

Carleton

One North College Street
Northfield, Minnesota 55057

January 30, 2018

Dear Mr. Wender and members of the Investment Committee,

Please find enclosed the 2018 Report to the Trustees from the Carleton Responsible Investment Committee (CRIC). CRIC continues its work of reviewing shareholder resolutions as well as gathering information on the views of the Carleton community concerning issues related to investment.

A note on pre-approval and the proxy voting process:

Our process has been aided greatly by a proxy voting pre-approval policy established in 2012 and the pre-approval categories added to the policy in the past year. This process recognizes that there have been certain regularly repeating resolutions on which we have repeatedly concluded/recommended that Carleton should vote 'yes'. This policy has facilitated a more efficient process of reviewing and making recommendations on shareholder resolutions. For the details of that policy, please see Section (2) of this report.

After a summary of previous resolutions and votes, we report our recommendations for shareholder votes in two categories.

- (1) Starting with a review of the proxy voting pre-approval policy and categories in Section (2), we use Section (3) to report on those nine resolutions that fall under these pre-approval categories.
- (2) In Section 4 our report discusses four shareholder resolutions pertaining to issues not covered by the proxy voting policy.

2018 Resolutions Not Covered by Proxy Voting Policy

Shareholders of companies in which Carleton is invested filed several resolutions not covered by the proxy voting pre-approval policy. CRIC recommends that the Trustees approve a vote of “yes” on each of the resolutions listed below.

- (1) Alphabet, Inc: Executive Pay-Incorporate Diversity & Sustainability Metrics
- (2) Amazon.com, Inc: Executive Pay-Incorporate Diversity & Sustainability Metrics
- (3) Comcast Corp: Prohibit Virtual-Only Annual General Meeting
- (4) Goldman Sachs Group Inc.: Indigenous People’s Rights
- (5) J.P. Morgan Chase & Co.: Risks of Lending, Underwriting in Tar Sands Production

Summary

We appreciate this opportunity to present our recommendations to the Investment Committee and share our activities from the past year. We hope the board accepts our recommendations on the shareholder resolutions not covered under the existing pre-approval policy. Please let us know if you require any additional information. Thank you for your time and your consideration.

COMMITTEE MEMBERS

Chenoa Schatzki-McClain (Co-Chair, '18)	Arjendu Pattanayak (Co-Chair, Faculty)
Fred Rogers (Ex Officio, '72)	Stephen Kennedy (Faculty)
Locke Perkins (Staff)	Steve Romenesko (Staff)
Paul Peterson ' 18	Greg Amusu '19
Madeline Hagar ' 20	Shane Zerr '21

REPORT TO THE TRUSTEES

CARLETON RESPONSIBLE INVESTMENT COMMITTEE (CRIC)

January 30, 2018

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¹This report reproduces resolution statements from the Ethvest Database, which is available to Carleton College users and to other members at <http://www.onlineethicalinvestor.org/eidb/login.html>. The full text of all 2018 resolutions discussed in this report, including arguments and supporting statements, is reproduced in the appendix to this report at https://apps.carleton.edu/governance/cric/assets/CRIC_2018_Report_Appendix.pdf.

1 Report on 2017 Resolution Voting

1.1 2017 Resolutions Falling Under the Pre-Approval Policy

In 2017, CRIC used the proxy voting pre-approval policy to request that the Investment Office vote on a number of resolutions. Information gathered on the voting outcomes is posted below. There seem to be a slightly larger than usual number of votes for which information was not available on Ethvest.

Table 1: 2017 Resolutions Falling Under the Pre-Approval Policy

Company	Resolution	Outcome
Alphabet Inc.	Lobbying Expenditures Disclosure - Climate	12.71%
Alphabet Inc.	Political Contributions	10.24%
Amazon.com Inc.	Criminal Background Checks in Hiring Decisions	N/A
Bank of America Corp.	Lobbying Expenditures Disclosure - Climate	N/A
Berkshire Hathaway Inc.	Political Contributions	11.10%
Citigroup Inc.	Lobbying Expenditures Disclosure - Climate	N/A
Comcast Corp.	Lobbying Expenditures Disclosure	N/A
Devon Energy Corp.	Lobbying Expenditures Disclosure	35%
Dominion Resources Inc.	Methane Emissions - Measure Leakage & Disclose	23.67%
Dominion Resources Inc.	Lobbying Expenditures Disclosure - Climate	7.12%
Emerson Electric Co.	Greenhouse Gas Reduction - Science-Based Targets	33.98%
Emerson Electric Co.	Lobbying Expenditures Disclosure - Climate & Political Contributions	N/A
Emerson Electric Co.	Political Contributions	N/A
Occidental Petroleum Corp.	Methane Emissions - Measure Leakage & Disclose	45.77%
Oracle Corp.	Lobbying Expenditures Disclosure	N/A
Pepsico Inc.	Greenhouse Gas Reduction - Renewable Energy	W ¹
TJX Companies Inc.	Gender Pay Gap	4.45%
Wells Fargo & Co.	Separate Chair & CEO	W

1.2 2017 Resolutions Not Falling Under the Proxy Voting Pre-Approved Policy

CRIC similarly asked the Investment Committee to approve recommendations for voting on a number of resolutions outside the the pre-Approved list. Information gathered on the voting outcome is posted below.

Table 2: 2017 Resolutions Outside the Pre-Approval Policy

Company	Resolution	Outcome
Altria Group Inc.	Tobacco Marketing in Lower-Income Communities	2.6%
Amazon.com Inc.	Majority Vote	N/A
Amazon.com Inc.	Environmental Impacts of Continued Use of Foam Packing	W
Anadarko Petroleum Corp.	Business Plan for 2C Warming Scenario	W
Comcast Corp.	Prohibit Virtual-Only AGM	W

¹W indicates resolutions that were withdrawn.

Devon Energy Corp.	Executive Pay Tied to Resilience to Low-Carbon Scenarios	40%
Devon Energy Corp.	Review Public Policy Advocacy on Climate	W
Dominion Resources Inc.	Business Plan for 2C Warming Scenario	47.83%
Domion Resources Inc.	Climate Change Impacts of Increased Biomass Use	W
Emerson Electric Co.	Sustainability Reporting	W
J.P. Morgan Chase & Co.	Majority Vote	N/A
J.P. Morgan Chase & Co.	Proxy Voting Policies - Climate Change	W
Mondelez International Inc.	Environmental Impacts of Non-Recyclable Packaging	27.5%
Noble Energy Inc.	Carbon Asset Risk	24%
Occidental Petroleum Corp.	Review Public Policy Advocacy on Climate	W
Occidental Petroleum Corp.	Methan Emissions - Measure Leakage & Disclose	45.77%
Pepsico Inc.	Reduce Pesticide Use	9.1%
Philip Morris International	Human Rights Policy Stressing Right to Health	3.6%
Target Corp.	Reduce Food Waste	W
Target Corp.	Environmental Impacts of Continued Use of Foam Packing	W
TJX Companies Inc.	CEO to Worker Pay Ratio	4.45%
TJX Companies Inc.	Executive Pay: Incorporate Diversity Metrics	4.71%
Wells Fargo & Co.	Business Standards/ Visions and Values/ Risk Management	21.8%
Wells Fargo & Co.	Executive Pay Tied to Ethical Business Conduct	N/A

2 Current Proxy Voting Pre-Approval Policy

For the past four years, CRIC and the Investment Committee of the Board of Trustees have been using a proxy voting pre-approval policy on a trial basis. This policy has allowed the committee to be more effective in its handling of corporate resolutions. It is stated as follows:

“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 due diligence to determine that there are no extenuating circumstances.”

The proxy voting list aims to align Carleton’s values with its investments. It currently encompasses the following categories of resolutions.

- (1) **Greenhouse Gas Emission Reduction Goals:** Resolutions requiring disclosure of GHG emissions and on resolutions requiring reasonable action to reduce GHG emissions.
- (2) **Hydraulic Fracturing (Toxic Chemicals):** 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):** Resolutions requesting an advisory vote on executive compensation.
- (4) **Political Contributions:** Resolutions requesting reporting on political contributions.
- (5) **Separate Chair & CEO:** 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:** Resolutions requesting the adoption and reporting of anti-discriminatory policies based on race, gender, gender identity, sexual orientation, and national origin.
- (7) **Post-Consumer Recycling:** Resolutions requesting reporting on: the increase of postconsumer recycling, safer disposal of waste, and adjusting policy to reflect these goals.
- (8) **Tobacco Health Risk:** Resolutions requesting actions to inform consumers of health risks associated with tobacco product use.
- (9) **Non-Recyclable Packaging:** Resolutions requesting reporting on the environmental, reputational, financial, and/or operational impacts and risks of continuing to use non-recyclable product packaging.
- (10) **Climate Change Risk:** Resolutions requesting analysis and disclosure of the impacts and risks, including short and long-term financial and operational risks, associated with climate change and disclosure of plans to address those risks.

The pre-approval policy allows CRIC to recommend votes on certain types of resolutions to the investment office with the expressed permission of the Board of Trustees. This removes the repetitive step of having to regain approval on the same types of resolutions every year, saving both CRIC and the Board of Trustees time. Furthermore, it allows Carleton to vote on policy-approved resolutions that arise between January and shareholder meetings occurring later in the spring. It seems to be working effectively so far.

3 2018 Resolutions Falling Under the Pre-Approval Policy

CRIC has been tracking shareholder resolutions for the 2018 season and has determined that the following resolutions fall under the Proxy Voting Pre-Approval Policy. CRIC asks the Investment Office to vote “yes” on the items listed. See the appendix for full texts of the resolutions.²

Table 3: 2018 Resolutions Falling Under the Pre-Approval Policy

Company	Resolution	Pre-Approval Category
Alphabet Inc.	Lobbying Expenditures Disclosure - Climate	Political Contributions
Anadarko Petroleum Corp.	Business Plan for 2C Warming Scenario	Climate Change Risk
Anadarko Petroleum Corp.	Methane Emissions - Measure Leakage & Disclose	Greenhouse Gas Emission Reduction Goals
Comcast Corp.	Lobbying Expenditure Disclosure	Political Contributions
Goldman Sachs Group Inc.	Lobbying Expenditure Disclosure	Political Contributions
Marriott International Inc.	Gender Pay Gap	Equal Employment Opportunity
MasterCard inc.	Gender Pay Gap	Equal Employment Opportunity
Mondelez International Inc.	Environmental Impacts of Non-Recyclable Packaging	Non-Recyclable Packaging
Noble Energy Inc.	Business Plan for 2C Warming Scenario	Climate Change Risk

²The appendix contains the full text of all 2018 resolutions discussed in this report and is available on CRIC’s website at <https://apps.carleton.edu/governance/cric/reports/>.

4 2018 Resolutions Not Falling Under Pre-Approval Categories

While the resolutions discussed below do not fall under the pre-approval policy, CRIC believes that they reflect values that are broadly shared by members of the Carleton community.

4.1 Alphabet, Inc: Executive Pay-Incorporate Diversity & Sustainability Metrics

Carleton holds 1,290 Class A shares worth \$1,256,099 and 1,570 Class C shares worth \$1,505,803 as of 9/30/17

Resolution text

Shareholders request the Board Compensation Committee prepare a report assessing the feasibility of integrating sustainability metrics, including metrics regarding diversity among senior executives, into the performance measures of the CEO under the Company's compensation incentive plans. For the purposes of this proposal, "sustainability" is defined as how environmental and social considerations, and related financial impacts, are integrated into long-term corporate strategy, and "diversity" refers to gender, racial, and ethnic diversity.

CRIC's Position

Boardroom diversity is a pervasive problem that needs addressing at many companies within both the United States and around the world. Technology companies have been especially slow to incorporate diversity - women and people of color are grossly underrepresented, especially in technical and management roles. Furthermore, a failure to promote women and minorities within technology companies is known to drive talent away from the industry. Despite proclaimed efforts to address diversity, only one person of color and four women were included in Google's top 31 executives in 2016.

In late 2009, the SEC adopted procedures to assess a company's commitment to creating and maintaining a diverse board and found many Fortune 500 companies lacking (first link below). Carleton also maintains a commitment to diversity and values a diverse set of peoples integral to maintaining a high achieving student body, as seen in the college's Community, Equity, and Diversity Initiative (second link below). Therefore, it is CRIC's position that voting in favor of adding diversity metrics to performance measures when assessing executive pay aligns with Carleton's values and helps to address a pressing and important issue found within the executive level of many corporations. More information can be found at: <https://www.sec.gov/news/sp/2011/spch0430111aa.htm> and at <https://apps.carleton.edu/governance/diversity/statement/>

In addition to diversity metrics, this resolution also calls for reporting on the feasibility of integrating sustainability metrics into executive pay. Carleton recognizes the importance of sustainability in our own operations as vital to the long term health of the college. We therefore support those companies in which we invest making efforts to ensure their own sustainability. Diversity ties directly into sustainability by providing above average profits and growth (McKinsey & Company, Diversity Matters 2015, link below). <https://www.mckinsey.com/~media/mckinsey/business%20functions/organization/our%20insights/why%20diversity%20matters/diversity%20matters.ashx>

We note that a similar resolution for diversity metrics was brought forward last year for TJ Maxx and we urged a yes vote. The resolution received 4.45% votes in favor.

4.2 Amazon.com Inc: Executive Pay-Incorporate Diversity & Sustainability Metrics

Carleton holds 1995 shares worth \$191,7893 as of 9/30/2017

Resolution text

Note: This is identical to the resolution above for Alphabet, Inc.

Shareholders request the Board Compensation Committee prepare a report assessing the feasibility of integrating sustainability metrics, including metrics regarding diversity among senior executives, into the performance measures of the CEO under the Company's compensation incentive plans. For the purposes of this proposal, "sustainability" is defined as how environmental and social considerations, and related financial impacts, are integrated into long-term corporate strategy, and "diversity" refers to gender, racial, and ethnic diversity.

CRIC's Position

Please see above for the discussion on the identical resolution for Alphabet, Inc.

4.3 Comcast Corp: Prohibit Virtual-Only Annual General Meeting

Carleton holds 26500 shares worth \$1,019,720 as of 9/30/17

Resolution Statement

Shareholders request the Comcast Board adopt a corporate governance policy affirming the continuation of in-person annual meetings in addition to internet access to the meeting, adjust its corporate practices accordingly, and publicize this policy to investors.

CRIC's position

Investor services and corporate good governance bodies are, increasingly, supporting shareholder resolutions to limit online-only meetings. They encourage the institution of "hybrid" meetings-physical meetings with an online component.

While many investors recognize the potential benefits of enabling participation at shareholder meetings via electronic means, some raise concerns about moves to completely eliminate physical shareholder meetings, arguing that virtual meetings may hinder meaningful exchanges between management and shareholders and enable management to avoid uncomfortable questions." The only argument against the resolution that we could find is that online meetings promote wider access. Of course, a hybrid meeting with both online and in-person components as described in the resolution promotes even wider access.

There is emerging in the community of professional asset managers a consensus that a hybrid in-person-come-online shareholder meeting is required for good corporate governance. The values of openness and transparency that this promotes resonate with Carleton's own principles and values.

This same resolution came up last year and we urged a 'yes' vote although it was withdrawn for reasons unknown. CRIC urges a "yes" vote on this resolution this year as well.

4.4 Goldman Sachs Group Inc.: Indigenous People's Rights

Carleton holds 4,747 shares worth \$1,125,941 as of 9/30/2017

Resolution Text

Shareholders request Goldman Sachs modify its committee charters or other directives to ensure board committee oversight of issues of Human and Indigenous Peoples' Rights. The charter should integrate with the Goldman Sachs Statement on Human Rights, and ensure oversight and policies to require in all relevant instances of corporate level, project or consortium financing that our Company and its fiduciaries ensure consideration of finance recipients' policies and practices for potential impacts on Human and Indigenous Peoples' Rights, including respect for the Free, Prior and Informed Consent of Indigenous communities.

CRIC's Position

Goldman Sachs has financially supported firms that developed or constructed the Dakota Access Pipeline (DAPL). The Dakota Access Pipeline was widely condemned for its potential pollution and encroachment on Sioux Nation Land. In the Goldman Sachs Statement on Human Rights, the Company claims to "analyze new and existing clients for a wide array of possible human rights-related issues, including labor practices, impacts on indigenous peoples, and proximity to conflict regions." Goldman Sachs' financial support of the DAPL insufficiently considers "impacts on indigenous peoples" and is therefore inconsistent with their Statement on Human Rights.

CRIC believes that board committee oversight from Goldman Sachs of its own and finance recipients activities to ensure consideration of policies and practices with Goldman Sachs' own statement on Human Rights is an appropriate step. It takes the Statement on Human Rights beyond being mere words, and is a step towards those ideas being upheld in the process of making future lending decisions. Therefore, CRIC agrees with the Resolution and urges a 'yes' vote.

4.5 JP Morgan Chase & Co: Risks of Lending, Underwriting in Tar Sands Production

Carleton holds 12600 shares worth \$1,203,426 as of 9/30/2017

Resolution Text

Shareholders request that JPMorgan Chase prepare a report, omitting proprietary information and prepared at reasonable cost, by September 2018, on the reputational, financial and climate risks associated with project and corporate lending, underwriting, advising and investing for tar sands production and transportation. This report should include assessments of:

- Short- and medium-term risk of portfolio devaluation due to stranding of high cost tar sand assets.
- Whether JPMC's tar sands financing is consistent with the Paris Agreement's goal of limiting global temperature increase to "well below 2 degrees Celsius".
- How tar sands financing aligns with our company's support for Indigenous People's rights.
- Reducing risk by establishing a specific policy, similar to that of other banks, restricting financing for tar sands projects and companies.

CRIC's Position

Many of CRIC's Proxy Pre-Approval Categories fall under a category of caring for and ensuring the proper stewardship of the environment: #1 greenhouse gas emission reduction goals, #2 hydraulic fracturing, #9 non-recyclable packaging, and #10 climate change risk. In line with these, Carleton has stated in their environmental statement of principles that "Carleton strives to be a model of stewardship for the environment by incorporating ideals of sustainability into the operations of the college" (https://apps.carleton.edu/new_students/assets/Green_Guide_Update_5_10_17.pdf) and in 2014, the Congressional Research Service found that harvesting oil from tar sands produces higher greenhouse gas emissions than other forms of oil harvesting (<https://fas.org/sgp/crs/misc/R42537.pdf>). Economically, many large investment banks like ING, BNP Paribas, US Bank, and others have announced divestment from companies that participate in harvesting oil from tar sands (<https://nowtoronto.com/news/banks-bailing-on-tar-sands-pipelines/>). By creating a report on the potential impact in many areas of continuing to fund tar sands production and transportation, JP Morgan has the ability to act in the best interest of the shareholders by discovering if their current practices could harm the company's financial health, reputation, and the health of the environment. Therefore, due to Carleton's position on the environment, CRIC's stated pre-approval categories focusing on making sure companies are good caretakers of the environment and the economic climate moving towards divestment from tar sands oil harvesting, it is CRIC's recommendation to vote yes on this proposal.

5 Community Engagement and Other Activities

CRIC strives to engage students, faculty, and staff on campus in discussions around responsible investment. In an effort to share our work with the campus community over the past year, we set up an informational booth in the Sayles-Hill Campus Center a few times each term. During these tabling sessions, we spoke with students about the committee's mission, our work around shareholder resolutions, and other projects we have undertaken. We also offered printed copies of our annual report to interested students.

In late May, we organized an event at which Professor Joel Weisberg spoke. Professor Weisberg was involved in CRIC from its early days and served as the faculty co-chair for many years. The event was attended by committee members as well as other students and faculty. Professor Weisberg spoke about his vision for the committee and its early pursuits. This event served both as an opportunity to learn from Professor Weisberg's experience with responsible investment and to consider future projects that the committee might pursue.

As we have in past years, this coming Spring we plan to prepare a survey to gauge the opinions and knowledge of students, faculty, and staff around topics in investment, ethical investment, and the management of the school's endowment. This survey will be conducted by students within a Statistical Consulting course who will produce a report for the committee summarizing their findings.

6 Conclusion

This has been another productive year for CRIC and with the recent addition of several new and enthusiastic committee members, we look forward to taking on new projects in the year to come. We plan to explore ways in which we might expand our shareholder engagement through writing letters to companies whose resolutions we have voted on. In the interest of educating students, faculty, and staff on campus around investment and ethical investment, we are also considering bringing a speaker while keeping up with our other community engagement activities.

We appreciate your willingness to discuss our recommendations for this season of shareholder voting. We hope that you will consider the arguments we have presented and vote 'yes' on the resolutions included in Section 4.