

Harvard University

Corporation Committee on Shareholder Responsibility

Annual Report, 2010-2011

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Corporation Committee on Shareholder Responsibility

2011 Annual Report

Introduction

In 1972 Harvard established two committees to assist the University in addressing its ethical responsibilities as a large institutional investor: the Corporation Committee on Shareholder Responsibility (CCSR) and the Advisory Committee on Shareholder Responsibility (ACSR). The CCSR consists of three members of the Harvard Corporation. Acting on behalf of the President and Fellows, it decides how Harvard's shares should be voted on issues of social responsibility and oversees the consistent application of University policy with respect to investments in certain sectors and precedent, actively considering new circumstances or information that may suggest changes in policy or practice.

The ACSR, a twelve-member committee made up of Harvard faculty, students and alumni, is responsible for analyzing proxy issues and making recommendations on how Harvard should vote its shares. The investigation of issues and communication of analysis is the central function of the ACSR, which provides the CCSR with the reasons underlying each recommendation, including the rationale for divergent views on how the University should vote. From time to time the ACSR has also suggested new policy approaches regarding investments or proxy voting. The purview of these two committees encompasses the range of issues of social responsibility that are put before corporate shareholders.

Shareholder proposals addressing corporate governance matters are decided by the Harvard Management Company.

During the 2011 spring proxy voting season (the period between March and June when most publicly-traded corporations hold annual meetings), the Committees considered thirty-eight proposals dealing with issues of social responsibility that were addressed to corporations whose securities were owned directly by Harvard¹. Issues raised through the proxy process this year included corporate environmental practices (including company efforts to address global warming); human rights; equal employment and diversity; animal welfare; corporate political contributions; and executive compensation in relation to issues of social responsibility. New topics addressed in 2011 included the environmental risks of offshore oil drilling operations; concerns about continued reliance on coal as an energy source; the environmental impact of mountain top removal coal mining; and the possible link between fast food and childhood obesity and other diet-related diseases. (For a list of both Committees' votes by company, see Appendix A.)

This report provides a detailed description of the ACSR's recommendations and the CCSR's votes on shareholder proposals that came to vote during the 2011 proxy season. The report also provides

¹ Harvard participates in hedge and mutual funds, the shares of which are voted by the funds.

a description of the University's policies with regard to oil companies doing business in Sudan (see Appendix B) and to firms involved in the sale and manufacture of tobacco products (see Appendix E).

I. 2011 Proxy Season

During the 2011 proxy season, the University voted on shareholder proposals addressing a wide range of social issues. The University's approach to proxy voting is to consider each proposal on a case-by-case basis in the light of the ACSR's discussions and CCSR precedent on comparable issues. The ACSR's analysis of proxy issues is supported by background material provided by Sustainable Investments Institute (Si2), a newly-formed, not-for-profit organization that provides institutional investors with analyses of issues of social concern and corporate responsibility raised through the proxy process. Because the CCSR's role emphasizes consistency in applying precedent, and the ACSR is responsible for keeping abreast of new information or circumstances which may suggest taking a different position, the ACSR is often a leading indicator for change on shareholder issues.

While the two Committees occasionally disagree on the appropriate response to a shareholder proposal, the voting pattern over a period of years shows a high degree of agreement. Of the thirty-eight proposals considered by the Committees during the 2011 proxy season, the ACSR and the CCSR were in complete agreement on twenty-nine proposals (76%), the Committees partially agreed (e.g., one Committee abstained while the other voted against or in favor of the proposal) on three (8%), and the ACSR vote was split on three proposals (8%). There were three cases (8%) where the ACSR referred the CCSR to long-standing precedent on the issues. (For a list of both Committees' votes by company, see Appendix A.)

Number of Social Issues Proposals Voted by the University Since 2001

<u>Year</u>	<u>Total Voted</u>
2001	114
2002	108
2003	98
2004	157
2005	126
2006	130
2007	130
2008	111
2009	19*
2010	26*
2011	38*

- Due to changes in asset allocation in regard to directly held domestic equities, the ACSR considered fewer proposals than usual between 2009 and 2011.

A. Environment

For many years, corporate policies and practices related to the environment have been of particular interest to shareholders. In 2011, nearly half of the proposals considered by Harvard's two shareholder committees addressed environmental issues. Below is a detailed account of the ACSR's recommendations and the CCSR's vote on each of the proposals.

1. Climate Change

a. Report on Risks of Continued Reliance on Coal

Dominion Resources is a large producer of energy from nuclear, coal and natural gas sources. According to Si2, about two percent is currently derived from renewable resources, although the company has a stated commitment to reach the goal of fifteen percent renewable power by 2025. A new resolution addressed the financial risks of continued reliance on coal, asking that the company

“at reasonable cost and omitting proprietary information, issue a report by September 2011 on the financial risks of continued reliance on coal contrasted with increased investments in efficiency and cleaner energy, including assessment of the cumulative costs of environmental compliance for coal plants compared to alternative generating sources.”

The ACSR voted 3-7-1 to recommend a vote against the proposal. Opposing members think that as a whole, the energy industry in this country is moving slowly to increase the use of renewable energy sources, and see no reason to single out Dominion Resources in this manner. Members point out that the company is well-informed about the risks of reliance on coal as an energy source and is continually evaluating options for energy sources that best match the needs of its customers. In addition, they note that Dominion is planning to convert several of its older coal plants to natural gas. Since the company already provides information about financial risks in public reports, they see no purpose in an additional report on this topic. ACSR members voting in favor argued that since much of the requested information has already been compiled for regulatory purposes, it is not unreasonable to ask the company to pull this information together in a separate report for shareholders. The CCSR voted against the resolution following the ACSR recommendation.

b. Set Goal for Renewable Energy Generation

A second new resolution to Dominion Resources called on the company to

“set and pursue a company goal to achieve 20% renewable electricity energy generation by 2024.”

The ACSR voted 2-2-7 to recommend abstention. Opposing and abstaining members recognized the importance of renewable energy, but did not think it appropriate to press the company to adopt a specific goal of twenty percent renewable energy generation. ACSR members recommending support consider it in the best interest of the company to invest in renewable energy sources, and were not reluctant to support a specific goal. The CCSR abstained on the resolution following the ACSR recommendation. For several years, both Committees have supported resolutions calling on companies to increase efforts to use renewable energy sources. The current proposal, however, goes beyond such requests by setting a specific goal of twenty percent reliance on renewable energy. In the past, Harvard has been reluctant to support resolutions that set such specific targets.

c. Adopt Goals to Cut GHG Emissions

For several years, shareholders have put forward resolutions calling on companies to adopt goals for reducing greenhouse gas emissions. This year ExxonMobil was asked to

“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.”

The ACSR voted unanimously (6-0-0) to recommend support for the proposal based on the view that ExxonMobil would be well advised to take action in advance of possible future federal regulations that are likely to require significant GHG emissions reductions. The CCSR voted in favor of the resolution following ACSR recommendation and precedent of both Committees on an identical proposal to the company in 2010.

d. Report on Risks Associated with Climate Change

A resolution to Goldman Sachs asked the company to

“prepare, by November 2011, at reasonable expense and omitting proprietary information, a report disclosing the business risk related to developments in the political, legislative, regulatory and scientific landscape regarding climate change.”

The ACSR unanimously (0-10-0) recommended a vote against the resolution, considering the terms of the proposal to be unreasonably broad in addressing speculative risks. The CCSR voted against

the resolution following ACSR recommendation and precedent of both Committees on a similar proposal to ConocoPhillips in 2010.

A similar proposal to Chevron focused on concerns that the company does not provide enough information about the financial risks associated with climate change, and that what is provided is not presented in a manner that is easily accessible to shareholders. The company believes that information provided in its annual report and form 10-K is sufficient, and that given the uncertainty of the regulatory environment, disclosing speculative risks could be misleading. The resolution requested the company to

“prepare a report to shareowners on the financial risks resulting from climate change and its impacts on shareowner value over time, as well as actions the Board deems necessary to provide long-term protection of our business interests and shareowner value. The Board shall decide the parameters of the study and summary report.

A summary report will be made available to investors by September 15, 2011. Cost of preparation will be kept within reasonable limits and proprietary Information omitted.”

The ACSR vote was split 1-2-3 on the proposal. Opposing members considered the request overly broad, and noted that Chevron appears to be giving adequate attention to risks associated with climate change. They also agreed with management that it is difficult to predict with any accuracy the impact of future regulations on the company’s operations. Supporting and abstaining members think that a report on the financial risks associated with climate change would be relevant for Chevron, since the company is an industry that is likely to be significantly affected by future regulations regarding GHG emissions. Abstaining members believe the proposal raises an important issue that companies should address, but that this particular company appears to be doing so already. Given the ACSR’s split vote, the CCSR voted against the proposal in light of precedent of both Committees.

e. Report on Steps to Reduce Coal Combustion Risks

Southern Company is a large U.S. producer of electricity with twenty-two coal fired plants spread throughout the southeast. A new resolution asks Southern to report on steps it is taking above and beyond federal regulations to reduce risks associated with coal combustion waste (CCW). A recent EPA report found that there is a high risk of human exposure to carcinogens, including lead, selenium, and arsenic, when CCW is deposited in landfills. Although the EPA currently allows companies to dispose of CCW in pools or landfills, pending legislation could designate it as a hazardous waste, subject to more intense oversight under the Resource Conservation and Recovery Act (RCRA). The resolution calls on the company to

“prepare a report on the company’s efforts, above and beyond current compliance, to reduce environmental and health hazards associated with coal combustion waste

contaminating water (including the implementation of caps, liners, groundwater monitoring, and/or leachate collection systems), and how those efforts may reduce legal, reputational and other risks to the company's finances and operations. This report should be available to shareholders by August 2011, be prepared at reasonable cost, and omit confidential information such as proprietary data or legal strategy.”

The ACSR voted 4-0-2 to recommend a vote in favor. Supporting members recognize that the proposal addresses serious questions about water contamination, since CCW stored in pools and landfills could pollute the watershed. Although the company is in compliance with federal laws, it does not appear to be making additional efforts to address issues of contamination. In light of the EPA's pending legislation, and concerns about the hazards of CCW, supporting members think it is reasonable to ask for information about company efforts to go beyond current regulatory requirements. Abstaining members did not support the call for a report, but were concerned that a vote against might indicate a lack of concern about this issue. The CCSR voted in favor of the resolution.

2. Report on Oil Sands Operations

Bituminous sands, known as oil sands or tar sands, are a type of petroleum deposit found throughout the world, but in extremely large quantities in Venezuela and Canada. ExxonMobil has invested in oil sands projects through a Canadian subsidiary, Imperial Oil, which has extensive operations in Alberta. The process of extracting oil from sand can have adverse environmental impacts. Although ExxonMobil provides information about general environmental policies in reports to shareholders, there is little detailed information available about the company's oil sands projects. The company was asked to

“prepare a report discussing possible long term risks to the company's finances and operations posed by the environmental, social and economic challenges associated with the oil sands. The report should be prepared at reasonable cost, omit proprietary and legal strategy information, address risks other than those associated with or attributable to climate change, and be available to investors by August 2011.”

The ACSR referred the CCSR to precedent of both Committees in support of an identical proposal to the company last year. At that time, the ACSR unanimously voted (10-0-0) to recommend support, viewing the request for a report as reasonable in light of the company's extensive oil sands operations. The CCSR voted in favor of the proposal.

3. Report on Hydraulic Fracturing

The growing demand for natural gas has led to an increase in extraction of gas from unconventional sources and by complicated extraction techniques, including hydraulic fracturing.

“Fracking,” as it is sometimes called, is a process that forces a mix of sand, water, and chemicals underground to break up masses of rock to allow captured gas to escape. Although hydraulic fracturing has been in use for over 60 years, regulation of fracturing operations has been sporadic, and includes a mixture of state and federal laws. Resolutions to ExxonMobil and Chevron addressed concerns that fracking is likely to become a significant domestic energy resource, particularly as gas prices increase and fracking techniques become economically feasible. Legislation at both the federal and state level is evolving that would require greater disclosure by companies with regard to the chemicals used in the process, and also addressing the potential impact of those chemicals on groundwater and drinking water. The resolutions asked that the companies

“prepare a report by September 1, 2011, at reasonable cost and omitting confidential information such as proprietary or legally prejudicial data, summarizing

1. known and potential environmental impacts of fracturing operations that are owned or proposed for acquisition by [company(s)]; and
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.”

The ACSR unanimously voted (6-0-0) to recommend support for the proposals. ACSR members noted that neither company has been forthcoming with information about fracking operations, that both have been cited for environmental violations associated with these operations, and that the industry as a whole is lobbying heavily to stall legislative action that would require greater disclosure about hydraulic fracturing. Given the potential for serious environmental damage, ACSR members agreed that a vote in favor is appropriate. The CCSR voted in favor of both resolutions.

4. Offshore Oil Drilling

Chevron, the second largest oil company in the U.S., has significant deep water drilling operations worldwide. The 2010 BP oil spill in the Gulf of Mexico has highlighted the risk of catastrophic oil spills, and has led to increased scrutiny of offshore oil drilling. A new proposal to Chevron addresses concerns about the company’s offshore operations:

“Be it Resolved: That the shareholders of Chevron Corporation recommend preparation and delivery to all shareholders a report that includes:

- a) The numbers of all offshore oil wells (exploratory, production and out-of-production) that Chevron Corporation owns or has partnership in
- b) Current and projected expenditures for remedial maintenance and inspection of out-of-production wells

- c) Cost of research to find effective containment and reclamation following marine oil spills.”

The ACSR voted 1-5-0 to recommend opposition. According to the Si2 background report, Chevron has policies in place to manage risks related to oil spills. In addition, the company states that it has properly sealed and inspected out-of-production wells and has worked with other major corporations to develop a new rapid response system that will capture and contain oil in the event of future underwater well blowouts in the Gulf of Mexico. ACSR members recommending opposition point out that Chevron already reports on information requested in parts (a) and (c) of the proposal. They are concerned that part (b) does not encourage preventative measures to avoid future oil spills, since it specifically refers to maintenance and inspection of out-of-production wells. They think that the proposal is poorly worded in that it focuses more on the costs associated with managing oil spill cleanups rather than on researching effective ways to avoid oil spills. Some members stressed that they would have recommended a vote in favor had the proponents requested information about the risks associated with offshore oil drilling. The supporting member considered that any information about the company’s policies and practices with regard to maintaining offshore oil wells would be of interest to investors. The CCSR did not want to suggest a lack of concern about the risks of offshore drilling, but given information already made available by Chevron, abstained on the proposal.

5. Nuclear Power

Dominion Resources operates four nuclear power plants and is in the planning process for a new reactor unit. A new proposal called on the company to

“be open and honest with us about the enormous costs and risks of new nuclear construction; invest in demand control and new renewable generation sources for the safest and quickest returns to shareholders, stakeholders, community and country; and therefore, stop wasting shareholder money by pursuing the increasingly costly and unnecessary risky venture of a new nuclear unit.”

The ACSR voted unanimously 0-11-0 to recommend a vote against the proposal, agreeing with management that a combination of resource types is necessary to provide reliable energy to customers. Since there are no alternative energy sources available at the scale required by Dominion Resources, such sources are not currently a viable substitute for nuclear power or natural gas. The CCSR voted against the resolution following ACSR recommendation.

6. Mountain Top Removal Coal Mining

A new proposal to Dominion Resources raised concerns about mountain top removal (MTR) coal mining, a surface mining process in which coal seams and the earth above them are totally removed from

the top of a mountain. Potential environmental risks of MTR mining include permanent damage to lakes and rivers, the creation of air quality problems, and the destruction of large tracts of diverse ecosystems. Due to concerns regarding water quality and environmental health, the EPA has placed seventy-nine mountaintop removal coal mining projects on hold and is reviewing regulations related to MTR mining. Although Dominion Resources does not undertake MTR mining itself, it purchases coal from a number of MTR mines. The company claims that these mines are in compliance with federal and state regulations, and that MTR is one resource that helps the company provide fuel to customers at a reasonable price. The resolution asks Dominion Resources to

“publish a report, at reasonable cost and omitting proprietary information, by February, 2012 assessing (i) the impact of Dominion’s use of coal obtained through mountaintop removal coal mining, and (ii) the impact and optimum timing of a future policy ending use of coal obtained through mountaintop removal coal mining in Dominion’s energy-related operations and services.”

The ACSR voted 6-4-1 to recommend support of the resolution. ACSR members recommending a vote in favor believe the request for a report to be reasonable given the serious potential for environmental damage caused by MTR mining, and the possibility of new regulations regarding this type of mining. While recognizing the importance of these concerns, opposing and abstaining members considered the resolution poorly framed, particularly in asking for an assessment of the impact and optimum timing of a future policy ending the use of coal obtained through MTR mining. The CCSR voted in favor of the resolution.

7. Elect Environmental Expert to Board of Directors

A new resolution to Chevron asks that the company specifically include an environmental expert on its board of directors.

“THEREFORE, BE IT RESOLVED: Shareholders request that, as the terms in office of elected board directors expire, at least one candidate be recommended who:

- has a high level of expertise and experience in environmental matters relevant to hydrocarbon exploration and production and is widely recognized in the business and environmental communities as an authority in such field, in each case as reasonably determined by the company’s board, and
- will qualify, subject to limited exceptions in extraordinary circumstances explicitly specified by the board, as an independent director under the standards applicable to the company as an NYSE listed company,

in order that the board includes at least one director satisfying the foregoing criteria, which director shall have designated responsibility on the board for environmental matters.”

The ACSR vote was split 1-3-2 on the proposal. ACSR members recommending a vote against think the company has already taken steps to ensure that the board includes individuals with environmental expertise, and that the proposal inappropriately suggests that the company appoint one individual to fill this role. They note that the company's Corporate Governance Guidelines already identify environmental expertise as a valuable attribute for board membership. Abstaining members agreed, but were concerned that a vote against might suggest a lack of support for environmental expertise on the board. The supporting member saw no reason not to encourage the company to include someone on the board who could speak to environmental issues. The CCSR opposed the resolution following arguments of ACSR members recommending a vote against.

8. Establish a Committee of Experts on Climate Change

A resolution addressing issues of climate change and environmental sustainability asked ExxonMobil to

“establish a Committee of independent and Company experts in climate and technology to make recommendations and report to shareholders within six months of the annual meeting (barring competitive information and disseminated at a reasonable expense), on how ExxonMobil, within reasonable timeframes, can become the recognized industry leader in developing and making available the necessary technology and products to become an environmentally sustainable energy company at every level of its operation.”

The ACSR voted 0-5-1 to recommend a vote against. ACSR members recommending opposition were not opposed to asking the company how it will remain competitive in what is expected to be a changing regulatory environment, but thought the proposal was poorly framed. The abstaining member regarded the proposal as unreasonable in asking the company to address such a major shift in its business focus, but thought that the company would be well advised to consider including alternative energy sources in its energy mix. The CCSR voted against the resolution following ACSR recommendation and precedent of both Committees on a similar proposal to the company last year.

9. Report on Possible Link Between Fast Food Consumption and Diet-Related Diseases

A new resolution to McDonald's addresses concerns about the possible connections among fast food consumption, childhood obesity, and diet-related diseases. According to the Si2 background report, childhood obesity in the U.S. has risen dramatically in recent years, coinciding with significant increases in fast food consumption. Although there is no hard evidence that fast food causes obesity or other nutritional diseases, public health researchers have found a clear correlation between fast food and

increased caloric intake. Some states are adopting requirements that fast food companies provide more information about the nutritional content of their products and some states have also imposed restrictions on marketing certain foods to children. McDonald's agrees that children's health and nutrition are important, but argues that it is already addressing the issues and is reporting on its activities in an open and transparent way. The company's website provides nutritional information about the items on its menu, and the company is now offering food options specifically designed to support good nutrition. The proposal called on the company to

“issue a report, at reasonable expense and excluding proprietary information, within six months of the 2011 annual meeting, assessing the company's policy responses to public concerns regarding linkages of fast food to childhood obesity, diet-related diseases and other impacts on children's health. Such report should include an assessment of the potential impacts of public concerns and evolving public policy on the company's finances and operations.”

The ACSR vote was split 3-3-3 on the proposal. ACSR members recommending a vote in favor believe McDonald's could be more effective in addressing an area of growing concern, particularly in light of new guidelines and regulations about food marketing directed at children. Opposing members think the company has taken adequate steps to provide customers with information about nutrition and healthy choices. They are concerned about the wording of the resolution, particularly the request that the company assess “the potential impacts of public concerns.” Abstaining members agree that the resolution is too broadly worded, but would like the company to do more to address a growing public health problem. The CCSR abstained on the resolution in light of the ACSR's split vote on this new proposal.

10. Report on Recycling Policy

Concerns about poor recycling rates of beverage containers prompted a group of shareholders to ask McDonald's to consider stronger environmental policies regarding its beverage containers. The proposal called on the company to

“issue a report assessing its progress and describing policy options for implementing the company's environmental policies to ensure more environmentally beneficial beverage containers such as incorporating a comprehensive container recycling strategy, including recycled content goals and container recovery goals, and considering relative environmental impacts of different types of beverage containers. The board shall prepare a report by November 1, 2011 on the company's efforts to achieve this strategy. The report, to be prepared at reasonable cost, may omit confidential information.”

The ACSR unanimously voted (9-0-0) to recommend support of the resolution. Members noted that McDonald's was an early adaptor of recycled napkins, but now lags behind competitors with regard to recycling beverage containers. Support for the resolution is based on the view that it offers shareholders an opportunity to encourage McDonald's to take a leadership role on an issue of great importance to the fast food industry. ACSR members noted that the company's environmental policy does not address beverage containers, and that McDonald's does not appear to have investigated new options for some time. They acknowledged that McDonald's restaurants are franchised, and the company may have limited leverage over decisions made by franchisees. They agreed, however, that the proposal is asking the company to consider a range of options, and does not attempt to set specific goals or timetables. Given Harvard's own green initiative, ACSR members thought it appropriate for the University to encourage a major producer of disposal containers to show leadership on the issue of recycling. The CCSR voted in favor of the resolution.

B. Human Rights

1. Human Rights Committee

Chevron faces the challenge of operating in many countries that have questionable records with regard to human rights, including Burma/Myanmar, Nigeria, Kazakhstan, and Angola. This year Chevron was asked to establish a separate board committee to address human rights issues, as follows:

“RESOLVED: To amend Article I of the By-Laws, by inserting after Section 5, a new Section 6.

SECTION 6. Board Committee on Human Rights. There is established a Board Committee on Human Rights, to review the implications of company policies, above and beyond matters of legal compliance, for the human rights of individuals in the US and worldwide, including assessing the impacts of company operations on resources and public welfare in host communities and the relationship of company operations and resources to any government security forces that secure company operations in those communities.

The Board of Directors is authorized, by resolution, in its discretion and consistent with these By-Laws, the Articles of Incorporation and applicable law to: (1) select the members of the Board Committee on Human Rights, (2) provide said committee with funds for operating expenses, (3) adopt a charter to govern said Committee's operations, (4) empower said Committee to solicit public input and to issue periodic reports to shareholders and the public, at reasonable expense and excluding confidential information, including but not limited to an annual report on the findings of the Board Committee, and (5) any other measures within the Board's discretion consistent with these By-Laws and applicable law. Nothing herein shall restrict the power of the Board of Directors to manage the business and affairs of the company. The Board Committee on Human Rights shall not incur any costs to the company except as authorized by the Board of Directors.”

The ACSR voted 0-5-0 to recommend a vote against the proposal. In recommending a vote against, members noted that since late 2009 the company has been implementing a human rights policy that addresses many of the issues of concern to proponents. Although ACSR members agreed that there is the potential for human rights abuses in areas where Chevron operates, they did not think it necessary to ask the company to establish a new committee of the board to address this issue. The CCSR voted against the resolution following the ACSR recommendation and precedent of both Committees on substantially similar proposals.

2. Human Right with Regard to Water

A proposal to ExxonMobil refers to the Human Right to Water, which the United Nations defines as “all people’s right to safe, sufficient, acceptable, physically accessible and affordable water for personal and domestic use.” The resolution called on the company to

“create a comprehensive policy articulating our company’s respect for and commitment to the human right to water.”

The ACSR voted 5-0-1 to recommend a vote in favor of the proposal. In July, 2010, the United Nations codified the right to water as a human right, and according to Si2, six major U.S. corporations have adopted policies in support of the human right to water. In recommending support, ACSR members noted that while ExxonMobil has statements regarding water in its Standards of Business Conduct, the company lags competitors in regard to providing access to water use data. Members also noted that ExxonMobil has recently been the subject of a number of government and state lawsuits related to water contamination, and are concerned that without a strong policy related to water use, the company may face business risks regarding its use of water. The abstaining member referred to the University’s abstention on an identical proposal to the company last year. The CCSR abstained on the resolution following CCSR precedent and in light of the ACSR’s shifting position on this relatively new issue, anticipating opportunities to consider these issues in future proxy seasons.

3. End Investment in Genocide Linked Countries

JPMorgan Chase, one of the largest financial holding companies in the U.S., has operations in over sixty countries. A new proposal raises concerns about the company’s investments in PetroChina. According to the Si2 background report, JPMorgan has over \$1.3 billion invested in PetroChina on behalf of clients, while PetroChina has connections to oil production projects in the Darfur region of Sudan through its parent company, CNPC. The resolution called on the company to

“institute transparent procedures to prevent holding investments in companies that, in management’s judgment, substantially contribute to genocide or crimes against humanity, the most egregious violations of human rights. Management should encourage JPMorgan funds with separate boards to institute similar procedures.”

The ACSR voted 0-4-5 to recommend abstention. Opposing and abstaining members are concerned about the resolution’s wording, since it suggests that the company should rely on “management’s judgment” as to whether a company is substantially contributing to genocide or crimes against humanity. They note that JPMorgan is operating in accordance with U.S. regulations, that the PetroChina investments are held on behalf of the company’s clients, over which the company has no direct control, and that JPMorgan has a human rights statement and has articulated its policies to shareholders and the public. They see no reason for an additional report to shareholders on this issue. Abstaining members recognized that the company does not control investments held on behalf of clients, but were concerned that a vote against might suggest a lack of concern about this issue. The CCSR abstained on the resolution following ACSR recommendation and CCSR precedent on a similar proposal to the company last year.

4. Report on Continued Investment in High Risk Countries

A resolution to Chevron addressed criteria for operations in specific high-risk countries, including Burma, calling on Chevron to

“make available by the 2012 annual meeting a report, omitting proprietary information and at reasonable cost, on Chevron’s criteria for (i) investment in; (ii) continued operations in; and, (iii) withdrawal from specific high-risk countries, including Burma.”

The ACSR voted 1-5-0 to recommend a vote against the proposal. ACSR members recommending a vote against argue that Chevron has rigorous policies in place to address country selection, and that these policies are described in several documents, including the company’s Business Conduct and Ethics Code. The supporting member argues that fossil fuel developers are often required by the location of natural resources to do business in high risk areas, and that it is particularly important for such companies to adopt specific guidelines regarding host county selection. The CCSR voted against the proposal.

C. Equal Employment

Although federal law prohibits employment discrimination based on race, color, religion, sex, or national origin, there is no federal legislation protecting lesbian, gay, bisexual, and transgender/

transsexual workers from discrimination in the workplace. A resubmitted proposal called on ExxonMobil to

“amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and gender identity and to substantially implement the policy.”

The ACSR referred the CCSR to strong precedent in favor of an identical proposal to ExxonMobil last year. The company does not explicitly prohibit discrimination based on sexual orientation in its non-discrimination policy. ExxonMobil’s global policy simply states that it is committed to having a workplace that is “free from any form of harassment or discrimination,” although the company will include specific clauses where required by law. Since many states do not require these clauses, last year’s ACSR was concerned that in some states there are no protections against discrimination for ExxonMobil’s employees in regard to sexual orientation or gender identity. Given long-standing precedent of both Committees, and the fact that Harvard’s own policies prohibit discrimination on the basis of sexual orientation and gender identity, the CCSR voted in favor of the resolution.

An Equal Employment Opportunity proposal to Johnson & Johnson called on the company to

“amend its Equal Employment Opportunity Policy to explicitly include the prohibition of discrimination based on the health status of an applicant.”

The ACSR considered the proposal poorly worded in not specifically addressing the capacity of an applicant to do the work required by the position, and voted unanimously (0-10-0) to recommend a vote against. The CCSR voted against the resolution following ACSR recommendation.

D. Political Contributions

1. Disclose political Contributions

For several years, shareholder activists have been concerned about the increasing level of corporate spending in the political process. The recent Supreme Court decision in Citizen’s United vs. The Federal Election Commission has removed prior corporate spending restrictions on campaign finance. Although companies must provide shareholders with certain information about political contributions, less information is generally available about corporate contributions made at the state level or to trade organizations that may be politically active. This year a proposal called on several companies to

“provide a report, updated semi-annually, disclosing the Company’s:

1. Policies and procedures for political contributions and expenditures (both direct and indirect) made with corporate funds.
2. Monetary and non-monetary contributions and expenditures (direct and indirect) 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."

The ACSR voted to recommend support of the proposal to AT&T (9-0-1); Goldman Sachs (9-0-0); 3M (8-1-0); J.P. Morgan Chase (8-0-0); Southwestern Energy (8-0-0). Members noted that the proposal is similar to resolutions brought forward for several years, but this year's request does not ask for the identification of individuals who participated in making decisions about political contributions (a point of concern for both ACSR and CCSR in the past). Instead, it asks for the "title(s)" of the person(s) in the company who make such decisions. ACSR members supporting the newly-worded proposal stressed that it is particularly important to endorse resolutions that seek greater transparency about corporate political contributions given the recent Supreme Court ruling that removed limits to such contributions. The CCSR voted in favor of the resolutions.

A similar proposal called on ExxonMobil to

"provide a report, updated semi-annually, disclosing the amounts that the Company has paid or incurred in connection with influencing legislation; participating or intervening in any political campaign on behalf of (or in opposition to) any candidate for public office; and attempting to influence the general public, or segments thereof, with respect to elections, legislative matters or referenda.

The report should include (a) contributions to or expenditures on behalf of political candidates, political parties, political committees and other political entities and (b) the portions of any dues or other payments that are made to a tax-exempt organization for an expenditure or contribution that, if made directly by the Company, would not be deductible under section 162(e)(1) of the Internal Revenue Code. The report should identify each recipient, the amount paid to each, and the purpose of any contribution or expenditure."

The ACSR unanimously voted (6-0-0) to recommend support for the proposal. Members noted that the resolution is essentially a combination of two proposals considered by the ACSR earlier in the year. Although ExxonMobil is generally considered to be a leader with regard to disclosure about political contributions, it does not provide information about contributions to non-profit organizations that

make donations for political causes, nor does it report trade association memberships and dues. ACSR members continue to believe that it is important to ask for full disclosure of corporate political contributions. The CCSR voted in favor following the ACSR recommendation and precedent of both Committees on similar proposals earlier in the year.

2. Affirm Political Non-partisanship

A resubmitted proposal to J.P. Morgan Chase called on the company to

“affirm its political non-partisanship. To this end the following practices are to be avoided:

- (a) The handing of contribution cards of a single political party to an employee by a supervisor.
- (b) Requesting an employee to send a political contribution to an individual in the Corporation for a subsequent delivery as part of a group of contributions to a political party or fund raising committee.
- (c) Requesting an employee to issue personal checks blank as to payee for subsequent forwarding to a political party, committee or candidate.
- (d) Using supervisory meetings to announce that contribution cards of one party are available and that anyone desiring cards of a different party will be supplied one on request to his supervisor.
- (e) Placing a preponderance of contribution cards of one party at mail stations locations.”

The ACSR unanimously voted (0-8-0) to recommend opposition to the proposal. It was noted that the resolution has been presented every year since 2004. The resolution asks the company to avoid five specific actions that are considered coercive with regard to corporate political contributions. Given that all five actions are already illegal, that the company has policies in place that prohibit coercive behavior, and the fact that there is no evidence that the company is violating the law, ACSR members saw no reason to support the proposal. The CCSR abstained, following precedent of both Committees on identical proposals that came to vote in 2006 and 2007.

3. Review Role of U.S. Chamber of Commerce

In an effort to increase corporate accountability with regard to involvement in politically active trade groups, a resolution addressing corporate association with the U.S. Chamber of Commerce called on two companies to

“initiate a review of our role on the Board of the U.S. Chamber of Commerce that includes an evaluation of:

1. The consistency between the U.S. Chamber’s policies and our company’s priority environmental, social and governance (or corporate responsibility) policies and programs. As part of this process, particular focus should be on the Chamber’s new

regulatory initiative to block or stall emerging regulation through legal suits or pressure on congressional representatives and regulators.

2. Options to distinguish, as necessary, our company's position from that of the U.S. Chamber such as:
 - Stating publicly that the Chamber's position does not reflect our company's views on specific issues;
 - Requesting that the Chamber state publicly that members have different and varied positions;
 - Working with other Board members to ensure varying and diverse opinions are expressed at the Forum in a democratic process.
3. Dues and additional payments made, how they are utilized, and if any restrictions should be placed upon them (e.g. limits on monies used for political spending and specific election contests).
4. The governance of the U.S. Chamber and our role as a Board member, including oversight and checks and balances, and our responsibilities with respect to Chamber programs and initiatives. This process should also address how Board members evaluate and provide feedback on the performance and compensation of the Chamber's CEO.
5. How our company can engage more effectively with investors and other stakeholders on this issue.

The results of this review should be made available to investors by October 1, 2011."

The ACSR unanimously voted to recommend opposition to the proposal to 3M (0-10-0) and to JPMorgan Chase (0-8-0). Although they support resolutions that seek greater transparency with regard to political contributions, including contributions made to trade associations, ACSR members do not think it is appropriate for shareholders to attempt to direct management with regard to membership in trade associations. The CCSR voted against these resolutions.

E. Disclose Former Government Service

A resolution to Verizon addressed issues of potential conflict of interest, calling on the company to

"have the Company furnish the stockholders each year with a list of people employed by the Corporation with the rank of Vice President or above, or as a consultant, or as a lobbyist, or as legal counsel or investment banker or director, who, in the previous five years have served in any governmental capacity, whether Federal, City or State, or as a staff member of any CONGRESSIONAL COMMITTEE or regulatory agency, and to disclose to the stockholders whether such person was engaged in any matter which had a bearing on the business of the Corporation and/or its subsidiaries, provided that information directly affecting the competitive position of the Corporation may be omitted."

The ACSR unanimously voted (0-10-0) to recommend opposition to the proposal. Members consider Verizon to be a particularly well run company with clear guidelines regarding possible conflicts of interest. They think the company's current level of disclosure is adequate, and agreed with last year's ACSR that the request is excessive in asking for the government connections of such a wide range of employees. The CCSR voted against the resolution following ACSR recommendation and precedent of both Committees.

F. Executive Compensation

Since the 1980s, shareholders have expressed concern about the excessive compensation packages offered to top executives and the widening gap between executive compensation and the wages paid to lower level employees. Past resolutions have attempted to create a link between executive compensation and the effectiveness of a company's performance in addressing a variety of social concerns. This year, Harvard voted on a proposal calling on Goldman Sachs to

“initiate a review of our Company's senior executive compensation policies and make available a summary report of that review by October 1, 2011 (omitting confidential information and processed at a reasonable cost). We request that the report include:

1. An evaluation of whether our senior executive compensation packages (including, but not limited to, options, benefits, perks, loans and retirement agreements) are “excessive” and should be modified.
2. An exploration of how sizable layoffs and the level of pay of our lowest paid workers impact senior executive pay.
3. An analysis of the way in which fluctuations in revenues impact: a) the Company's compensation pool; b) the compensation of the Company's top 25 senior executives; and c) the Company's shareholders.”

The ACSR voted 1-8-0 to recommend a vote against the proposal. Opposing members pointed out that the resolution seeks to address two separate issues: income disparity and excessive executive compensation. They did not think that the proposal adequately addresses either concern. The supporting member regarded the issues as closely related, and thought a report on pay disparity and exorbitant executive compensation would shed light on a problem of increasing concern. The CCSR voted against the resolution following ACSR recommendation and precedent of both Committees on similarly worded proposals.

A similar proposal suggested that ExxonMobil

“when setting senior executive compensation, include sustainability as one of the performance measures for senior executives under the Company's annual and/or long-term incentive plans. Sustainability is defined as how environmental, social and financial considerations are integrated into corporate strategy over the long term.”

The ACSR referred the CCSR to precedent on the proposal. In 2005, the ACSR unanimously voted (9-0-0) to recommend support for a substantially similar proposal to Broadcom that reflected concerns about the disparity between increasing executive compensation and decreasing shareholder return. Support for the proposal was based on the view that it is important for corporate compensation policies to include consideration of financial and social performance. Broadcom had faced several lawsuits and shareholder class action suits related to compensation of executives, and ACSR members agreed that a report on this issue would be of interest to shareholders. The CCSR voted in favor of the Broadcom resolution following ACSR recommendation, and also supported a similar request to Merck. In light of this precedent, the CCSR voted in favor of this year's proposal to ExxonMobil.

G. Drug Pricing

A new proposal to Johnson & Johnson addressed concerns about rising pharmaceutical costs. The resolution called on the company to

“create and implement a policy of price restraint on branded pharmaceuticals, utilizing a combination of approaches to keep drug prices at reasonable levels, such as an increase that would not exceed the previous year's Consumer Price Index, and report to shareholders by September 2011 on changes in policies and pricing procedures for pharmaceutical products (withholding any competitive information, and at reasonable cost).”

Resolutions of this type have come before the ACSR in the past, and both Committees have voted against them based on concerns that automatic limits on pricing policy could hamper the company's ability to invest in research and the development of new drugs. Most members, however, considered high drug prices an area of serious concern. Drug prices have continued to rise, usually above the Consumer Price Index. Many pharmaceutical companies now face a “patent cliff” as profitable drugs lose patent protection and are opened to generic manufacture, resulting in a significant drop in revenue for the original developer of the drug and less money for investing in research and development of new drugs.

The ACSR voted unanimously (0-10-0) to recommend a vote against the proposal. Members noted that similar resolutions first came forward about 10 years ago, but received very little support from shareholders. The most recent University precedent was in 2005, when the ACSR voted against a similar resolution to Pfizer. In voting against the current resolution, ACSR members agreed that the issue is complicated by new health care legislation that is having an impact on the company's profitability, and as some of Johnson & Johnson's most profitable drugs have already or will soon become generic, members

are concerned that pressing the company to lower prices could limit the amount available for funding the development of new drugs. Members did not think the proposal would be effective in addressing the problem of high pharmaceutical costs, which they saw as a matter better addressed by public policy than on a company-by-company basis. Although opposing the resolution, they noted that the profit margins for U.S. pharmaceutical companies remain higher than those for other industries, and may not be sustainable going forward, particularly in light of new health care legislation that may affect drug pricing.

The CCSR voted against the resolution following ACSR recommendation and precedent on the proposal to Pfizer in 2005.

H. Animal Welfare

1. Animal Testing

A resolution to Johnson & Johnson addressed concerns about the use of live animals for medical training purposes. The proposal called on the company to

“maintain and promote the highest ethical and evidence-based training standards, the Board is requested to adopt available non-animal methods whenever possible and incorporate them consistently throughout all the Company’s operations.”

The ACSR voted 1-7-2 to recommend a vote against. ACSR members recommending opposition consider the mechanisms for overseeing the use of animals for medical training to be appropriately within the jurisdiction of regulatory agencies, and regard these agencies as effective. Since the company has policies in place to address animal welfare, is in compliance with applicable laws, and has committed to using alternatives to animals for training purposes whenever possible, they see no benefit to the company in adopting the proposal. The CCSR voted against the resolution following ACSR recommendation.

2. Animal Slaughter Methods

A resolution to McDonald’s asks the company to require its suppliers to move away from controlled atmosphere stunning (CAS) and electric stunning techniques (which are meant to render birds unconscious before they are put in scald tanks), and to adopt controlled atmosphere killing (CAK), which, according to the proponents, peacefully kills birds while they are still in their crates.

“RESOLVED, that to advance the company’s financial interests and the welfare of chickens killed for its restaurants, shareholders encourage the board to require the company’s chicken suppliers to switch to controlled-atmosphere killing (CAK) within four years.”

The ACSR voted 0-8-1 to recommend opposition. Members recommending a vote against the proposal considered the request extreme in calling on McDonald’s to require all its suppliers to shift to CAK slaughter methods, especially since the proponents do not offer convincing evidence that CAK is preferable to CAS or electric stunning techniques, either from a financial standpoint or from an animal welfare perspective. The abstaining member argued that it is difficult to find authoritative information about slaughter methods, and is concerned that there seems to be relatively little government oversight in this area. The CCSR voted against the resolution following ACSR recommendation.

I. Develop and Enforce Policy to Insure Fair Lending

A new proposal to J.P. Morgan Chase addressed concerns that banks often use different loan modification programs for loans that they own compared with those that they service for other lenders. Of particular concern are subprime loans and certain adjustable rate mortgages (ARMs). The resolution called on the company to

“oversee development and enforcement of policies to ensure that the same loan modification methods for similar loan types are applied uniformly to both loans owned by the corporation and those serviced for others, subject to valid constraints of pooling and servicing agreements, and report policies and results to shareholders by October 30, 2011.”

The ACSR voted 6-1-2 to recommend a vote in favor. Although the company says that its existing policies regarding loan modifications are applied equally to all borrowers, and that loans are subject to extensive government oversight, ACSR members recommending a vote in favor think the proponents raises legitimate concerns about the risk of discriminatory practices. They do not think the company has done enough to guarantee that loan modification programs are applied equally, and would like JPMorgan to disclose publicly its policies and procedures to minimize future risk. These members suggested that such a report would be beneficial to the company from a public relations standpoint. Opposing members believe the company has already provided adequate information about loan modification programs, and that it is in compliance with government regulations related to lending practices. The CCSR voted in favor of the resolution following the ACSR recommendation.

II. Conclusion

The CCSR would like to extend its thanks to members of the Advisory Committee for their contributions to the analysis of the issues presented by the 2011 proxy season, and looks forward to working with new and continuing members of the ACSR in the coming year. The ACSR's role in providing analysis of proxy issues and recommendations for voting has proved invaluable to the CCSR in voting the University's shares and developing investment policy over the years. The CCSR would also like to extend special thanks to retiring members of the ACSR, and to express particular gratitude for the leadership of Professor Joseph Bower, who in 2011 completed his two-year term as Chairman.

Appendix A

2011 Proxy Season Summary

<u>Company</u>	<u>Resolution</u>	<u>ACSR_Vote</u>	<u>CCSR_Vote</u>
1. Johnson & Johnson	end animal use in sales training	1-7-2 Oppose	Oppose
2. Johnson & Johnson	implement and report on Rx price restraint	0-10-0 Oppose	Oppose
3. Johnson & Johnson	add health status to non-discrimination policy	0-10-0 Oppose	Oppose
4. AT&T	report on political contributions	9-0-1 In favor	In favor
5. Dominion Resources	report on coal reliance risks	3-7-1 Oppose	Oppose
6. Dominion Resources	stop development of nuclear power	0-11-0 Oppose	Oppose
7. Dominion Resources	report on mountaintop removal coal mining	6-4-1 In favor	In favor
8. Dominion Resources	set renewable energy goal	2-2-7 Abstain	Abstain
9. Goldman Sachs	report on climate change science, political risks	0-10-0 Oppose	Oppose
10. 3M	review role on U.S. Chamber of Commerce board	0-10-0 Oppose	Oppose
11. Verizon	disclose prior government service of co. officials	0-10-0 Oppose	Oppose
12. Goldman Sachs	report on pay disparity	1-8-0 Oppose	Oppose
13. Goldman Sachs	report on political contributions	9-0-0 In favor	In favor
14. 3M	report on political contributions	8-1-0 In favor	In favor
15. McDonald's	report on fast food and childhood obesity	3-3-3 Split	Abstain
16. McDonald's	phase in CAK slaughter method	0-8-1 Oppose	Oppose
17. McDonald's	adopt recycling strategy with goals	9-0-0 In favor	In favor
18. JPMorgan Chase	end investments in genocide-connected companies	0-4-5 Abstain	Abstain
19. JPMorgan Chase	review role on U.S. Chamber of Commerce board	0-8-0 Oppose	Oppose
20. JPMorgan Chase	develop/report on loan modification policy	6-1-2 In favor	In favor
21. Southwestern Energy	report on political spending	8-0-0 In favor	In favor
22. JPMorgan Chase	report on political spending	8-0-0 In favor	In favor
23. JPMorgan Chase	affirm political non-partisanship	0-8-0 Oppose	Abstain
24. Chevron	report on offshore oil well risks	1-5-0 Oppose	Abstain
25. Chevron	report on hydraulic fracturing	6-0-0 In favor	In favor
26. Exxon Mobil	report on hydraulic fracturing	6-0-0 In favor	In favor
27. Exxon Mobil	adopt goals to reduce GHG emissions	6-0-0 In favor	In favor
28. Chevron	report on climate change risks	1-2-3 Split	Oppose
29. Southern	report on coal combustion waste and risks	4-0-2 In favor	In favor
30. Chevron	nominate independent environmental expert to board	1-3-2 Split	Oppose

31.	Exxon Mobil	report on energy independence leadership options	0-5-1 Oppose	Oppose
32.	Exxon Mobil	adopt policy on human right to water	5-0-1 In favor	Abstain
33.	Chevron	report on host country selection criteria	1-5-0 Oppose	Oppose
34.	Chevron	establish board committee on human rights	0-5-0 Oppose	Oppose
35.	Exxon Mobil	report on political contributions and lobbying	6-0-0 In favor	In favor
36.	Chevron	include sustainability as executive performance measure	Refer to precedent	In favor
37.	Exxon Mobil	adopt gender identity/sexual orientation EEO policy	Refer to precedent	In favor
38.	Exxon Mobil	report on oil sands risks	Refer to precedent	In favor

Appendix B

Harvard's Investment Policy with Regard to Oil Companies Operating in Sudan

In 2005, the CCSR recommended to the Harvard Corporation that the University divest itself of stock held in PetroChina Company Limited (PetroChina), a Chinese oil company with major interests in Sudanese oil production. This decision was made in light of the analysis presented in the spring of 2005 by a subcommittee of the ACSR. In 2006, the CCSR further recommended that the University divest itself of stock held in China Petroleum and Chemical Corporation (Sinopec Corporation). The Corporation's decision to divest these companies reflected deep concerns about the grievous crisis that persists in the Darfur region of Sudan and about the role of these companies in the production of oil in Sudan. The CCSR concluded that the considerations that led the University to divest its PetroChina holdings in April 2005 militated in favor of divestment of holdings in Sinopec Corporation. (See Appendices C and D for the full text of the CCSR Statements on PetroChina and Sinopec.)

Appendix C

Statement by Harvard Corporation Committee on Shareholder Responsibility (CCSR) Regarding Stock in PetroChina Company Limited

April 4, 2005

We are announcing today the Harvard Corporation's decision to direct Harvard Management Company (HMC) to divest itself of stock held by HMC in PetroChina Company Limited (PetroChina).

This decision reflects deep concerns about the grievous crisis that persists in the Darfur region of Sudan and about the extensive role of PetroChina's closely affiliated parent company, China National Petroleum Corporation, as a leading partner of the Sudanese government in the production of oil in Sudan. Oil is a critical source of revenue and an asset of paramount strategic importance to the Sudanese government, which has been found to be complicit in what the U.S. Congress and U.S. State Department have termed "genocide" in Darfur and what a United Nations commission of inquiry recently characterized as "crimes against humanity and war crimes . . . [that] may be no less serious and heinous than genocide."

Although Harvard maintains a strong presumption against the divestment of stock for reasons unrelated to investment purposes, we believe that the case for divestment in this instance is persuasive, in view of the confluence of circumstances summarized below, under the heading "Recommendation to Divest from Petrochina."

The Corporation, on our recommendation, has reached this decision in light of the advice of the University's Advisory Committee on Shareholder Responsibility (ACSR) to divest from PetroChina. The ACSR is comprised of four faculty members, four students, and four alumni. We asked the ACSR to study the issue and offer its advice to us after concerns had been expressed by members of the Harvard community about PetroChina and the situation in Darfur. We are especially grateful for the efforts of an ACSR subcommittee chaired by Joseph Badaracco, Shad Professor of Business Ethics and former chair of the ACSR. The subcommittee, after hearing from representatives of the group urging divestment from companies doing business with Sudan and otherwise inquiring into the circumstances, prepared a report that thoughtfully addresses the relevant considerations, and we therefore quote from it at length below.

The Crisis in Darfur

The ACSR subcommittee report begins by describing the grave situation in Darfur:

A grievous crisis exists in the Darfur region of Sudan. In March 2004, the United Nations humanitarian coordinator for Sudan described the situation in Darfur as an instance of "ethnic cleansing" and "the world's greatest humanitarian crisis." In July 2004, both houses of the United States Congress passed a resolution declaring the atrocities in Darfur to constitute genocide. In September 2004, U.S. Secretary of State Colin S. Powell similarly declared that genocide has been

committed in Darfur, for which the Sudanese government and the so-called Janjaweed militia groups bear responsibility.

On January 25, 2005, a special UN commission of inquiry, while stopping short of declaring that “genocide” is underway in Sudan, concluded that “the Government of the Sudan and the Janjaweed are responsible for serious violations of international human rights and humanitarian law amounting to crimes under international law,” including “killings of civilians, torture, enforced disappearances, destruction of villages, rape and other forms of sexual violence, pillaging and forced displacement, throughout Darfur.” It stated that such acts have been “conducted on a widespread and systematic basis,” and that “the crimes against humanity and war crimes that have been committed in Darfur may be no less serious and heinous than genocide.”

Numerous other observers have condemned the Sudanese government for complicity in actions that have reportedly resulted in the deaths of more than 70,000 Sudanese civilians (some estimates are far higher) and the displacement of 1.5 million more. [See note below, regarding a more recent and much higher estimate of death toll.] There have also been reports linking oil production activities in Sudan directly to mass displacement of civilians and other human rights abuses. The grave situation in the Darfur region persists, notwithstanding the recent signing of a peace accord to end the longstanding north-south civil war in Sudan, and several rounds of negotiations concerning Darfur.

Note: On March 29, 2005, after the ACSR subcommittee had completed its report, a British parliamentary report stated that the death toll in Darfur may be as high as 300,000.

The importance of oil to the Sudanese government, and the involvement of CNPC

The ACSR report also discusses the central importance of oil to the governing regime in Sudan, as well as the extensive involvement of China National Petroleum Corporation, the parent company of PetroChina, in the production of Sudanese oil:

Oil production is widely understood to be a crucial source of revenue for the Sudanese government, essential to the government’s capacity to fund military operations, and an asset of exceptional strategic importance to the regime. According to a recent report of the U.S. Department of Energy, “With the start of significant oil production (and exports) beginning in late 1999, . . . Sudan’s economy is changing dramatically, with oil export revenues now accounting for around 73% of Sudan’s total export earnings.” [Energy Information Administration, U.S. Department of Energy, Sudan Country Analysis Brief, July 2004.] As of January 2004, Sudan’s estimated proven reserves of crude oil stood at 563 million barrels, more than twice the 2001 estimate. As of June 2004, crude oil production had risen to 345,000 barrels per day, up from 270,000 barrels per day just a year earlier. [Ibid.]

The China National Petroleum Corporation (“CNPC”) is wholly-owned by the Chinese Government[. CNPC] conducts oil operations in Sudan. CNPC is the largest single shareholder of the Greater Nile Petroleum Operating Company (“GNPOC”), a

consortium that “dominates Sudan’s oil fields.” [“China Invests Heavily in Sudan’s Oil Industry,” The Washington Post, December 23, 2004 (Post article).] GNPOC was created by the Sudanese government and includes, among its joint venturers, the Sudanese state-owned oil company, Sudapet. (United States investors are prohibited by U.S. sanctions law from investing in the GNPOC joint venture.) CNPC recently reported that its production of crude oil in Sudan exceeded 16 million tons in 2004, which appears to account for a substantial fraction of its total foreign oil production.

It has also been observed that the production of Sudanese oil has been a matter of attention within the United Nations Security Council in discussions of possible international sanctions against Sudan based on the situation in Darfur, and that substantial revenue from Sudan’s oil production has gone toward the purchase of weapons.

CNPC and PetroChina

The ACSR report also addresses the relationship of CNPC to PetroChina:

In April 1999, CNPC announced its plans to sell \$10 billion shares on the New York Stock Exchange. Human rights groups and others objected to the initial public offering, contending that the deal would be tantamount to U.S. support for genocide in [southern] Sudan. In response, CNPC restructured the transaction. It created a new subsidiary, PetroChina, which would operate only inside China, to be owned 90% by CNPC and 10% by private investors. On April 6, 2000, \$2.9 billion dollars of shares in PetroChina were sold on the New York Stock Exchange to private investors. At that time, CNPC’s investment bankers from Goldman Sachs asserted to investors that none of the money raised in the IPO would be used to fund CNPC’s projects in Sudan. [Post article; China’s Involvement in Sudan: Arms and Oil, Human Rights Watch, November 2003 (Human Rights Watch Report).]

Despite CNPC’s assurances, several potential investors viewed with considerable skepticism CNPC’s firewall strategy. Opponents of the IPO pointed out that when PetroChina was created, it incurred \$15 billion in debt from CNPC, some of which was incurred in connection with the GNPOC project. [Human Rights Watch Report.] Fund managers were skeptical that PetroChina could make independent business decisions because CNPC owned 90% of its shares. As a result of these concerns, several major institutions, including such pension funds as TIAA-CREF and Calpers, elected at the time of the IPO not to invest.

Within the past few months, there have been further complaints that “[t]ransparency in the relationship between PetroChina and CNPC is so poor that investors are often in the dark about potential cross-subsidies.” [“Assets Plan for PetroChina in Global Drive,” The Standard, October 25, 2004.]

In an effort to determine whether PetroChina can exercise independence from CNPC despite CNPC’s 90% ownership interest in it, the subcommittee examined the management of the two companies. The results of that review were striking. The Chairman of PetroChina is the President of CNPC; PetroChina’s legal counsel is CNPC’s

President; PetroChina's Vice Chairmen, Executive Directors, and Non-executive Directors are also CNPC's Vice Presidents; and the four subcommittees of PetroChina's Board of Directors contain substantial representation from CNPC. Indeed, the investment and development subcommittee of the board of PetroChina is comprised solely of two Vice Presidents of CNPC.

Against this background come new reports that suggest the two companies are contemplating the integration of their operations. According to *The Standard*, "Beijing plans to create an integrated oil giant capable of competing on the global stage with the likes of Exxon-Mobil and Royal Dutch Shell by restructuring PetroChina and its parent China National Petroleum Corp. (CNPC)." [Ibid.] As a result of this contemplated corporate restructuring, PetroChina itself may become the direct owner of substantial oil assets in Sudan now owned by CNPC, or CNPC and PetroChina may establish a joint venture through which they would jointly own such assets.

The Recommendation to Divest from PetroChina

Finally, the ACSR report recommends that Harvard divest itself of PetroChina stock, recognizing the strong presumption against divestment for reasons unrelated to investment purposes, but also pointing to the unusual combination of circumstances presented by this particular holding:

The subcommittee understands that Harvard manages its endowment to achieve maximum returns to support the academic purposes and programs of the University, consistent with a prudent level of risk. The University maintains a strong presumption against divesting itself of securities for reasons unrelated to investment purposes, and against using divestment as a political tool or a "weapon against injustice"—not because there are not many worthy political causes or deeply troubling injustices in the world, but because the University is first and foremost an academic institution. During his tenure as president of Harvard, Derek Bok wrote thoughtfully and extensively about the reasons for that approach. His writings are a compelling reminder that the University, as an academic rather than a political institution, must take great care to avoid leveraging its endowment or prestige in ways that could embroil the institution in political and social controversies not directly related to its academic pursuits, and thus compromise the core values and independence of the academic enterprise.

Nevertheless, there are exceptional cases in which the strong presumption against divestment may be overcome. As President Bok noted, "Although trustees have a legal and moral obligation to enhance and conserve the university's resources, there are rare occasions when the very nature of a company's business makes it inappropriate for a university to invest in the enterprise." Typically, in such cases, the act of divestment is not taken with the expectation that it will induce a company to cease its objectionable operations; rather, to paraphrase President Bok, the University simply does not consider it proper to make investments in the enterprise in question.

We believe the unique pattern of circumstances relating PetroChina to the crisis in Sudan counsels in favor of taking the extraordinary step of divestment:

- the declarations by the United States Congress and the U.S. Secretary of State describing the situation in Darfur as involving a “genocide” in which the Sudanese government is complicit;
- the judgment of a United Nations commission of inquiry that the Government of Sudan shares responsibility for “widespread and systematic acts” in Darfur amounting to “crimes against humanity and war crimes . . . [that] may be no less serious and heinous than genocide”;
- the apparent persistence of the crisis in Darfur notwithstanding the recently negotiated peace agreement intended to end the north-south civil war in Sudan and several rounds of negotiations focused on Darfur;
- the salient importance of oil to the Sudanese government as a strategic asset and source of revenue, available to fund military and other operations;
- the reports that oil-related activities themselves have exacerbated the humanitarian crisis in Sudan;
- the magnitude and scope of CNPC’s active involvement in Sudanese oil production activities (especially in GNPOC), the importance of its Sudanese activities in its overall range of foreign oil activities, and CNPC’s status as a direct joint venture partner of Sudapet, owned by the Sudanese government;
- the express inclusion of the GNPOC joint venture on the list of entities with which persons in the United States are prohibited from doing business under U.S. sanctions law;
- CNPC’s 90 percent ownership of PetroChina, and the lack of realistic opportunity for an owner of a small fraction of PetroChina’s publicly traded shares to exercise “voice” in a way that could be expected to exert significant influence on the conduct of CNPC, which is wholly owned by the Chinese government;
- the fact that PetroChina’s Board of Directors is dominated by CNPC’s senior management;
- the recent reports that PetroChina itself may soon become the direct owner of international oil assets (including Sudanese assets) now owned by CNPC, or that CNPC and PetroChina may form a joint venture through which they would jointly own such assets, as a result of a contemplated corporate restructuring.

Conclusion

The CCSR is persuaded, and the Corporation agrees, that this particular combination of circumstances, taken together, warrants the rare step of divestment. We accordingly are directing Harvard Management Company to divest its holdings of PetroChina stock.

Appendix D

Statement by Harvard Corporation Committee on Shareholder Responsibility (CCSR)
Regarding Stock in China Petroleum and Chemical Corporation (Sinopec Corporation)
March, 2006

We are announcing today the Harvard Corporation's decision to direct Harvard Management Company (HMC) to divest itself of stock held by HMC in China Petroleum and Chemical Corporation (Sinopec Corporation).

The Corporation, on our recommendation, has reached this decision in light of the analysis presented last spring by a subcommittee of the University's Advisory Committee on Shareholder Responsibility (ACSR) for divestment from PetroChina Company Limited (PetroChina), another Chinese oil company with major interests in Sudanese oil production, and developments since that decision regarding Sinopec Corporation's involvement in Sudanese oil production. The decision to divest from Sinopec reflects these new developments as well as deep concerns about the grievous crisis that persists in the Darfur region of Sudan and about the role of Sinopec Corporation and its closely affiliated parent company, China Petrochemical Corporation (Sinopec Group), in the production of oil in Sudan. Oil is a critical source of revenue and an asset of paramount strategic importance to the Sudanese government, which has been found to be complicit in what the U.S. Congress and U.S. State Department have termed "genocide" in Darfur and what a United Nations commission of inquiry has characterized as "crimes against humanity and war crimes . . . [that] may be no less serious and heinous than genocide."

Having monitored recent developments regarding Sinopec Corporation's involvement in Sudanese oil production, the CCSR has concluded that the considerations that led us to divest from PetroChina in April 2005 counsel in favor of our now divesting from Sinopec Corporation. Those considerations are set forth in the statement available at http://www.news.harvard.edu/gazette/daily/2005/04/04-sudan_statement.html. With particular regard to Sinopec, the CCSR has further noted the following:

- Sinopec Corporation is a publicly listed company in which a dominant (68%) interest is held by China Petrochemical Corporation (Sinopec Group). Sinopec Group is wholly owned by the Chinese government, and Sinopec Corporation and Sinopec Group have substantially overlapping management.
- Sinopec Corporation is a partner in Petrodar Operating Company Ltd., a consortium whose partners also include China National Petroleum Corporation (CNPC, the 90% owner of PetroChina) and Sudapet (the Sudanese state-owned oil company), among others.
- In August 2005 Petrodar commenced production of oil in blocks 3 and 7 in Southeast Sudan. In December 2005 Petrodar announced that its first shipment of crude oil would be shipped from Sudan in January 2006. Petrodar's operations represent a major increase in overall Sudanese oil production, with Petrodar's output expected to reach 250,000 barrels/day by the end of 2006 and to grow to 350,000 barrels/day in 2007.

- In November 2005, Sinopec Group announced plans to partner with CNPC to purchase an oil field in Sudan, and has reportedly indicated an interest in expanding its business in Sudan.

Conclusion

Although Harvard maintains a strong presumption against the divestment of stock for reasons unrelated to investment purposes, the CCSR is persuaded, and the Corporation agrees, that the particular combination of circumstances bearing on Sinopec Corporation's involvement in oil production activities in Sudan warrants the unusual step of divestment. We accordingly are directing Harvard Management Company to divest its holdings of Sinopec Corporation stock.

Appendix E

Harvard's Investment Policy with Regard to Tobacco

In 1990 the University completed sales of its stock in a number of companies in the tobacco industry and adopted a policy prohibiting the future purchase of stock in companies producing significant quantities of cigarettes or other tobacco products. These actions followed extensive consideration by both of Harvard's Committees on Shareholder Responsibility of the issues associated with direct investment in the tobacco industry. In 1988 at the urging of the ACSR, the CCSR wrote to portfolio companies in the tobacco industry, asking them to address the ethical responsibilities associated with tobacco sales in developing countries and to provide information on their policies for informing consumers of tobacco-use risks in nations having minimal governmental regulations concerning smoking health risks. In some cases this information was not forthcoming; in others the firms had made considered decisions not to follow the World Health Organization code for tobacco marketing or contested the evidence linking tobacco use with disease. In September of 1989 after reviewing this correspondence, the University reached the decision to sell its holdings in the stock of several companies involved in the manufacture of cigarettes and other tobacco products. This decision was motivated by the University's belief that in this case it would be unable, as a continuing shareholder, to influence the policy of the companies in regard to the marketing practices mentioned above, and by the desire not to be associated as a shareholder with companies engaged in significant sales of products that create a substantial and unjustified risk of harm to human health. The sale of stock was completed early in 1990, and later in the year the ACSR encouraged the University to adopt a formal policy precluding any future purchase of such stock. The Corporation subsequently adopted a policy prohibiting the purchase of stock in companies producing significant quantities of cigarettes or other tobacco products.