the Department of Justice are likely to impose further reporting burden on private corporations. It would therefore be in Goldman Sachs' best financial interests to move toward instituting better disclosure practices before legislation is instituted.

For the aforementioned reasons, CRIC recommends that we vote in favor of Goldman Sachs Group, Inc.'s "Offshore Banking Secrecy Risks" proposal.

2.2 Environmental Policy and Sustainability

2.2.1 Report on BPA Use

As of 12/31/11, the value of our position in the following companies is:

1. Coca-Cola Company: \$1,648,703 (23,563 shares)
2. Safeway, Inc.: \$815,931 (38,780 shares)

The two shareholder resolutions and available company responses are nearly identical, and we have therefore prepared a blanket recommendation for the companies listed above. **Proposal Summary**

Assumptions:

- Shareholders have a right to corporate transparency concerning the management of potentially harmful chemicals in food packaging. The use of these chemicals could result in negative public opinion, as well as widespread food safety concerns and repercussions harmful to both the shareholders and company.

Issues:

- Bisphenol A (BPA) is a potentially hazardous chemical used in the epoxy linings of Coca-Cola canned beverages and Safeway store brand canned goods. BPA can leach into food and beverages, resulting in human exposures. BPA has been linked to increased occurrences of reproductive defects, heart disease, and diabetes. Experts are particularly concerned about BPA's risks to fetuses, infants and small children.
- The use of BPA poses regulatory, reputational and legal risk. This is evidenced by class action lawsuits against other companies contending that they "failed to adequately disclose BPA's risks." With the European Union, China and Malaysia banning BPA in baby bottles in 2011 and Canada adding BPA to its list of toxic substances in 2010, public doubt is spreading about the integrity of companies using such chemicals.
- Hain Celestial, ConAgra, and H.J. Heinz currently use BPA alternatives, and Nestle and Kroger have

¹³See "Corporate Tax Avoidance and Stock Price Crash Risk: Firm Level Analysis." *Journal of Financial Economics*, Vol. 100: 639-692. Published by the Simon School of Business at the University of Rochester.

publically committed to going completely BPA-free in the near future. General Mills and Campbell's are conducting research on additional alternatives to BPA can linings.

Shareholder Requests:

These resolutions call for a report, excluding confidential information, to be published by September 2012 in order to update investors on actions these companies have taken to adopt or develop BPA alternatives, and to address public policy challenges and reputational risks involving the continued use of BPA.

Company Response:

Neither company has yet responded to these resolutions for the 2012 cycle. However, CRIC was able to find Coca-Cola's response to a nearly identical resolution in 2011, and its Board recommended a vote against the resolution (which nonetheless received 25.05% in favor) for the following reasons:

- The board felt that as much information as can be shared without divulging proprietary information has already been supplied on the company's website, and that an additional report would be redundant.
- They claim that they are "confident about the safety of [their] aluminum cans" and that they will continue "to take whatever steps are necessary, based on sound scientific evidence, to ensure that any package [. . .] is safe for consumers".¹⁴

CRIC's Position:

CRIC agrees that the safety warnings and media coverage of the negative effects of BPA are of the utmost concern to shareholders and the general consumer community. Companies continuing to use such chemicals in can linings are not only risking the health of consumers, but their reputations. Health organizations such as the Breast Cancer fund have spearheaded high profile consumer campaigns against companies maintaining their usage of BPA, and Coca-Cola and Safeway have not been immune to this negative publicity.¹⁵

CRIC feels that Coca-Cola and Safeway's stance that BPA is safe for can linings in the face of government bans due to toxicity, studies linking BPA to endocrine disruption, and competitors' actions to move to alternatives will likely affect these companies' bottom lines, consequently negatively impacting Carleton's holdings. Therefore, a report updating shareholders and holding these companies accountable to their shareholders for their actions in relation to BPA would be both in Carleton's fiduciary interest and in the interest of the health of the Carleton community and shareholders in general.

For the aforementioned reasons, CRIC recommends that we vote in favor of Coca-Cola Company's and Safeway Inc.'s "Report on BPA Use" proposals.

¹⁴See "Coca-Cola Company 2011 Proxy Statement": www.thecoca-colacompany.com/investors/2011_coca-cola_proxy.pdf.

¹⁵See "Which companies use BPA-free cans to package food?," USA Today, October 21, 2010: content.usatoday.com/communities/greenhouse/post/2010/10/companies-use-bpa-free-cans/1.

2.2.2 Adopt Greenhouse Gas Reduction Goals

As of 12/31/11, the value of our position in ExxonMobil Corporation is \$323,698 (3,819 shares). **Proposal**

Summary

Assumptions:

- ExxonMobil has a responsibility to do everything that they can to employ practices to reduce greenhouse gas (GHG) emissions which are known to adversely affect the environment and human health and welfare. Investors would like ExxonMobil to take leadership in developing cost effective solutions because the company plays such a critical role in our energy markets.

Issues:

- ExxonMobil emits GHG as a result of their operations and by the use of their products.
- Human sources of greenhouse gas emissions are expected to rise in the future because of demand.¹⁶
- Rising greenhouse gas emissions pose significant risks to our society and to our ecosystems.¹⁷
- Meeting the world's energy needs and being able to reduce GHG emissions in a cost effective manner.

Shareholder Requests:

- Adopt quantitative goals to reduce emissions from the company's products and operations.
- Submit a report to the shareholders by November 30, 2012.

Company's Response:

- The company has made incremental investments in energy efficiency and flaring reductions.
- ExxonMobil has set specific targets environmental performance in recent years.
- Global efforts are needed to address climate change will require large reductions from their industry.
- Their operations focus on five key levers to reduce GHG emissions: flare reduction, energy efficiency, cogeneration of power and steam, carbon capture and storage (CCS), and production efficiency.¹⁸
- The Exxon Board recommended that shareholders vote against the proposed resolution because the Board does not believe that setting absolute emissions goals is the most effective way to manage climate risks; rather, they feel it is essential to apply ExxonMobil's technical and management capabilities to meet growing demand for energy efficiently and to pursue technical solutions to address greenhouse gas emissions.

CRIC's Position:

¹⁶See "Climate Change –Greenhouse Gas Emissions": epa.gov/climatechange/emissions/index.html.

¹⁷See "ExxonMobil – Managing long-term climate risks": www.exxonmobil.com/Corporate/safety_climate_mgmt.aspx.

¹⁸"Current and Near-Term Greenhouse Gas Reduction Initiative": epa.gov/climatechange/policy/neartermghgreduction.html.

The shareholders requested the same resolution in 2011 which received 26.5% of stockholder support.

ExxonMobil has set goals for reducing their greenhouse gas emissions, but these goals do not do enough to protect the environment from the impact of global warming and the harm that is caused by GHG emissions that are released into the atmosphere because of their operations and the use of their products by consumers. More cost effective strategies should be put in place to further both environmental and clean energy goals while achieving public health and economic benefits.¹⁹ We would like to see ExxonMobil develop and implement a more comprehensive strategy based on current and new technologies for reducing our carbon footprint in a cost effective manner.

Numerous Federal agencies have launched initiatives to reduce greenhouse gas emissions intensity. These initiatives address market barriers, accelerate the adoption of proven technologies and practices and deliver substantial emissions reductions. We would like to see ExxonMobil articulate a clear and cohesive business strategy for wide scale emissions reductions.

Carleton's Carbon Neutrality Value Statement affirms the College's commitment to reduce greenhouse gas emissions and recognizes that global warming is one of the greatest local and global challenges of our time. Carbon neutrality is a priority for our community and we support resources and research that leads to technological and behavioral change.

For the aforementioned reasons, CRIC recommends that we vote in favor of ExxonMobil's Adopt Greenhouse Gas Reduction Goals proposal.

2.2.3 Hydraulic Fracturing – Community Impacts

As of 1/15/12, the value of our position in ExxonMobil Corporation is \$323,698.44 (3819 shares).

Proposal Summary

Assumptions:

- Fiduciary responsibility dictates that shareholders have a right to information that affects the ethical and financial position of the business.
- Companies should not employ practices that harms the health of surrounding communities

Issues:

- ExxonMobil Corporation practices hydraulic fracturing as a means of energy extraction
- Hydraulic fracturing has become highly controversial. Concern about water sources, toxic chemicals and wastewater has led to new regulations in several states and proposed federal legislation.
- Hydraulic fracturing represents a potential danger to residents in surrounding areas. Health risks include contaminated drinking water and effects on the sensory system although no coherent long term study on health risks is available.²⁰
- Pittsburgh banned natural gas drilling within city limits. New York State imposed a moratorium. Maryland banned drilling until the conclusion of a two year study.

¹⁹"Mitigating Greenhouse Gas Emissions": www.exxonmobil.com/Corporate/safety_climate_action.aspx.

²⁰Schmidt, Charles. "Blind rush? Shale gas boom proceeds amid human health questions." *Environmental Health Perspective*. 119.8 (2011): A348-53. 15 Jan, 2012: www.ncbi.nlm.nih.gov/pmc/articles/PMC3237379/?tool=pubmed.

- The 2005 Energy Policy Act stripped the EPA of its ability to regulate hydraulic fracturing.
- EPA is the middle of undertaking a full report on the effects of hydraulic fracturing. It will release a preliminary report in 2012.

Shareholder Requests:

- The Board of Directors is to prepare a report for investors by September 2012, at reasonable cost and excluding confidential or legally prejudicial data, on the short term and long term risks hydraulic fracturing poses to the company's operations.
- This report should pay due attention to community concerns, known regulatory impacts, moratoriums, and public opposition to hydraulic fracturing and related natural gas development.

Company Response:

- ExxonMobil has addressed previous stakeholder concerns by emphasizing government and independent studies that find that hydraulic fracturing poses no inherent risk to water supplies.
- ExxonMobil also emphasizes its role as the chair of the American Petroleum Institute working group which produces best practice guidelines.

CRIC's Position:

When companies have failed to establish good environmental standards it has resulted in litigation and bad publicity. This theme is prevalent in the history of the industry. A lawsuit in Alabama in 1994 resulted in the regulation and virtual shutdown of a coal bed methane operation. The case against the Pacific Gas and Electric Company in California in 1993 received significant public attention and was immortalized by the film *Erin Brockovich*.²¹

Another lawsuit was filed in March, 2011 against a comparable company in New York related to hydraulic fracturing.²² These lawsuits are an unnecessary threat to both the companies and their investors that could be avoided were the companies to review the environmental impacts of their operations.

Future political action may bring about even greater costs if the companies continue to operate as they are doing. The Obama Administration is widening the EPA's mandate, allowing the EPA broader powers of regulation. Furthermore, after the 2004 EPA study, which found no major problems with hydraulic fracturing, new findings have found chemicals attributable to hydraulic fracturing, and a new study is being conducted by the EPA, which will be released this year.²³

Lastly, this issue is of great importance to the Carleton community. Carleton's Carbon Neutrality Value Statement affirms the College's commitment to reduce its greenhouse gas emissions, and its Environmental Statement of Values emphasizes Carleton's efforts toward increased sustainability. In a 2010 survey, 89.5% of Carleton students, faculty, and staff said they would support a resolution that encour-

²¹See "Asbestos in Power Plants", published by The Mesothelioma Center: www.asbestos.com/power-plants/pacific-gas-and-electric.php.

²²See "Well-Known Plaintiff's Firm Files Lawsuit Against Gas Exploration Company in Upstate New York," Kelley Drye & Warren LLP, March 14, 2011: www.frackinginsider.com/litigation/hydraulic-fracturing-fracking-during-natural/.

²³See "Natural Gas Extraction — Hydraulic Fracturing," Environmental Protection Agency online portal: www.epa.gov/hydraulicfracture/.

ages a company to enact policies that create greater transparency and full disclosure of their activities that may affect the environment.

We believe that creating a report that would give ExxonMobil a proverbial “leg up” and allow them to stay competitive by providing an opportunity for them to assess potentially implement cost-saving policies.

For the aforementioned reasons, CRIC recommends that we vote in favor of ExxonMobil Corporation’s hydraulic fracturing proposal.

2.3 Worker Rights and Human Rights

2.3.1 Gender Identity Non-Discrimination

Gender Identity Non-Discrimination

As of 12/31/11, the value of our position in ExxonMobil Corporation is (still): \$323,698 (3,819 shares).

Proposal Summary

Assumptions:

- Corporations that prohibit discrimination on the basis of sexual orientation and gender identity have a competitive advantage in recruiting and retaining employees.
- Employment discrimination on the basis of sexual orientation and gender identity diminishes employee morale and productivity. Because state and local laws are inconsistent with respect to employment discrimination, our company would benefit from a consistent, corporate wide policy to enhance efforts to prevent discrimination, resolve complaints internally, and ensure a respectful and supportive atmosphere for all employees. ExxonMobil will enhance its competitive edge by joining the growing ranks of companies guaranteeing equal opportunity for all employees.

Issues:

- ExxonMobil does not explicitly prohibit discrimination based on sexual orientation and gender identity in its written employment policy.
- Over 89% of the Fortune 500 companies have adopted written nondiscrimination policies prohibiting harassment and discrimination on the basis of sexual orientation, as have more than 95% of Fortune 100 companies, according to the Human Rights Campaign. Nearly 70% of the Fortune 100 and 43% of the Fortune 500 now prohibit discrimination based on gender identity or expression.
- Twenty-one states, the District of Columbia and more than 160 cities and counties, have laws prohibiting employment discrimination based on sexual orientation; 12 states and the District of Columbia have laws prohibiting employment discrimination based on sexual orientation and gender identity. ExxonMobil has operations in, and makes sales to institutions in states and cities that prohibit discrimination on the basis of sexual orientation.

Shareholder Requests:

The Shareholders request that ExxonMobil amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity and to substantially implement the policy.

Company Response:

As of yet, there is no response to the 2012 proposal. However, the same proposal has been filed at ExxonMobil every year from 2000 to 2011. Here is a summary of ExxonMobil's response to the same resolution in 2011:

- ExxonMobil values contribution values employees and is already committed to maintain a working environment free from harassment and discrimination; therefore, based on existing policies, the Board believes the proposal is unnecessary.
- The Company administers all employee-related policies, programs, and practices in a nondiscriminatory manner as stated in the following documents:
- Company policies already exist on Equal Employment Opportunity (EEO) and Harassment in the Workplace in the Standards of Business Conduct.
- A statement by the Chairman is accessible to all employees on the Company intranet.
- Harassment training material included in the Working Together booklet includes an example specifically based on sexual orientation.
- Annual reporting and compliance procedures include a letter to all senior managers emphasizing their responsibilities regarding maintaining work environments free from harassment and discrimination
- The Company has amended its policies as appropriate in countries where national laws require specific language.

CRIC's Position:

ExxonMobil has consistently refused to take action or to put a tangible plan in place, despite resolutions from shareholders each year from 2001 to 2011. In 2011, this proposal failed to pass but received 19.9% of the vote; in 2009, 39.3%; in 2008, 39.6%; in 2007, 37.8%. 2010 voting results were not made public. 2012 will be the twelfth year of this resolution.

We do not feel that requiring ExxonMobil to amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity will cause the company any undue financial hardship. ExxonMobil states in its own defense that it is already following these policies; therefore, requiring them to follow these same policies by putting them in writing would only be consistent with their stated existing policies.

We feel that the fact that ExxonMobil refuses to put these policies in writing and has received undue negative publicity for not doing so hurts the image of the company. In fact, ExxonMobil's record on this issue has won it the distinction of getting a negative rating in 2012—the lowest awarded—by the Human

Rights Campaign (HRC), the leading advocate of LGBT rights in the United States.²⁴ In 2010 and in every report in the ten years that the HRC has ranked companies, ExxonMobil has continuously received a zero rating.

As of 2011, 89% of the other Fortune 500 companies have put sexual orientation non-discrimination policies in writing, while 50% have adopted written policies on gender identity non-discrimination;²⁵ should ExxonMobil do so, it would enhance the public perception of the company and contribute to its competitive edge.

Furthermore, proponents of this resolution state that for all of ExxonMobil's positioning, it does not effectively ban discrimination and harassment based on sexual orientation or gender identity until it includes these classifications in its global policy. This request has been made for more than a decade in concert with other shareholder proponents from the social investing community.

ExxonMobil's position is in contrast to Carleton's Community, Equity, and Diversity Initiative (CEDI) and its Statement on Diversity. In the 2010 CRIC campus survey, over 58% of respondents agreed or strongly agreed that "Carleton's 'Statement on Diversity' commits the College to 'creating a diverse campus community, including diversity of gender identities and sexual orientations,' and that they would support a resolution requiring companies to commit to similar diversity in their workplaces and executive boards."

For the aforementioned reasons, CRIC recommends that we vote in favor of ExxonMobil's Gender Identity Non-Discrimination proposal.

²⁴ See "Corporate Equality Index 2012". Published by the Human Rights Campaign: issuu.com/humanrightscampaign/docs/corporateequalityindex_2012.

²⁵See n. 24.

3 Proposed Proxy Voting Policy

Rationale

Over the course of the past few years, CRIC has been exploring various ways to increase committee effectiveness. One of CRIC's primary tasks is to provide recommendations on shareholder proposals. However, most proposals are filed in early spring (February to April). So, while the Investment Committee has been quite generous in allowing CRIC to present at the annual February meeting, the timeline is such that we are only able to seek approval for resolutions filed before January 1st, a fraction of the total resolutions filed per year. Therefore, instead of engaging with the endowment's 200-odd direct holdings, we are able only to vote resolutions for 15 to 20 companies.

Many institutions, including pension funds and universities, have increased proxy voting efficiency by developing a *proxy voting policy*, which outlines their position on environmental, social and governance issues. Notable organizations with such policies include:²⁶

- Brown University
- Columbia University
- University of Pennsylvania
- Swarthmore College
- TIAA-CREF
- CalPERS
- Connecticut State Treasury

CRIC realizes that the implementation of such a policy is a significant request, and would require extensive review and debate. Therefore, we thought it best to begin gradually, using past approved votes to draft related policies on specific issues. Given that the Investment Committee has already approved “yes” votes on these resolutions at least twice, we feel it would be a redundant and inefficient use of the Committee's time to continue submitting the same requests.

Proposed Policy

Below you will find a record of past resolutions and issues that have received a “yes” vote from the College at least twice.²⁷ On the basis these past votes, CRIC has drafted the following policy, which will cover the resolutions and issues listed below as well as all future resolutions and issues accepted for inclusion by the Investment Committee:

PROPOSED PROXY POLICY: For all resolutions and issues that appear on a PROXY VOTING LIST approved by the Investment Committee, the College will vote YES assuming that CRIC has done

²⁶Links to the full text of some of these policies, and one full example of such a policy, are in Appendix I (below p. 28).

²⁷An example of a full resolution of each kind discussed below can be found in “Supplemental Materials II”: go.carleton.edu/CRIC2012.

due diligence to determine that there are no extenuating circumstances.

If approved, CRIC would review each resolution for which there is a pre-approved guideline, determine how to vote, and submit the vote request directly to the Investment Office. This would take place over the entire course of the proxy voting season. For resolutions that have not yet been approved by the Investment Committee, a full argument would be submitted to the Investment Committee at the February board meeting, as has been the case in the past. At the end of the proxy voting season, CRIC would submit to the Investment Committee a list of all submitted votes, during which time the Investment Committee can raise any concerns, and the policy can be adjusted accordingly (to either add or remove resolutions and issues from the list).

In the following pages, we make the case for inclusion of the following resolutions and issues, which have received at least two “Yes” votes from the College, on the PROXY VOTING LIST:

1. Greenhouse Gas Emission Reduction Goals (p. 19)
 - Resolutions requiring disclosure of GHG emissions and on resolutions requiring reasonable action to reduce GHG emissions.
2. Hydraulic Fracturing (Toxic Chemicals) (p. 21)
 - Resolutions requesting disclosure to stockholders of information about the risks and impacts of hydraulic fracturing and policy options for dealing with any potential risks and impact.
3. Executive Compensation – Say on Pay (p. 22)
 - Resolutions requesting an advisory vote on executive compensation.
4. Political Contributions (p. 23)
 - Resolutions requesting reporting on political contributions.
5. Separate Chair & CEO (p. 25)
 - Resolutions requesting that the Board adopt a policy requiring the Chair of the Board of Directors to be an independent member of the Board.
6. Equal Employment Opportunity (p. 26)
 - Resolutions requesting the adoption and reporting of anti-discriminatory policies based on race, gender, gender identity, sexual orientation, and national origin.

3.1 Environmental Policy

3.1.1 Greenhouse Gas Emission Reduction Goals

In the past two years, the Investment Committee has approved “yes” votes for 4 resolutions involving the adoption of greenhouse gas reduction goals:

1. ExxonMobil, Inc. (Adopt Greenhouse Gas Emission Goals)
2. Dover Corp. (Climate Change Report—Carbon Disclosure Project)

3. Mirant Corp. (Electric Power—Greenhouse Gas Report)

In every case, the language of the resolution has been as follows (or something very much like it):

THEREFORE, BE IT RESOLVED: Shareholders request that the Board of Directors adopt quantitative goals, based on current technologies, for reducing total greenhouse gas emissions from the Company's products and operations; and that the Company report to shareholders by September 30, 2011, on its plans to achieve these goals. Such a report will omit proprietary information and be prepared at reasonable cost.

Legislation governing the emission of greenhouse gases has been developed by the European Union, as well as several other nations, and it is likely that legislation of this kind will be created in the next few years both in the United States and internationally. It would therefore be in the Companies' best interest financially to move toward instituting better environmental practices before legislation is instituted. These resolutions, while taking into account the current role of fossil fuels in the energy sector, were based on the following arguments:

- According to the U.S. Environmental Protection Agency endangerment finding under the Clean Air Act in December 2009, carbon dioxide and other greenhouse gases, if continuously produced at current levels, are threatening to human health and welfare.
- Although the exact mechanism of upcoming domestic and international climate policy remains unclear, companies will secure their long-term fiscal security by taking steps to anticipate tighter governmental regulations on GHG emissions.
- Incremental investments in energy efficiency, while commendable, are insufficient in addressing the risks of changing climate policies.
- Company disclosure of emissions and related policies on emission reduction goals are vital for shareholder assessments of corporate strengths in the context of climate change risks.
- These resolutions have gathered a sustained amount of shareholder support with votes of approximately 40% for resolutions filed at Dover Corp. and Mirant Corp., and 26.52% for the resolution filed at ExxonMobil, Inc. In the case of ExxonMobil, Inc., numerous shareholder proposals concerning company adoption of GHG emission reduction targets have been filed every year since 2007, thereby indicating that shareholders are still concerned about appropriate company action on climate change policies.
- Resolutions of this nature are in line with Carleton's Environmental Statement of Principles and the Carbon Neutrality Value Statement, which affirm the College's commitment to reduce its greenhouse gas emissions. In a 2010 survey, 89.5% of Carleton students, faculty, and staff said they would support a resolution that encourages a company to enact policies that create greater transparency as well as a full disclosure of company activities that may affect the environment.

Assuming that CRIC has done due diligence to determine that there are no extenuating circumstances, we ask that the College vote YES on all resolutions requiring disclosure of GHG emissions and

on resolutions requiring reasonable action to reduce GHG emissions.

3.1.2 Hydraulic Fracturing (Toxic Chemicals)

In the past two years, CRIC has recommended support of six resolutions directed at 5 companies with respect to disclosing information about the environmental and fiscal risks and impacts of hydraulic fracturing and the policy options for dealing with those risks:

1. El Paso Corp.
2. ExxonMobil Corporation
3. EnCana Corporation
4. EOG Resources, Inc.
5. Williams Companies

In each case, the language of the resolution has been a version of the following:

THEREFORE BE IT RESOLVED: Shareholders request that the Board of Directors prepare a report by Fall 2011, at reasonable cost and omitting confidential information such as proprietary or legally prejudicial data, summarizing 1) known and potential environmental impacts of the Company's fracturing operations; 2) policy options for our company to adopt, above and beyond regulatory requirements and our company's existing efforts, to reduce or eliminate hazards to air, water, and soil quality from fracturing operations; and 3) management's evaluation of the potential magnitude of material risks, short and long term that this issue may pose to the company's finances or operations.

The board of trustees has approved CRIC's recommendation of support for each resolution upon the basis of these arguments:

- When companies have failed to establish good environmental standards it has resulted in litigation and bad publicity. This theme is prevalent in the history of the industry. A lawsuit in Alabama in 1994 resulted in the regulation and virtual shutdown of a coal bed methane operation. Another lawsuit was filed in November, 2009 against a comparable company in Pennsylvania related to hydraulic fracturing. These lawsuits are an unnecessary threat to both the companies and their investors that could be avoided were the companies to review the environmental impacts of their operations.
- Future political action may bring about even greater costs if the companies continue to operate as they are doing. Legislation being considered in the US House and Senate, and the New York State legislature would improve hydraulic fracturing regulation. The Obama Administration is widening the EPA's mandate, allowing the EPA broader powers of regulation. Furthermore, after the 2004 EPA study, which found no major problems with hydraulic fracturing, new findings have found chemicals attributable to hydraulic fracturing, and a new study is being conducted.

- Other companies are planning to release the chemicals used in hydraulic fracturing. We believe that creating a report would give our companies a proverbial “leg up” and allow them to stay competitive by providing an opportunity for them to develop and potentially implement cost-saving policies.
- Lastly, this issue is of great importance to the Carleton community. Carleton’s Carbon Neutrality Value Statement affirms the College’s commitment to reduce its greenhouse gas emissions, and its Environmental Statement of Values emphasizes Carleton’s efforts toward increased sustainability. In a 2010 survey, 89.5% of Carleton students, faculty, and staff said they would support a resolution that encourages a company to enact policies that create greater transparency and full disclosure of their activities which may affect the environment.

Assuming that CRIC has done due diligence to determine that there are no extenuating circumstances, we ask that the College vote YES on all resolutions requesting disclosure to stockholders of information about the risks and impacts of hydraulic fracturing and policy options for dealing with any potential risks and impacts.

3.2 Corporate Governance

3.2.1 Executive Compensation – Say on Pay

In 2010, the Investment Committee approved “yes” votes for Executive Compensation–Say on Pay resolutions at 10 companies, listed below:

1. American Express Company
2. Coca-Cola Company
3. CVS Caremark Corporation
4. EnCana Corporation
5. Goldman Sachs Group Inc.
6. IBM Corporation
7. Johnson & Johnson
8. PepsiCo, Inc.
9. Raytheon Company
10. Wal-Mart Stores, Inc.

In each case, the language of the resolution has been a version of the following:

RESOLVED — the shareholders of American Express recommend that the board of directors adopt a policy requiring that the proxy statement for each annual meeting contain a proposal, submitted by and supported by Company Management, seeking an advisory vote of shareholders to ratify and approve the Compensation Committee’s Report and the executive compensation policies and practices set forth in the Company’s Compensation Discussion and Analysis.

These resolutions were approved on the basis of the following arguments:

- Executive pay is ballooning unacceptably and is insufficiently linked to performance. As of 2005, the average CEO pay was 369 times that of the average worker.
- An advisory vote of this kind would provide the board with helpful information on shareholder views.
- Industry standard: Already, 30 major companies including Apple, Ingersoll Rand, Microsoft, Occidental Petroleum, Pfizer, Prudential, Hewlett-Packard, Intel, Verizon, MBIA and PG&E have agreed to such an advisory vote, in addition to 300 TARP participants who implemented it in 2009. In the UK, this procedure has been in place for all companies since 2003.
- A bill mandating annual advisory votes is under consideration by Congress, but we would like these companies to demonstrate leadership on this issue before the law mandates it.
- Executive pay that rewards short-term gains rather than longer-term stability is arguably one of the factors in the recent economic downturn, which has negatively affected the Carleton endowment and thus the operation of our institution on nearly every level. In our most recent campus survey nearly three-quarters of the Carleton community strongly supported a resolution that encourages companies to create increased accountability on the issue of executive compensation. More generally, CRIC believes that shareholders should be entitled to vote on any issue that affects shareholder returns and CEO compensation is certainly one of those issues. Thus, CRIC agrees with the resolution that existing means are too weak, and that an advisory voice can indeed be useful.

Assuming that CRIC has done due diligence to determine that there are no extenuating circumstances, we ask that the College vote YES on all resolutions requesting an advisory vote on executive compensation.

3.2.2 Political Contributions

In 2011, the Investment Committee approved “yes” votes for resolutions on Political Contributions at 6 companies, listed below:

1. 3M (Sexual Orientation Discrimination)
2. EOG Resources, Inc.
3. Goldman Sachs Inc.
4. Home Depot Inc.
5. IBM (Global Warming)
6. Occidental Petroleum (Global Warming)

In each case, the language of the resolution has been a version of the following:

RESOLVED, that the shareholders of Goldman Sachs (“Company”) hereby request that the Company provide a report, updated semi-annually, disclosing the Company’s:

1. Policies and procedures for expenditures made with corporate funds to trade associations and other tax-exempt entities that are used for political purposes (“indirect” political contributions or expenditures).
2. Indirect monetary and non-monetary expenditures used to participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, and used in any attempt to influence the general public, or segments thereof, with respect to elections or referenda. The report shall include:
 - (a) An accounting through an itemized report that includes the identity of the recipient as well as the amount paid to each recipient of the Company’s funds that are used for political contributions or expenditures as described above; and
 - (b) The title(s) of the person(s) in the Company who participated in making the decisions to make the political contribution or expenditure.

The report shall be presented to the board of directors’ audit committee or other relevant oversight committee and posted on the Company’s website.

These resolutions were approved on the basis of the following arguments:

- A number of companies made political contributions recently and experienced very negative publicity for doing so. Shareholders are asking for more transparency on this issue.
- Industry standard: Over 75 S&P 500 companies now disclose political expenditures on their website, including half of the S&P 100. Shareholder resolutions urging such disclosure averaged more than 30% in favor in 2010, indicating strong concern.
- In the case of 3M, it “donated \$100,000 to MN Forward, a group created in the wake of the Supreme Court decision to collect donations by corporations (Wall Street Journal 8/7/10) to influence the outcome of 2010 state races. MN Forward focuses on economic policies and appears to ignore a candidate’s other positions in making endorsements and contributions. MN Forward made campaign contributions to a Minnesota gubernatorial candidate who is a vocal opponent of same-sex marriage and full parenting rights for same-sex households. This triggered demonstrations, petitions, boycotts and considerable negative publicity for Target and Best Buy, which also made significant contributions to MN Forward.”
- CRIC agrees that corporate political contributions are of increasing concern to investors and our democratic society more broadly. The issue is now particularly salient after the Supreme Court’s January 2010 Citizens United decision, which removed prohibitions against direct corporate political contributions. We argue that undisclosed political contributions can influence politicians to make political decisions that do not necessarily adequately reflect the needs of their constituents, but instead the companies giving them large amounts of money. Thus, undisclosed contributions can have consequences for the long-term economic health of the nation and interfere in the democratic system. This resolution would provide an extra degree of transparency and accountability in both the financial and political realm. Moreover, CRIC feels that the negative publicity and boy-

cotts of last year²⁸ can affect these companies' bottom line, which of course negatively impacts our holdings.

Assuming that CRIC has done due diligence to determine that there are no extenuating circumstances, we ask that the College vote YES on all resolutions requesting reporting on political contributions.

3.2.3 Separate Chair & CEO

In 2011, the Investment Committee approved "yes" votes for Separate Chair and CEO resolutions at the following two companies:

1. ExxonMobil Corporation
2. Goldman Sachs Inc.

In each case, the language of the resolution has been a version of the following:

RESOLVED: The shareholders request the Board of Directors of Exxon-Mobil to adopt as policy, and amend the bylaws as necessary, to require the Chair of the Board of Directors, whenever possible, to be an independent member of the Board. This policy should be phased in for the next CEO transition. Compliance with this policy is waived if no independent director is available and willing to serve as Chair.

These resolutions were approved on the basis of the following arguments:

- The role of the CEO is to manage the company and the role of the Chairman is to oversee the CEO and the management of the company. There is a conflict of interest for a CEO to be her/his own overseer while managing the business.
- A single chair and CEO also allows for one person to be too dominant. Separating the roles will help increase accountability, as the CEO is not accountable to anyone under the combined role of CEO and Chair.
- Additionally, most competing firms have incorporated a policy to separate the roles of the chair and the CEO. This indicates that companies are recognizing that separating the Chair and CEO is a sound corporate governance practice. Moreover, most of the large financial institutions that struggled during the crisis such as Bear Stearns, Lehman, Citigroup, Bank of America, Washington Mutual and Wachovia had one person in the combined role of Chair and CEO and therefore, it may not be the best structure during market turmoil. Many companies have independent Chairs; by 2008 close to 39% of the S&P 500 companies had boards that were not chaired by their chief executive. An independent Chair is the prevailing practice in the United Kingdom and many international markets.

²⁸See, for example, *The Wall Street Journal*, August 7, 2010, "Target Discovers Downside to Political Contributions": <http://online.wsj.com/article/SB10001424052748703988304575413650676561696.html>.

- The publishing of research supporting the separation of the Chair and the Director by Yale University's Millstein Center for Corporate Governance and Performance called "Chairing the Board" clearly supports the case for separation of these positions. The report claims that chairing and overseeing the Board is a time intensive responsibility and that a separate Chair leaves the CEO free to manage the Company and build effective business strategies.
- Furthermore, Businesses with separate chairman will help increase transparency and potentially shareholder returns. Managing Goldman Sachs is a massively complex, challenging, and time-consuming job; splitting the roles frees up the CEO to focus on the business. Shareholder resolutions urging separation of CEO and Chair averaged 36.7% support in 2009 at 30 companies, an indication of strong and growing investor support. Support for this shareholder proposal across the S&P 500 Index averaged 29% in 2010. To protect shareholders interests, it is important to have a separate Chair and CEO.

Assuming that CRIC has done due diligence to determine that there are no extenuating circumstances, we ask that the College vote YES on all resolutions requesting that the Board adopt a policy requiring the Chair of the Board of Directors to be an independent member of the Board.

3.3 Equal Employment Opportunity

In the past two years, the Investment Committee has voted for three resolutions that are aimed at the adoption and reporting of anti-discriminatory policies based on gender, gender identity, sexual orientation, national origin, and race:

1. Home Depot, Inc. (Equal Employment Opportunity)
2. ExxonMobil, Inc. (Sexual Orientation Non-Discrimination)

In case of Home Depot, shareholders have proposed for comprehensive reporting on the representation of women and minority groups in the company workforce, whereas the ExxonMobil resolution proposed an amendment on the company's Equal Employment Opportunity (EEO) policies to include a statement on sexual orientation non-discrimination. Here is the text of each resolution:

RESOLVED: The shareholders request that Home Depot prepare a diversity report, at reasonable cost and omitting confidential information, available to investors by September 2011, including the following:

1. A chart identifying employees according to their gender and race in each of the nine major EEOC-defined job categories for the last three years, listing numbers or percentages in each category;
2. A summary description of any affirmative action policies and programs to improve performance, including job categories where women and minorities are underutilized; and

3. A description of any policies and programs oriented specifically toward increasing the number of managers who are qualified females or minorities.

RESOLVED: The Shareholders request that The Home Depot, Inc., amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity or expression and to substantially implement the policy.

These resolutions were approved on the basis of the following arguments:

- As of 2011, over 89% of the Fortune 500 companies and over 95% of Fortune 100 companies have adopted policies prohibiting harassment based on sexual orientation, indicating that comprehensive diversity policies are becoming an industry standard.
- Home Depot has spent more than \$100 million in the last 14 years on settling lawsuits caused by accusations of class-wide gender, race and national origin discrimination. This also represents the reputational and legal risks that companies without a comprehensive statement and reporting on diversity issues are likely to encounter.
- Companies are required by law to file an EEO-1 report with Equal Opportunity Commission annually; therefore, in case of companies with existing policies on diversity, making this information available to shareholders should be possible at a minimum cost.
- The two resolutions have gathered a sustained amount of support from shareholders in both companies. Home Depot Equal EEO resolution has consistently received a vote of more than 20% from shareholders since 2005 when it was first filed, whereas ExxonMobil's Sexual Orientation Non-Discrimination Policy resolution, which was filed every year between 2001 and 2011, has received approximately 39% of votes in 2008 and 2009, and 19% in 2011.
- With regards to community values, resolutions of this nature are in line with Carleton's Community, Equity and Diversity Initiative (CEDI) and its statement on diversity. In the 2010 CRIC campus survey, over 58% of respondents agreed or strongly agreed that "Carleton's 'Statement on Diversity' commits the College to 'creating a diverse campus community, including diversity of gender identities and sexual orientations,' and that they would support a resolution requiring companies to commit to similar diversity in their workplaces and executive boards."

Assuming that CRIC has done due diligence to determine that there are no extenuating circumstances, we ask that the College vote YES on all resolutions requesting the adoption and reporting of anti-discriminatory policies based on race, gender, gender identity, sexual orientation, and national origin.

Appendix I

Links to other institutions' proxy voting policies

Here are links to the proxy voting policies of the institutions listed above (p. 18):

1. Brown: www.brown.edu/Administration/Finance_and_Admin/ACCRIP/guidelines.html
2. Columbia: finance.columbia.edu/sri/announcements/CU_Proxy_Guidelines_Approved.pdf
3. University of Pennsylvania: [/www.upenn.edu/secretary/SRAC.html](http://www.upenn.edu/secretary/SRAC.html)
4. TIAA-CREF: www.tiaa-cref.org/public/about/governance/portfolio/proxy-voting-policies/proxy_voting_policies.html

The rest of this Appendix, beginning on the next page, is an example of a full proxy voting policy from a peer institution, *viz.* Swarthmore College.

Committee on Investor Responsibility (CIR)

Voting Guidelines

2005



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1.0 Introduction

This document outlines voting guidelines as per recommendations from the Committee on Investor Responsibility (CIR) and the Swarthmore College Finance and Investment Office.

The CIR, after consultation with the Investment Committee, may vote potential shareholder resolutions involving four social issues:

- Coalition for Socially Responsible Economies (CERES) Principles
- Equal Employment Opportunity
- Global Reporting Initiative (The GRI was established in 1997 with a mission to evaluate sustainability reporting to equivalency with financial reporting.)
- International Labor Organization (ILO) Principles

CIR consists of student members; staff members, Suzanne Welsh, Mark Amstutz and Carmen Duffy; and Investment Committee members, Samuel Hayes, III and Christopher Niemczewski.

CIR will provide an update on the voting guidelines and voting results of specific company resolutions on an annual basis.

2.0 Voting Guidelines

2.1 CERES Principles

Issue Summary:

The Coalition for Socially Responsible Economies (CERES) is a coalition of over 80 organizations including environmental groups, investors, analysts and advisors representing over \$300 billion in invested capital, and public and advocacy groups that are working towards creating a sustainable future.

Companies commit to continuous environmental improvement and a single set of consistent standards for environmental reporting, by endorsing the CERES principles, a ten-point code of environmental conduct.

CERES Principles

- 1. Protection of the Biosphere**
We will reduce and make continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, or the earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.
- 2. Sustainable Use of Natural Resources**
We will make sustainable use of renewable natural resources, such as water, soils and forests. We will conserve non-renewable natural resources through efficient use and careful planning.
- 3. Reduction and Disposal of Wastes**
We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed of through safe and responsible

methods.

4. Energy Conservation

We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.

5. Risk Reduction

We will strive to minimize the environmental, health and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and by being prepared for emergencies.

6. Safe Products and Services

We will reduce and where possible eliminate the use, manufacture or sale of products and services that cause environmental damage or health or safety hazards. We will inform our customers of the environmental impacts of our products or services and try to correct unsafe use.

7. Environmental Restoration

We will promptly and responsibly correct conditions we have caused that endanger health, safety or the environment. To the extent feasible, we will redress injuries we have caused to persons or damage we have caused to the environment and will restore the environment.

8. Informing the Public

We will inform in a timely manner everyone who may be affected by conditions caused by our company that might endanger health, safety or the environment. We will regularly seek advice and counsel through dialogue with persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.

9. Management Commitment

We will implement these Principles and sustain a process that ensures that the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, we will consider demonstrated environmental commitment as a factor.

10. Audits and Reports

We will conduct an annual self-evaluation of our progress in implementing these Principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the CERES Report, which will be made available to the public.

Over 70 companies have endorsed the CERES principles including several small and medium sized companies and multinational corporations such as Coca-Cola, Ford Motor Company, General Motors Corporation, Nike and Bank of America.

Given the growing consensus regarding the importance of the CERES principles, highlighted especially by the growing number of companies endorsing them, and for the reasons stated below, **we propose that Swarthmore adopt a general policy of voting in favor of such resolutions during this and future proxy seasons.**

Arguments supporting resolutions calling for the endorsement of the CERES principles

- Given investors' needs for credible information about a firm's environmental performance and given the number of companies that have already endorsed the CERES Principles and adopted its report format, it is a reasonable, widely accepted step for a company to endorse these Principles if it wishes to demonstrate its seriousness about superior environmental performance.
- Recent studies show that the integration of environmental commitment into business operations provides competitive advantage and improves long-term financial performance for companies. (Source: Investor Research Responsibility Center)
- In addition, the depth of a firm's environmental commitment and the quality with which it manages its environmental performance are indicators of prudent foresight exercised by management.
- Endorsing the Principles provides a mechanism that helps managers move a company beyond a focus on compliance to that of continuous innovation and improvement in resource productivity and safety.

Arguments against supporting resolutions related to the endorsement of the CERES principles

- Companies can argue that their ongoing environmental programs may already follow many of the tenets of the CERES principles, thus making a formal endorsement of these principles redundant.
- Compliance with the CERES principles and payment of the associated administrative dues may be an administrative burden and a financial drain on the company's resources.

Economic Impact Analysis:

The primary direct costs of endorsing the CERES Principles are the payment of annual dues and the completion of the annual CERES report form. The dues for a company differ according to the size of the company, but, for a large multinational corporation, are usually in the range of \$50,000 dollars a year. The costs associated with dues are not prohibitive considering the size and the budget of the companies.

The completion the CERES report form may require considerable time and effort, and depending on the thoroughness of the company's existing environmental reporting system, some costs may be incurred in this area.

Another major cost for the company lies in the actual implementation of the principles to its various operations. By endorsing the CERES principles, a company is committing to improving environmental standards, and more specifically to "update their practices in light of advances in technology and new understandings in health and science" (Source: www.ceres.org). Updating and constantly improving their environmental standards may prove costly, but studies have shown that, integration of environmental commitment into long-term operations provides the company with a comparative advantage (Source: IRRC).

Precedent:

The CIR has, in principle, already endorsed the CERES principles in 1999. Swarthmore College has shown a commitment on this issue, by voting on a resolution calling for the endorsement of the CERES principles at Allstate Insurance, in the 2001-02 proxy seasons.

The issue of endorsing the CERES principles is in line with Swarthmore's commitment to better global environmental stewardship, which is illustrated in our efforts to harness recyclable energy sources like wind-energy to generate 2.5% of our energy needs and in our longstanding commitment to recycling.

Exceptions:

We believe that, in general, the interests of the company would be better served if it decides to endorse the CERES principles. However, each company at which we vote on such shareholder resolutions will be carefully scrutinized for extenuating circumstances which would contradict the points outlined above.

Therefore, assuming the CIR has done due diligence to determine that the company targeted by a shareholder resolution has no extenuating circumstances, Swarthmore College will vote YES on all resolutions proposing the endorsement of the CERES principles.

2.2 EEO Policy

Issue Summary:

In recent years, U.S. institutional investors and other interested parties have expressed wide support for expansion of corporations' equal employment opportunity, nondiscrimination and affirmative action policies, programs and performance.

While federal law prohibits discrimination in the workplace based on race, sex and other categories, no federal legislation protects gay, lesbian, bisexual and transgender (GLBT) workers in private employment from discrimination based on their sexual orientation. Only 13 states have made it illegal to fire someone based on their sexual orientation. American Corporations, though, increasingly recognize the importance of protecting GLBT individuals from unfair employment practices, with more than 60 percent of the Fortune 500 barring discrimination based on sexual orientation through their nondiscrimination policies. Over 85% of Fortune100 Companies have adopted written policies prohibiting discrimination and harassment on the basis of sexual orientation.

Pension funds, social investment firms, religious investors affiliated with the Interfaith Center on Corporate Responsibility, advocacy organizations and individuals have filed 28 shareholder resolutions for 2003 that address equal employment opportunity and affirmative action, down only slightly from 33 in 2002. Two-thirds of the 2003 resolutions focus on including sexual orientation in corporate nondiscrimination policies, and New York City pension funds have filed the bulk of these resolutions. Seven of these resolutions have been withdrawn.

Swarthmore joined in co-filing two of these resolutions, at the Masco and Dover corporations in 2003. The college was able to withdraw both resolutions after the companies agreed to broaden their nondiscrimination policies. Given this growing consensus on the importance of corporate nondiscrimination codes that include sexual orientation, and for the reasons stated below, **we propose that Swarthmore adopt a general policy of voting in favor of such resolutions during this and future proxy seasons.**

Arguments Supporting Equal Employment Opportunity Stockholder Proposals:

- Discrimination based on sexual orientation is a morally wrong and self-defeating business practice.
- Numerous surveys show that gay, lesbian, bisexual and transgendered (GLBT) workers often experience workplace harassment and employment discrimination.
- Banning discrimination based on sexual orientation will allow companies to more effectively compete for top talent in a tight labor market.
- Because there is no federal prohibition of discrimination based on sexual orientation, GLBT employees are dependent on local laws and corporate policies for protection. Being dependent on local laws in the absence of corporate policies, however, can hamper an employee's ability to transfer within a company or take advantage of other job opportunities.
- Bans on discrimination based on sexual orientation reduce turnover and associated costs, and allow employees to focus on their work.
- Prohibiting discrimination based on sexual orientation helps companies gain a public relations advantage with GLBT consumers and investors and their allies.
- Corporations that ignore the need for equal protection for GLBT employees will open themselves up to eventual litigation, as well as bad publicity.
- National public opinion polls consistently find [that] more than three-quarters of Americans support equal rights in the workplace for gay men, lesbians and bisexuals.

Arguments Against Equal Employment Opportunity Shareholder Resolutions:

- Adopting a non-discrimination policy based on sexual orientation could result in companies being criticized and perhaps targeted by conservative groups.
- Some companies question the need to "go beyond legal requirements" in its EEO policy.

Economic Impact Analysis:

If companies were to comply with the resolution, they would incur the costs of summarizing a certain amount of information, preparing a report that would include this summarized data along with some data that companies typically have already assembled, and making their report available. In addition to these immediate costs, some companies argue that statistical data on a work force can be misleading or taken out of context, and that providing such information could make the company vulnerable to unwarranted litigation. The proponents of sexual orientation EEO resolutions maintain that the requested review and modification of policy enhances the companies' competitiveness and increase accountability, helping to protect the company against expensive legal action, poor employee morale and the loss of business resulting from a substandard equal employment opportunity record. In general, the cost of amending nondiscrimination policies is low, while the potential benefits are moderate to significant.

Precedent:

Swarthmore College has shown a commitment to anti-discriminatory employee policy in the past. In fall of 2002 it filed a resolution that led Lockheed Martin to change its discriminatory employment policies with regard to sexual orientation. Swarthmore has voted in favor of EEO

resolutions at Home Depot and Dover. It voted against removing a ban on discrimination based on sexual orientation from AT&T's policy. It also co-filed EEO Shareholder Resolutions at Dover and Masco. The CIR believes that Swarthmore College should continue with the precedent it has set to support the prohibition of discriminatory employee policies at the corporations in which it invests and vote in favor of proxies on this issue. Furthermore, supporting equal employment opportunities for workers is in line with Swarthmore's Quaker values as well as its own EEO hiring policy.

Exceptions:

We can foresee no company that would not benefit from a non-discrimination policy in regards to sexual orientation. However, each company at which we vote on such shareholder resolutions will be carefully scrutinized for extenuating circumstances contradicting the points outlined above.

Therefore, assuming the CIR has done due diligence to determine that the company targeted by a shareholder resolution has no extenuating circumstances, Swarthmore College will vote YES on all resolutions proposing the extension of equal employment opportunity to gay, lesbian, bisexual and transgender employees.

2.3 GRI Standards

Issue Summary:

The Global Reporting Initiative was initially convened by the Coalition for Environmentally Responsible Economies (CERES), a non-profit coalition of over 80 investor, environmental, religious, labor and social justice groups. The GRI was established in 1997 with a mission to elevate sustainability reporting to equivalency with financial reporting. It has recently been established as an organization in its own right.

The GRI has developed a set of core metrics intended to be applicable to all business enterprises, sets of industry-specific metrics for specific types of enterprises and a uniform format for reporting information integral to a company's sustainability performance.

"GRI was established to develop, promote, and disseminate a generally accepted framework for sustainability reporting - voluntary reporting on the economic, environmental, and social performance of corporations and other organizations" (<http://www.globalreporting.org>). The 11 principles, according to the GRI Sustainability Reporting Guidelines, are transparency, inclusiveness, auditability, completeness, relevance, sustainability context, accuracy, neutrality, comparability, clarity, and timeliness.

The GRI standards are structured around a CEO statement, key environmental, social and economic indicators, a profile of the reporting entity, descriptions of relevant policies and management systems, stakeholder relationships, management performance, operational performance, product performance and a sustainability overview. Given the growing consensus on the importance of transparency, and for the reasons stated below, **we propose that Swarthmore adopt a general policy of voting in favor of such resolutions during this and future proxy seasons.**

Arguments Supporting the endorsement of GRI:

- For financial reporting, companies follow a generally accepted reporting framework (GAAP) established by Financial Accounting Standards Board (FASB). GRI

guidelines provide a similar framework that will enhance an organization's credibility, consistency, and comparability.

- GRI guidelines address the full spectrum of stakeholder interests and combine this information into one concise document.
- Because the developmental costs of the guidelines and other GRI documents are shared across multiple users in the firm, the overall transaction costs for reporters is low.

Arguments Against the endorsement of GRI:

- There are 57 proposed core indicators. There are then a number of voluntary ones. There is no clear view as to which voluntary indicators should apply to all.
- GRI standards will take considerable company resources to gather.
- Some of the economic indicators are very complex, and it is often questioned if the organization and its stakeholders can correctly interpret the information.
- GRI standards lack performance measurement indicators.

Economic Impact Analysis:

The costs of implementing the GRI guidelines and reporting would generally occur on two fronts. Firstly, by adopting the GRI standards, an organization must commit itself to continually monitoring its adherence to the GRI standards. Secondly, an organization would have to prepare a public report. This might involve considerable time and effort and incur significant costs, depending upon the status of the company's existing reporting system.

Benefits resulting from the adoption of GRI standards are prevalent for both report preparers and report readers. For reporting organizations, the guidelines provide a tool for: management, increased comparability and reduced costs of sustainability, brand and reputation enhancement, differentiation in the marketplace, protection from brand erosion resulting from the actions of suppliers or competitors, networking and communications. For report readers, the Guidelines are a useful benchmarking tool, corporate governance tool and an avenue for long term dialogue with reporting organizations.

Precedent:

The issue of the endorsement of GRI standards is in line with the values of Swarthmore College, and more specifically aligned with the College's commitment to transparency, which is illustrated by the College's support of the CERES principles and our progressive culture.

Exceptions:

We believe that the interests of an organization and its stakeholders would be better served with the adoption of GRI standards. However, each company for which we vote on such shareholder resolutions will be carefully scrutinized for extenuating circumstances which would contradict the points outlined above.

Therefore, assuming the CIR has done due diligence to determine that the company targeted by a shareholder resolution has no extenuating circumstances, Swarthmore College will vote YES on all resolutions proposing the endorsement of GRI standards.

2.4 ILO Principles

Issue Summary:

The International Labor Organization is a specialized, independent agency of the United Nations, based in Geneva, Switzerland, with 175 member countries represented by workers, employers and governments. The ILO aims at promoting decent working conditions for all men and women.

By adopting **ILO 1998 Declaration of Fundamental Principles and Rights at Work**, companies commit to providing basic human and labor rights to their workers and ensure the continual improvement of the working conditions of their workers.

The **1998 Declaration on Fundamental Principles and Rights at Work** sets out the four principles which every ILO member must respect and promote:

- 1. Freedom of association and the right to bargain collectively:** Establishes the right of all workers and employers to form and join organizations of their own choosing without prior authorization, and lays down a series of guarantees for the free functioning of organizations without interference by the public authorities. (1948 Freedom of Association and Protection of the Right to Organize Convention) Provides for protection against anti-union discrimination, for protection of workers' and employers' organizations against acts of interference by each other, and for measures to promote collective bargaining. (1949 Right to Organize and Collective Bargaining Convention)
- 2. Abolition of forced labor:** Requires the suppression of forced or compulsory labor in all its forms. Certain exceptions are permitted, such as military service, properly supervised convict labor, and emergencies such as wars, fires, and earthquakes. (1930 Forced Labor Convention) Prohibits the use of any form of forced or compulsory labor as a means of political coercion or education, punishment for the expression of political or ideological views, workforce mobilization, labor discipline, punishment for participation in strikes, or discrimination. (1957 Abolition of Forced Labor Convention)
- 3. Equal opportunity and treatment in the workplace:** Calls for equal pay and benefits for men and women for work of equal value. (1951 Equal Remuneration Convention) Calls for a national policy to eliminate discrimination in access to employment, training and working conditions, on grounds of race, color, sex, religion, political opinion, national extraction or social origin, and to promote equality of opportunity and treatment. (1958 Discrimination (Employment and Occupation) Convention)
- 4. The elimination of child labor:** Aims at the abolition of child labor, stipulating that the minimum age for admission to employment shall not be less than the age of completion of compulsory schooling. (1973 Minimum Age Convention) Calls for the immediate elimination of the worst forms of child labor, including the sale and trafficking of children and child prostitution. (1999 Worst Forms of Child Labor Convention)

These principles are covered by the ILO's core conventions. In addition, many ILO labor standards define acceptable levels of working conditions and worker protection, such as:

1. Occupational safety and health.
2. Working time.
3. Social security pensions and health insurance.

Over the years, governments have changed 2,230 national laws or practices in response to concerns raised by ILO supervisory bodies. Many companies, including automobile giants such as Volkswagen and Daimler-Chrysler have adopted the ILO Labor Standards. As of October 2003, over 1000 companies across the world are participating in the U.N-led Global Compact program that commits the companies to the ILO Labor guidelines.

Labor standards are both an ethical and economic imperative. The increased transparency brought about by adopting the core ILO principles and creating procedures to report on their enforcement would protect the company's reputation and brand identity, improve its appeal to investors, and protect the company from the possibility of future litigation. Therefore, **we propose that Swarthmore College adopt a general policy of voting in favor of such resolutions during this and future proxy seasons.**

Arguments supporting resolutions calling for the endorsement of ILO's 1998 Declaration on Fundamental Principles and Rights at Work

- Given the investors' demands for credible information about a company's adherence to basic human and labor rights and given the number of workers, employers, organizations, and governments that have adopted the ILO standards as the bench mark on workplace rights, it is a reasonable, widely accepted step for a company to endorse the 1998 Declaration of the Fundamental Principles and Rights to protect its reputation and thus, retain its investor confidence and shareholder value.
- According to the U.S. State Department, adoption of ILO standards by all involved parties is integral to removing unfair trade competition. Parties found in violation of the basic ILO principles could face the risk of litigation and could jeopardize the economic well-being of the company. There are a substantial number of countries where organizations such as the U.S. State Department, Amnesty International and Human Rights Watch report that human rights "are not adequately protected by law and/or public policy." Implementation of ILO labor standards would help a company "manage the risk of being a party to human rights violations in the workplace" and serve the broader U.S. foreign policy objectives of promoting human rights.
- By committing itself to the welfare of its workers, through the implementation of ILO standards, a company can increase the levels of worker satisfaction and loyalty, thus boosting company efficiency and brand image.
- Adoption of the ILO labor standards would increase a company's attractiveness to institutional investors. More than 15 of the world's largest pension funds and institutional investors "have adopted responsible contractor and workplace practice guidelines."

Arguments against supporting resolutions related to the endorsement of 1998 Declaration on Fundamental Principles and Rights at Work

- Companies might argue that their labor code already subscribes to all the ILO standards, thus making a formal endorsement of the ILO standards redundant.
- Compliance with the ILO standards and payment of the associated administrative dues due to auditing, monitoring, and reporting may be an administrative burden and a financial drain on the company's resources.

Economic Impact Analysis:

The costs of implementing the ILO guidelines and reporting on the same would primarily occur on three fronts. Firstly, by adopting the ILO labor standards, a company would have to upgrade its

facilities to provide workers with decent working conditions, if that might not already be the case. Secondly, a company would have to continually monitor its adherence to the ILO standards and ensure that its suppliers are doing the same. This might lower the number of suppliers and thus, increase production costs. Thirdly, a company would have to prepare a public report concerning the implementation of ILO standards. This might involve considerable time and effort and incur some costs, depending upon the status of the company's existing reporting system.

Benefits resulting from the adoption of ILO labor standards would be an improved image for the brand and the possible avoidance of future lawsuits that might have been incurred by current business practices. Increased worker satisfaction and loyalty might result in productivity gains and lower retrenchment costs.

Precedent:

Swarthmore College has shown a commitment to this issue, by voting on a resolution calling for the endorsement of the ILO labor guidelines at Phillip Morris, in the 2001-02 proxy seasons. Earlier in 1999, the Committee for Socially Responsible Investing agreed to endorse resolutions supporting the ILO 1998 Declaration on Fundamental Principles and Rights at Work in principle, while carefully scrutinizing each resolution.

The issue of endorsing ILO **1998 Declaration on Fundamental Principles and Rights at Work** is in line with Swarthmore College's commitment to basic human and labor rights for all, which is illustrated by our progressive anti-discriminatory policies and our Quaker heritage.

Exceptions:

We believe that, in general, the interests of the company would be better served if it decides to endorse the ILO 1998 Declaration on Fundamental Principles and Rights at Work. However, each company at which we vote on such shareholder resolutions will be carefully scrutinized for extenuating circumstances which would contradict the points outlined above.

Therefore, assuming the CIR has done due diligence to determine that the company targeted by a shareholder resolution has no extenuating circumstances, Swarthmore College will vote YES on all resolutions proposing the endorsement of the ILO 1998 Declaration on Fundamental Principles and Rights at Work.

2.5 Reporting on Political Contributions

Issue Summary:

The issue of political contributions came to the fore nationally when the Bipartisan Campaign Reform Act (BCRA), sponsored by Sens. John McCain (R-Ariz.) and Russ Feingold (D-Wis.) (with House sponsors Christopher Shays (R-Conn.) and Marty Meehan (D-Mass.)) passed Congress in March 2002 and took effect on Nov. 6. The law bans contributions by corporations, labor unions and other groups to national political parties, doubles the limit on the amount of hard money that individuals can give to candidates and leaves the regulation of political action committees unchanged.

Soft money, given to national political parties for party-building activities such as get-out-the-vote campaigns, became illegal as of Nov. 6, 2002. Local parties will be permitted to collect soft money donations of up to \$10,000 per donor per year. Under current federal election law, individuals may contribute \$2,000 per election, per candidate (with primary election and general election counting as separate contests).

Not all avenues of political contributions have been addressed by the BCRA as it does not restrict contributions made to tax-exempt 527 organizations. These 527 organizations are non-profit political committees used by corporations, labor unions, and special interest organizations to raise money to influence political campaigns.

Since political contributions made by a corporation to 527s are not regulated by the BCRA, there is a need for corporations to report to the shareholders the nature and the amount of the contributions made.

Arguments Supporting the Reporting on Political Contributions:

- Transparency allows shareholders to make sure that corporate dollars are backing candidates in a way that will truly benefit the corporation.
- While information on the corporation's political donations is available on various websites, a comprehensive list including the rationale behind any donations is necessary for shareholders to understand the corporation's policy.
- Information about all corporation's political donations can be found through the Federal Election Commission (FEC). However, it is difficult to access for the average shareholder and synthesizing all information about contributions in a single report would make the whole process easier.
- The increased transparency would improve the corporation's reputation for honesty and compliance with the law, which would in turn bolster the corporation's public image.

Arguments Against Reporting on Political Contributions:

- This resolution may be unnecessary: information on corporate political donations is available through the FEC.
- Information about political contributions could carry the implication of wrongdoing and could damage the corporation's reputation if readily available to the public
- Adoption of this resolution could unfairly tilt the playing field to the corporation's disadvantage since the disclosure requirements would not be binding on all corporations.

Economic Impact Analysis:

Providing a report on political contributions made is not likely to incur significant costs to the corporation. Some costs could result from the time required to assemble the report, but it seems unlikely that these would be significant since the corporation already keeps records of its political contributions and provides some information to the FEC.

Precedent:

Swarthmore College has already shown a commitment in the past on reporting on political donations. In the 2003-04 proxy season, the College in favor of resolutions calling for the reporting of political donations at American Express, GE, Wal Mart Stores, Wells Fargo and IBM following the recommendations of the Committee for Socially Responsible Investing.

Exceptions:

We can foresee no company that would not benefit from not reporting the political contributions it makes to its shareholders. However, each company at which we vote on such shareholder resolutions will be carefully scrutinized for extenuating circumstances which would contradict the points outlined above.

For instance, in the 2003-04 proxy season, the CIR recommended abstaining from voting on a resolution at Pepsico that called for the publication of all the donations made by the corporation in the major national newspapers, on account of the prohibitive economic costs associated with implementing the resolution.

Therefore, assuming the CIR has done due diligence to determine that the company targeted by a shareholder resolution has no extenuating circumstances, Swarthmore College will vote YES on all resolutions proposing the reporting of political contributions made to the shareholders by a corporation.