Harvard University

Corporation Committee on Shareholder Responsibility

Annual Report 2016-2017

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INTRODUCTION

In 1972 Harvard established two committees to assist the University in addressing its ethical responsibilities in voting corporate proxies on issues of social responsibility: the Corporation Committee on Shareholder Responsibility (CCSR) and the Advisory Committee on Shareholder Responsibility (ACSR). The CCSR consists of 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. The purview of these two committees encompasses the range of issues of social responsibility that are put before corporate shareholders. Shareholder proposals regarding corporate governance matters are addressed by Harvard Management Company. From time to time, at the request of the CCSR, the ACSR has also suggested new policy approaches to assist the University in carrying out its ethical responsibilities as a large institutional investor.[1]

The University's approach to proxy voting is to consider each proposal on a case-by-case basis in 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 not-for-profit organization that provides institutional investors with

[1] Examples of University policy statements for which the CCSR has sought input from the ACSR can be found on the University's shareholder responsibility website at http://www.harvard.edu/shareholder-responsibility-committees.

analyses of issues of social concern and corporate responsibility raised through the proxy process.

2017 PROXY SEASON

During the 2017 proxy season (the period between March and June when many publicly traded corporations hold annual meetings), the committees considered forty-four proposals dealing with issues of social responsibility that were addressed to corporations whose securities were owned directly by Harvard.[2] Issues raised through the proxy process this year included corporate political contributions and lobbying; executive compensation; labor standards; health-care product safety; human rights; equal employment; defense and security issues; and corporate environmental reporting and practices on issues including greenhouse gas emissions, renewable energy targets, and pesticides. New topics addressed in 2017 included indigenous people's rights in the context of project financing and the use of criminal background checks in hiring.

Number of Social Issues Proposals considered by both committees since 2007

Year	Total Voted
2008	111
2009	19*
2010	26*
2011	38
2012	41
2013	56
2014	56
2015	54
2016	77
2017	44

*Due to changes in asset allocation in regard to directly held domestic equities, the ACSR considered significantly fewer proposals than usual in 2009 and 2010.

I. Corporate Political Spending

The number of shareholder proposals addressing concerns about corporate political spending has grown sharply since the 2010 U.S. Supreme Court decision (Citizens United vs. Federal Elections Commission), which ruled that limits on independent corporate political

[2] Thirty-two additional shareholder proposals were received after the ACSR meetings ended. Votes on nineteen proposals followed both ACSR and CCSR precedent. In the remaining thirteen instances there was no clear precedent and an abstention was submitted.

contributions – contributions that do not go directly to candidates' campaigns – were unconstitutional. Proponents of resolutions requesting disclosure of indirect political spending, including contributions to trade associations and other business organizations, are also concerned about industry-funded organizations such as the American Legislative Exchange Council (ALEC), which engage in the drafting of "model legislation" which they then seek to include in the legislative process in state legislatures and the U.S. Congress. In 2017, approximately one-quarter of the shareholder proposals considered by the ACSR and the CCSR were related to corporate political contributions and lobbying expenditures.

A. Report on lobbying

According to Sustainable Investments Institute (Si2), ninety percent of corporate political spending occurs after elections to advocate the company's point of view to elected officials. For this reason, shareholders are asking companies for information about how companies spend their money after elections to influence legislators. In 2017, the committees considered six proposals calling on companies to

> Authorize the preparation of a report, updated annually, disclosing:
> 1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
> 2. Payments by [Company] used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
> 3. [Company]'s membership in and payments to any tax-exempt organization that writes and endorses model legislation.
> 4. Description of management's and the Board's decision making process and oversight for making payments described in sections 2 and 3 above.
>
> For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which [Company] is a member. Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.
>
> The report shall be presented to the Audit Committee or other relevant oversight committees and posted on [Company]'s website.

The ACSR voted in favor of proposals to Wells Fargo (9 in favor-0 opposed-0 abstaining), Honeywell (9-0-0), AT&T (9-0-0), Pfizer (9-0-0), Boeing (11-0-0), and AbbVie (11-0-0). Committee members expressed continued agreement with arguments made in previous years for supporting greater corporate transparency about spending on lobbying. Noting that the resolution asked companies to go beyond legal requirements in their disclosure of lobbing expenditures, committee members maintained that it is in shareholders' best interests to be informed about these expenditures. They took note of information from Si2 about each company's lobbying expenditures and current policies and practices, such as board oversight of lobbying, policies for membership in trade associations and nonprofits, and disclosure on some aspects of political spending and lobbying, but expressed support for more disclosure in other areas, such as reporting federal and state lobbying expenditures to investors. Committee members reaffirmed as well shareholders' clear interest in having information about contributions to trade organizations which engage in drafting legislation or whose public positions on issues (climate change action, for example) may at times be at odds with a company's public stance. The CCSR voted in favor of the proposals, following the ACSR's recommendation and strong precedent of both committees.

The ACSR also considered a substantially similar proposal at Citigroup, General Electric, and IBM, requesting that

> the Board authorize the preparation of a report, updated annually, disclosing:
>
> 1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications.
> 2. Payments by [Company] used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient.
> 3. Description of the decision making process and oversight by management and the Board for making payments described in section 2 above.
>
> For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation or regulation, (b) reflects a view on the legislation or regulation and (c) encourages the recipient of the communication to take action with respect to the legislation or regulation. "Indirect lobbying" is lobbying engaged in by a trade association or other organization of which [Company] is a member. Both "direct and indirect lobbying" and "grassroots lobbying communications" include lobbying at the local, state and federal levels.
>
> The report shall be presented to the Audit Committee or other relevant oversight committees of the Board and posted on the company's website.

This proposal differs from the previous proposal only in the omission of the request for information about contributions to organizations that prepare model legislation. The ACSR recommended votes in favor of the proposal at Citigroup (9-0-0), General Electric (9-0-0), and

IBM (9-0-0). As with similar lobbying proposals, members cited strong precedent of both committees and concerns with transparency about political contributions in recommending support. The CCSR voted in favor of the three proposals following the ACSR's recommendations and precedent of both committees.

B. Review/report on political spending

The committees considered a proposal to Berkshire Hathaway for a report on direct and indirect political expenditures. The proposal requested that

> the Company provide a report, updated semiannually, disclosing the Company's:
> 1. Policies and procedures for making, with corporate funds or assets, contributions and expenditures (direct or indirect) to (a) participate or intervene in any political campaign on behalf of (or in opposition to) any candidate for public office, or (b) influence the general public, or any segment thereof, with respect to an election or referendum.
> 2. Monetary and non-monetary contributions and expenditures (direct and indirect) used in the manner described in section 1 above, including:
>
> a. The identity of the recipient as well as the amount paid to each; and
> b. The title(s) of the person(s) in the Company responsible for decision-making.
>
> The report shall be presented to the board of directors or relevant board committee and posted on the Company's website within 12 months from the date of the annual meeting.

The ACSR voted 10-0-0 to recommend a vote in favor of the proposal. In recent years, the committees have considered numerous proposals, in a variety of specific forms, requesting this type of review and report on direct and indirect political spending. The committees based its recommendation on these proposals on a review of each company's current disclosure policies and practices with regard to political spending and on strong past precedent on proposals of this type. According to Si2, Berkshire Hathaway's disclosure practices lag behind many companies in the S&P 500. Members wondered whether the company's decentralized conglomerate structure might complicate the information gathering the proposal requested. But they saw no reason why the parent company would not be able to aggregate disclosure information from each of the businesses. In light of Berkshire Hathaway's sizable political expenditures, its almost total lack of transparency about these expenditures, and the committees' strong past support of disclosure in this area, members strongly favored supporting this recommendation. The CCSR voted in favor of the proposal, following the recommendation of the ACSR and past precedent of both committees.

A related proposals to AT&T focused on indirect political contributions, requesting that

> the Company provide a report, updated semi-annually,
>
> disclosing the Company's: Indirect monetary and non-monetary expenditures used for political purposes, i.e., 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.
>
> 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.
>
> This proposal does not encompass payments used for lobbying.
>
> 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 11-0-0 to recommend a vote in favor of the proposal to AT&T. This is the fourth year in which the committees have considered this proposal at AT&T. In the absence of any important changes in the company's practices and policies on indirect political spending, and taking into account AT&T's high level of direct and indirect political contributions, committee members voiced continued support for precedent on this type of proposal. The CCSR voted in favor of the proposal, following the ACSR's recommendation and strong precedent of both committees.

C. Shareholder advisory vote on political spending

In recent years, an increasing number of proposals have sought information about how companies' political contributions align with their publicly articulated corporate values. In 2017, the ACSR considered a newly formulated proposal, submitted at two companies, which sought shareholder review of companies' political spending and the congruency between company values and that spending. The proponent maintains that companies' political spending could potentially expose them to reputational risk, and believe it is in shareholders' interest to know – and advise upon – the company's contribution plans in advance. The proposal requested that

> the Board of Directors adopt a policy under which the proxy statement for each annual meeting will contain a proposal on political contributions describing:

- the Company's and Intel PAC policies on electioneering and political contributions and communications,
- any political contributions known to be anticipated during the forthcoming fiscal year,
- management's analysis of the congruency with company values and policies of the company's and Intel PAC's policies on electioneering and political contributions and communications, and of the resultant expenditures for the prior year and the forthcoming year, and an explanation of the rationale for any contributions found incongruent;
- management's analysis of any resultant risks to our company's brand, reputation, or shareholder value;
- and providing an advisory shareholder vote on those policies and future plans.

The ACSR voted to recommend a vote opposing the proposal at Intel (0-9-1) and at Home Depot (0-9-1). The committee reviewed the companies' policies and practices on the disclosure of political contributions, noting that, according to Si2, Intel ranks in the top five among S&P 500 companies for the extent of this disclosure and offers some degree of transparency in every key area of disclosure. Home Depot's standing in this regard falls in the middle ranks, according to Si2. They remarked upon the likely expense of such a report and questioned its usefulness. They expressed continued skepticism about the feasibility and value of the requested congruency analysis. Regarding the question of reputational risk, committee members remarked that companies should be alert to such concerns. Members also questioned the feasibility of an anticipatory report or shareholder vote on political expenditures, but speculated that a well-crafted proposal calling for a retrospective vote on a previous year's expenditures could be of value to shareholders. The member recommending abstention, while agreeing with the committee's views on the proposal's faults, wished to signal support for the concept of a well-constructed proposal on a retrospective shareholder vote on political expenditures. The CCSR voted against the proposal, following the recommendation of the ACSR.

II. Environmental Issues

The committees considered seven proposals that sought to encourage company reporting or action on issues related to the environment in areas including greenhouse gas emissions, fossil fuel divestment, pesticides, and policies on recyclable packaging.

A. Climate change

1. Report on greenhouse gas emissions reduction targets

A newly formulated proposal to Verizon reflected the proponent's concern that companies are lagging in setting greenhouse gas reduction goals that will limit the world's global average temperature increase to within 2 degrees Celsius of pre-industrial levels. The proposal asked that

> Verizon Communications senior management, with oversight from the Board of Directors, issue a report assessing the feasibility of adopting science-based greenhouse gas (GHG) reduction targets consistent with the 2-degree scenario.

The ACSR's recommendation on the proposal was split in a 3-3-5 vote. The committee considered Verizon's current emissions profile and emissions reduction efforts in relation to its business. Si2 reports that ninety percent of the company's emissions result from the purchase of electricity for the company's core business of data transmission and storage. Members noted that as an energy purchaser, Verizon's progress on emissions reduction depends in part upon the availability of energy from renewable and nuclear sources. According to Si2, through efforts to date, the company has already met its 2020 targets for the reduction of the "carbon intensity" of its data transmissions. Members reflected upon the implications of the proponent's citing of "science-based greenhouse gas reduction targets" and of the aspirational goals of world leaders to limit warming to 2 degrees C above pre-industrial levels, observing that these goals remain largely aspirational rather than articulated in policies and regulations. Members voting to support the proposal argued that while Verizon's business sector might not be an obvious target for emissions reductions, the proposal's broader aims merit support from Harvard, which itself is undertaking efforts to significantly reduce carbon emissions from its operations. They noted as well that the proposal's requirements are relatively easy to meet. Members recommending opposition to the proposal contended that it is inappropriate to ask a company that has already embarked on significant emissions to plan for regulatory scenarios that have yet to be enacted. Members recommending abstention agreed with the value of sending a signal to Verizon about the importance of reducing greenhouse gas emissions – and of setting new emission goals – but viewed the proposal as more appropriate for companies, such as nonrenewable energy companies and utilities, with much larger emissions impacts. In light of the ACSR's split recommendation, the CCSR abstained on the proposal.

2. Report on methane emissions and reduction

The ACSR reviewed a newly formulated proposal to Berkshire Hathaway on methane emissions and reduction targets. The proposal reflected concerns about the sources of methane emissions and about their outsized contribution to global warming, relative to their volume. According to Si2, thirty-nine percent of emissions come from natural gas production processes, including leaks along gas supply lines. Furthermore, recent satellite data shows that total methane emissions may exceed EPA estimates by forty percent. Fugitive leaks in pipeline infrastructure are a major part of these emissions.

The proposal requested that

> Berkshire Hathaway issue a report (by October 2017, at reasonable cost, omitting proprietary information) reviewing the Company's policies, actions and plans to measure, monitor, mitigate, disclose, and set quantitative reduction targets for methane emissions resulting from all operations, including storage and transportation, under the Company's financial or operational control.

The ACSR voted 10-0-0 to recommend a vote in favor of the proposal. The committees have considered three similar, although not identical, proposals since 2014 at Occidental. The ACSR recommended a vote in favor of all three proposals, and the CCSR followed the ACSR's recommendations. Committee members reviewed the large scale of the Berkshire Hathaway enterprise, its conglomerate structure, and its highly diverse holdings in many business sectors. They took particular note of the company's controlling interest in Northern Natural Gas, which operates in eleven states and has storage capacity for natural gas equal to one day's supply for the United States. According to Si2, Berkshire Hathaway's Form 10k report for the Securities Exchange Commission offers little information on the company's climate-related risks and none on greenhouse gas emissions or reduction targets. Given Berkshire Hathaway's lack of disclosure on these topics, committee members view the proposal as an appropriate effort to encourage the company to manage methane emissions from its businesses. The CCSR voted in favor of the proposal, following the ACSR's recommendation.

3. Divest fossil fuel holdings

A new proposal with no precedent, requesting that Berkshire Hathaway divest its fossil-fuel related business, reflected the proponent's concern that climate change poses a significant business to companies with capital invested in fossil-fuel-related enterprises. The proposal requested that

> BH divest its holdings in companies involved in the extracting, processing, and/or burning of fossil fuels within 12 years to protect its investment portfolio from financial losses.

The ACSR voted 0-10-0 to recommend a vote against the proposal. They took note of the proponent's concern that Berkshire Hathaway's investments in fossil-fuel related enterprises may put its long-term business performance at risk. Considering a recommendation to abstain, members reflected upon ways to send signals to companies on climate change risks, concluding that abstaining on this proposal would not be an effective way to do so. They noted that within the proposal's time frame, there is little likelihood that fossil fuels will become less important to core economic activities such as road transport and aviation. Members characterized the proposal as an unusually aggressive effort to direct management's actions. They affirmed that proposals that more broadly encourage companies to assess and report on climate risk are of value. The CCSR voted against the proposal, following the ACSR's recommendation.

B. Renewable energy

A new proposal to CVS sought to encourage the company to consider adopting targets for the use of renewable energy in its operations. The proposal requested that

> CVS produce a report assessing the climate benefits and feasibility of adopting enterprise-wide, quantitative, time-bound targets for increasing CVS's renewable energy sourcing and/or production. The report should be produced at reasonable cost, in a reasonable timeframe, and omitting proprietary and confidential information. This proposal does not prescribe matters of operational or financial management.

The ACSR voted 10-0-0 to recommend a vote in favor of the proposal. The proposal takes a different approach than related proposals in 2016 to Verizon and PepsiCo on renewable energy targets which requested "company-wide quantitative goals for increasing renewable energy sourcing and/or production" by September of that year. In the proposal to CVS, the proponent, rather requesting that goals be set, requested information on the feasibility of setting such goals. Committee members assessed the company's current efforts to reduce consumption of fossil fuels in its operations. According to Si2, the company views its focus on consumption reduction as appropriate for its level of risk from the effects of climate change, in contrast with some peer companies, which seek additional reductions by obtaining some energy from renewable sources. Members noted that the proposal asked only for a feasibility report and does not intrude upon the conduct of CVS's business or pose an undue burden. They expressed support for encouraging CVS to consider more closely an expanded set of ways to reduce emissions, given that the company has already met its current goals, that regulatory movement on this front is unlikely in the near term, and that it is consistent with Harvard's own effort to significantly reduce carbon emissions from its operations. The CCSR voted in favor of the proposal, following the recommendation of the ACSR.[3]

C. Waste reduction

A proposal to McDonald's focused on the use of polystyrene cups in some countries in which the company operates:

> BE IT RESOLVED THAT: Shareowners of McDonald's request that the board of directors issue a report at reasonable cost, omitting confidential information, assessing the environmental impacts of continued use of polystyrene foam beverage cups, including quantifying the amount that could reach the environment, and assessing the potential for increased risk of adverse health effects to marine animals and humans.

The proposal is new and has no precedent. The ACSR voted 10-0-0 to recommend a vote in favor of the proposal. The committees have supported five more general proposals to Kraft and a successor company, Mondēlez International, focused on packaging and waste reduction. Committee members noted the proponent's concern that polystyrene poses a substantial environmental threat, especially as a pollutant that endangers ocean life. According to Si2, McDonald's has moved ahead of other companies in the U.S. such as Dunkin' Donuts by using only paper cups in this country, but polystyrene cups are still used in some of its operations elsewhere. They noted as well that, according to Si2, the company's most recent report on packaging says nothing about the company's intentions regarding polystyrene, while reporting progress in areas such as creating packaging from recycled materials. Members characterized the proposal's request for a report on environmental impacts as reasonable and in keeping with the committees' precedent on packaging. The CCSR voted in favor of the proposal, following the ACSR's recommendation.

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[3] The proposal was subsequently withdrawn by the proponent and no vote was recorded at the annual shareholders' meeting of CVS.

D. Environment and agriculture/forestry

The committees considered proposals on two subjects related to agriculture. A proposal to PepsiCo reflected the proponent's concern that neonicotinoids, a compound found in certain widely used insecticides, may be contributing to the widespread collapse of bee colonies. The proposal requested that

> the Board publicly report on company strategies or policies currently deployed, or under consideration, to protect public health and pollinators through reduced pesticide usage in the supply chain.

The ACSR voted 11-0-0 to recommend a vote in favor of the proposal. Proposals more directly focused on the impact on pollinators of a class of pesticides known as neonicotinoids were considered by the committees in 2015 and 2016. The committee reflected upon the reasoning for its recommendation to oppose the 2015 proposal and abstain on the 2016 proposal; these recommendations were grounded in uncertainty regarding research findings on the impacts of the pesticide on wild pollinators and cultivated pollinators. The committee noted that the EU has restricted the use of neonicotinoids (neonics) in response to research indicating their contribution to bee colony collapse syndrome. One food company, General Mills, has agreed to phase out the pesticide's use and to fund research. Another, Kellogg, has agreed to study the issue. In contrast, according to Si2, PepsiCo has reduced its coverage of the neonics issue in its most recent environmental report. Members agreed that the practice of requesting disclosure of company practices and policies on matters, such as pesticide use by suppliers, that extend into the supply chain is well established. Considering the vital importance of pollinators to the food supply, the likely shift away from further action on this front by the U.S. federal government under the current administration, the relatively modest requirements of the report, and the CCSR's decision in 2016 to vote in favor of the proposal rather than abstain, members agreed that it is appropriate to shift the committee's recommendation to one of support. The CCSR voted in favor of the proposal, following the recommendation of the ACSR.

A proposal submitted to McDonald's for the second year arose from concerns that the heavy use of antibiotics in animals in the meat industry is accelerating the increase of resistance in humans to antibiotics that treat life-threatening infections. Si2 reports that the Centers for Disease Control regard increasing resistance to antibiotics as a health crisis. The proposal requested that

> the Board update the 2015 McDonald's Global Vision for Antimicrobial Stewardship in Food Animals by adopting the following policy regarding use of antibiotics by its meat suppliers:

The ACSR voted 10-0-0 to recommend a vote in favor of the proposal. Considering this proposal at McDonald's in 2016, the ACSR voted 1-0-3 to recommend abstention. However, the CCSR voted in favor of the proposal, agreeing with the reasoning of the ACSR member who recommended support. In 2017, the ACSR noted the central importance of ensuring that antibiotics remain effective in human health care and of taking steps to minimize the proliferation of resistant bacteria. Members expressed the view that McDonald's, as a major purchaser of poultry, pork, and beef, can greatly influence practices throughout the meat supply chain. Members noted the company's progress in phasing out non-medical use of antibiotics in its poultry supply chain – progress eased in part by the "vertical" organization of the poultry industry. They commented as well upon the greater challenge of phasing out antibiotic use in pork and beef, given the many smaller-scale operations that support that supply chain and the resistance, among U.S. farmers, to the tracking of individual animals (an approach European farmers have adopted because of mad cow disease). Committee members agreed that it is beneficial from the standpoint of public health and shareholder value to encourage McDonald's to phase out antibiotic use in its meat supply chain. The CCSR voted in favor of the proposal, following the ACSR's recommendation.

III. Health Care – Product Safety

A. Board oversight of product safety

A new proposal to Merck reflected the proponent's concern about regulatory warnings Merck has received in recent years and about reputational risks the company may face regarding product quality and safety. The proposal requested that

> the Board issue a report (at reasonable cost, in a reasonable time and excluding confidential information) evaluating the merits and feasibility of Merck (1) strengthening Board expertise in pharmaceutical manufacturing and product quality and safety, (2) adopting an independent board chair leadership structure, and (3) any other related governance improvements the Board wishes to consider. The report should include sufficient information for investors to assess the quality of the evaluation and should provide the Board's recommendations.

The ACSR voted 10-0-0 to recommend a vote in favor of the proposal. Committee members considered factors related to safety in the pharmaceutical industry, including the industry's dependence on "blockbuster" drugs requiring large-scale, long-term research and development investment and the highly regulated nature of the pharmaceuticals market. In this context, Merck has drawn considerable scrutiny in recent years because of high-profile lawsuits regarding the harmful effects of Vioxx, a drug for relieving arthritis symptoms, and Fosamax, a drug for building bone density. Members reflected upon the company's product safety performance compared with other pharmaceutical companies and on its current board structure for addressing product safety, which distributes responsibility among three different committees. Members expressed support both for encouraging Merck to consider strengthening board-level oversight of product safety and for the benefits of an independent board chair leadership structure. Members viewed the proposal as reasonable in scope, of benefit to shareholders, and not burdensome to the company. The CCSR voted in favor of the proposal, following the ACSR's recommendation.

IV. Human Rights

A. Country selection/risk assessment

In past years, proposals asking companies to report on country selection criteria have largely reflected proponents' concerns about business operations in countries that tolerate human rights abuses or lack globally accepted labor standards. The committees considered a proposal of this kind at Chevron in 2011, 2013, and 2014, voting to oppose it in 2011 and 2013 in light of company efforts then underway in this area, and to support it in 2014, due to the company's failure to provide an update on the implementation of a human rights policy or to address human rights in that year's sustainability report. In 2016, similar proposals were presented to General Electric, Eli Lilly, and Wal-Mart; the CCSR voted to oppose all three, following the recommendation of the ACSR. This proposal came before Coca-Cola for the first time in 2017. It requested that

> the board of directors review the company's guidelines for selecting countries / regions for its operations and issue a report, at reasonable expense excluding any proprietary information, to shareholders by December 2017. The report should identify Coca-Cola's criteria for investing in, operating in and withdrawing from high-risk regions.

The ACSR voted 0-8-0 to recommend a vote against the proposal. According to Si2, the proponent sought to draw attention to Coca-Cola's participation in Georgia Prospers, a "partnership of business leaders" (according to its website) that sought to ensure that the business climate in the U.S. state of Georgia, where Coca-Cola is headquartered, fosters diversity and inclusion across all dimensions. The partnership opposed a religious freedom measure in the Georgia legislature which the proponent appears to support. Members challenged the proposal's merit on two fronts. They noted that according to Si2, Coca-Cola's policies and practices for assessing country risk and addressing human rights adhere to global best practice standards, and that the company is a recognized leader in this area. Furthermore, they questioned the proponent's apparent aim of drawing attention to a supposed misalignment between Coca-Cola's support of diversity and inclusion in Georgia and its pursuit of business in countries that discriminate against LGBTQ individuals – an intent that is not expressed in the resolution's wording. The committee affirmed its support for a long-standing precedent of skepticism regarding resolutions which do not accurately reflect or address the proponent's underlying concerns. The CCSR voted against the proposal, following the ACSR's recommendation.

B. Human rights risk assessment

A new proposal to Merck arose from the proponent's concern about human rights abuses associated with the mining and distribution of "conflict minerals" and sought to encourage greater scrutiny of the supply chain for risks related to operations in conflict zones. The proposal requested that

> Merck assess and report to shareholders, at reasonable expense and excluding proprietary information, on the company's approach to mitigating the heightened ethical and business risks associated with procurement, investment and other business activities in conflict-affected areas other than areas already addressed through its conflict minerals policy, including situations of belligerent occupation. In particular, the report should assess whether additional policies are needed to supplement Merck's Human Rights Policy and Code of Business Conduct to avoid directly or indirectly aiding or acquiescing to violations of international humanitarian law committed by occupying forces, such as:
>
> - the transfer of protected persons from, or their forced displacement within, an occupied territory;
> - the transfer of parts of an occupying power's population into an occupied territory;
> - the destruction and appropriation of property in an occupied territory, not justified by military necessity and carried out unlawfully and wantonly;
> - the vesting of rights of ownership, possession or use of such property in an occupying power's civilian public bodies or nationals;

- the establishment of legal entities or undertakings in an occupied territory for the primary benefit of the occupying power's nationals;
- the extraction of minerals for the benefit of the occupying power or its nationals.

The ACSR voted 0-1-9 to recommend abstaining on the proposal. Committee members considered whether Merck's business operations and business practices merit this degree of particularity about adhering to global humanitarian norms. They noted the company's adoption of a conflict minerals policy intended to "reduce and eliminate the use in its products of conflict minerals." The proponent was not explicit about the reason for asking Merck to heighten vigilance about humanitarian risk in conflict zones, and, according to Si2, offer no evidence of specific concerns about Merck's business activities in relation to conflict zones. Members wondered whether the proponent was making a veiled reference to Israel and Palestine. In recommending abstention, committee members expressed support for the general aim of the proposal. In light of information from Si2 that the company does not currently offer a specific endorsement of the Geneva Conventions, committee members said they might support a proposal that refers to such international standards. The member recommending opposition questioned the proponent's targeting of Merck. The CCSR abstained on the proposal, following the ACSR's recommendation.

C. Indigenous rights

A new proposal to Wells Fargo requested a policy on the rights of indigenous peoples affected by the company's business activities. The proponent brought the proposal forward in the context of Wells Fargo's involvement in the financing of the Dakota Access Pipeline (DAPL), which follows a route from oil fields in North Dakota to production facilities in Illinois. Efforts by the Standing Rock Sioux tribe to forestall the construction of a section of the pipeline on federal land led to a widely publicized, months-long protest at the site. The proposal requested that:

> Wells Fargo & Company (WFC) to develop and adopt a global policy regarding the rights of indigenous peoples (the "policy") which includes respect for the free, prior and informed consent of indigenous communities affected by WFC financing.
>
> The policy should acknowledge rights of indigenous peoples to the following:
>
> - property, culture, religion, and non-discrimination in relation to lands, territories and natural resources, including sacred places and objects;
> - health and physical well-being in relation to a clean and healthy environment;
> - setting and pursuing their own priorities for development; and

- making authoritative decisions about external projects or investments.

The policy should include a description of WFC's process for identifying, addressing, and periodically evaluating the impact of its business activities on:

- lands and natural resources subject to traditional ownership or under customary use;
- relocation of indigenous peoples from lands and natural resources they have traditionally owned or used; and
- cultural heritage that is essential to the identity and/or cultural, ceremonial, or spiritual aspects of indigenous peoples' lives.

The ACSR voted 6-1-2 to recommend a vote in favor of the proposal. The committee reviewed the protesters' concerns, including water supply contamination, disruption of sacred burial sites, and the history of federal and corporate abridgement of tribal land agreements, and took note of a campaign by NGOs and socially responsible investors to push for divestment from financial institutions providing financing to the project and to pressure the lending institutions to consider ending their business relationships with the project. These NGOs and investors contended that the project poses "reputational and potential financial risks" for companies that participate in its financing. Members noted that although, according to Si2, Wells Fargo appears to have engaged in dialogue with tribal leaders and enhanced its due diligence related to environmental and social risk policy, the policy itself is very recent. They also remarked upon the company's current reputational crisis, stemming from its illegal consumer lending practices. They observed as well that at Morgan Stanley and Goldman Sachs, two other financial institutions with ties to DAPL, an identical proxy was withdrawn after both companies agreed to work with the proponent on these concerns. Those who supported the proposal agreed with the proponent's concern about reputational risk to Wells Fargo. They noted that the company's environmental policies are new and untested and that the proposal directs the company's attention to an important concern. Committee members also called attention to the importance of recognizing and counteracting the legacy of centuries of abridged agreements with Native Americans. The vote recommending opposition reflected a member's concerns that the proposal is too specific in its stipulations and might, additionally, create burdens on Wells Fargo that would inhibit its ability to compete in certain financial transactions in the future. Those recommending abstention agreed with that view, but noted their support for the proponent's concerns. The CCSR voted in favor of the proposal, following the recommendation of the ACSR.

D. Board oversight of human rights

A new proposal to Verizon asked the company to establish a board-level committee on human rights. According to Si2, the proponent's concerns are motivated in part by Verizon's purchase of Yahoo, a move which associates Verizon with a company with a mixed reputation for safeguarding the privacy of user information. Si2 reports that Yahoo was heavily criticized in the past for cooperating with the government of China to reveal the identity of political activists opposed to the government. The company subsequently set up a fund to assist persecuted activists in that country but was later confronted with evidence that the fund was mismanaged. Security breaches of customer information have also damaged Yahoo's reputation. The proposal asked that

> Verizon Communications Inc. (Verizon) establish a Human Rights Committee to review, assess, disclose, and make recommendations to enhance Verizon's corporate policy and practice on human rights. The board of directors is recommended, in its discretion and consistent with applicable laws to: (1) designate the members of the committee, (2 provide the committee with sufficient funds for operating expenses, (3) adopt a charter to specify the powers of the committee, (4) empower the committee to solicit public input and to issue periodic reports to shareholders and the public on the committee's activities, findings and recommendations, and (5) adopt any other measures.

The ACSR voted 0-11-0 to recommend a vote against the proposal. The proposal is the first submission of its type at Verizon. Members acknowledged the proponent's concern about Yahoo's mixed reputation with the privacy of user data. They supported the view that human rights are a board-level concern. But they noted that, according to Si2, Verizon's corporate governance committee, composed of independent directors, routinely reviews public policy issues, including human rights. Members agreed that digital privacy issues and the expansion of market access have the potential to increase concerns about human rights, but did not see Verizon as a company facing significant business risks from human rights concerns. Members expressed continued support for the committees' longstanding presumption against the creation of additional board-level committees in the absence of a compelling need. The CCSR voted against the proposal, following the recommendation of the ACSR.

V. Labor Standards and Employment Policies and Practices

A. Fair employment principles

The committees considered the "Holy Land Principles" proposal for the third year – as a resubmission at General Electric, McDonald's, and PepsiCo, and for the first time at 3M, Boeing, Merck, and Pfizer. The proponent is concerned that labor practices in Israel discriminate against Palestinians. The proposal is described by Si2 as an outgrowth of over a decade of shareholder activism on U.S. business dealings with Israel. The Holy Land Principles cited in the proposal are fair employment guidelines modeled on the Sullivan Principles, issued in 1977 to apply economic pressure on South Africa to end apartheid, and the MacBride Principles, launched in 1984 to combat workplace discrimination against Catholics in companies operating in Northern Ireland. Si2 reports that the Israeli constitution bans discrimination and that the U.S. State Department cites strong affirmative action policies in the civil service as an example of active efforts in Israel to work against discrimination. At the same time, according to Si2, among the country's large Arab Israeli minority, unemployment is high and 22% of employers report discrimination against Arab Israelis. The proposal asked

> the Board of Directors to: Make all possible lawful efforts to implement and/or increase activity on each of the eight Holy Land Principles.

Following precedent established in 2015 and 2016, the ACSR voted to recommend opposition to the proposal at 3M (0-10-0), Boeing (0-11-0), McDonald's (0-10-0), Merck (0-10-0), PepsiCo (0-11-0), and Pfizer (0-10-1)[4]. In discussing the proposal, members considered the labor policies and programs in place at each company. Members expressed agreement with previous committees' view that the principles appear to duplicate both existing law in Israel and Palestine and global standards such as the Universal Declaration of Human Rights, the United Nations Global Compact, and the "Ruggie Principles" (the United Nations Guiding Principles on Business and Human Rights) and that the UN standards set a higher bar than the Holy Land Principles in some areas. They noted the lack of company endorsements of the Holy Land Principles. Members also expressed agreement with previous committees' concerns about the burden of imposing a specific regime for a single country on companies that have worldwide human rights and employment policies. The member recommending abstention at Pfizer expressed concern about Pfizer's lack of transparency regarding its employment policies and the

[4]The proposal was subsequently withdrawn by the proponent and no vote was recorded at the annual shareholders' meeting of Pfizer.

composition of its workforce in Israel. The CCSR voted against the resolution in each instance, following the ACSR's recommendation and precedent of both committees.

B. Equal employment and diversity

The committees reviewed six proposals on aspects of workplace diversity and equal employment this year. These proposals arise from concerns about the pace of company progress in several sectors in achieving workplace diversity, pay parity, and supporting affirmative action.

1. Report on EEO and affirmative action

The committees considered a proposal, submitted to Home Depot for the eighth time, requesting that the company report on diversity among its employees and on polices to improve diversity across its workforce. The proponent has sought equal employment information from Home Depot for over a decade, in light of the company's earlier history as a target for lawsuits about workplace discrimination. The proposal requested that

> Home Depot prepare a diversity report, at reasonable cost and omitting confidential information, available to investors by September 2017, including the following:
>
> 1. A chart identifying employees according to their gender and race in each of the nine major EEOC-defined job categories for the last three years, listing numbers or percentages in each category;
>
> 2. A summary description of any affirmative action policies and programs to improve performance, including job categories where women and minorities are underutilized;
>
> 3. A description of policies/programs oriented toward increasing diversity in the workplace.

The ACSR voted 10-0-0 to recommend a vote in favor of the proposal. Committee members took note of an extensive precedent of support for the proposal at Home Depot in 2005, 2006, 2007, 2012, 2013, and 2014. Members acknowledged the company's past history with major discrimination lawsuits and its efforts to institute policies and programs to promote diversity and inclusion. At the same time, they noted the company's minimal reporting on metrics that shed light on diversity performance. According to Si2, the company provides little information on diversity in its workforce beyond a statement, in its 2016 "Responsibility Report" indicating that "more than 40% of …new hires are ethnically diverse." Members noted as well the proponent's claim that Home Depot failed to follow through on an offer to release equal employment information. Members commented that, as the company already collects the requested information, the proposal does not create a reporting burden and that it is in shareholders' best interest to better understand this major retailer's performance in regards to diversity issues. The CCSR voted in favor of the proposal, following the ACSR's recommendation and precedent of both committees.

2. Report on female pay disparity

A reformulated proposal sought to address the proponent's concerns about a significant gender pay gap in the financial services industry – a concern which finds confirmation in a number of recent reports. Si2 cites, among others, a 2015 report from the Census Bureau indicating that the gender pay gap is highest in the financial services industry, as well as a 2015 report from the Federal Reserve Bank of New York that attributed the gap to the consistently lower share of incentive pay received by women. The proponent, Arjuna Capital, previously conducted a gender pay equity proxy campaign aimed at the tech sector. The resolution requested that these companies:

> prepare a report by October 2017(omitting proprietary information, prepared at reasonable cost) on the Company's policies and goals to reduce the gender pay gap.
>
> The gender pay gap is defined as the difference between male and female median earnings expressed as a percentage of male earnings (Organization for Economic Cooperation and Development)

The ACSR voted in favor of the proposal at Bank of America (8-0-0), Citigroup (8-0-0), JP Morgan Chase (10-0-0), and Wells Fargo (8-0-0). Committee members expressed agreement with the proponent's view that financial institutions exhibit a lack of gender diversity at the senior management and board levels, despite employing slightly more women than men overall. Members noted that, according to Si2, none of the three companies currently publish data on gender and wages and none have made specific commitments to ensuring equal levels of pay for men and women doing the same work. Before voting on each proxy, the committee considered the individual performance of each company with regard to the proposal's aims. Citigroup evinces a reasonable commitment to overall diversity and the advancement of women through a range of initiatives such as an annual diversity report and a leadership development program for women. According to Si2, 22 percent of the company's senior executives are women, and 35 percent of its board of directors. Bank of America exhibits some leading practices in its attention to diversity and gender in its workforce, including a Diversity and Inclusion Council chaired by its CEO and its early signing of the Paradigm for Parity in 2016. Si2 also reports that the company has engaged independent consultants to internally analyze its gender pay group. At the same time, only 32 percent of the company's senior executives are women, as are 31 percent of its board of directors. Similar efforts at Wells Fargo, including a women's mentoring program, an "Enterprise Diversity & Inclusion" council chaired by the CEO, and an internal effort, with the help of an independent consultant, to analyze and adjust pay by gender, appear to address gender and diversity issues. According to Si2, only 27 percent of the company's senior executives, and 33 percent of its board of directors, are women. Members commented that JP Morgan Chase compares well with these peer financial institutions in its policies and practices related to promoting advancement and an inclusive environment for women. However, they noted that, as reported by Si2, the company has also recently faced two sex discrimination lawsuits. In recommending support for the resolution at these companies, members commented that it is not overly prescriptive, does not require disclosure of pay data, and does not impose an undue reporting burden, given that the companies already collect the relevant data. Furthermore, such reports might in fact benefit companies' reputations by demonstrating increased attention to gender pay equity. The CCSR voted in favor of the four proposals, following the ACSR's recommendation.

3. Hiring practices

A new proposal to Amazon asked the company to report on the use of criminal background checks in hiring and employment decisions and include in that report an evaluation of the risk of racial discrimination in this process. The proponent is concerned that questions about arrest and conviction records in background checks on job applications may disproportionately affect people of color – and, given high rates of incarceration in the United States, such questions could affect many other job applicants as well. The proposal requested that

> the Board of Directors prepare a report on the use of criminal background checks in hiring and employment decisions for the Company's employees, independent contractors, and subcontracted workers. The report shall evaluate the risk of racial discrimination that may result from the use of criminal background checks in hiring and employment decisions. The report shall be prepared at reasonable cost and omit proprietary information, and shall be made available on the Company's website no later than the 2018 annual meeting of shareholders.

The ACSR voted 0-1-9 to recommend abstaining on the proposal. Committee members considered the proposal in light of possible risks to Amazon with and without the current policy. As Amazon's business requires hiring many employees in delivery services, members wondered whether the company may have a legitimate interest in seeking information on arrests and convictions. Committee members noted that according to Si2, Amazon considers arrest and conviction information in conjunction with other aspects of the employee's application and the position that is sought. Members recommending abstention remarked that they would favor disclosure of information on the bearing of arrests and conviction records on employment at Amazon. Such information, they argued, would help inform public policy. Members voiced the view that the requested report on the risks of the current policy could be expected to merely affirm Amazon's current approach. Others felt that pressuring Amazon with a well-constructed proposal on the topic would be to shareholders' benefit, but viewed this proposal as ineffective. A member who recommended opposing the proposal questioned whether the requested report would produce information of value to shareholders and whether it takes on a public policy question that is better addressed through regulation. The CCSR abstained on the proposal, following the ACSR's recommendation.

VI. Executive compensation

A. Executive pay and sustainability

A proposal to Amazon sought to more closely align executive compensation with the company's performance in the realm of sustainability. The proponent believes that companies that attend to sustainability align themselves with good management practices and yield long-term value. The proposal requested that

> the Board's Compensation Committee, when setting senior executive compensation, include sustainability as one of the performance measures for senior executives under the Company's incentive plans. Sustainability is defined as how environmental and social considerations, and related financial impacts, are integrated into corporate strategy over the long term.

The ACSR voted 0-1-9 to recommend abstaining on the proposal. Committee members considered aspects of Amazon's compensation for senior executives. According to Si2, senior executives are paid modest salaries, receiving most of their compensation in the form of stock options. Committee members expressed general agreement with Amazon’s view that this compensation approach aligns senior executives with long-term performance objectives. They noted as well that although Amazon does not include sustainability criteria in its compensation plan, the company is undertaking substantial efforts to reduce its carbon footprint and physical waste, including a plan to run all of its data centers on renewable energy by 2020. Discussing the committee’s support for this proposal at Walgreens Boots Alliance in 2015, members pointed to that company’s laggardly posture on sustainability as a reason for that recommendation. Committee members recommending abstention stated that while they sympathize with the proposal’s intent, they are uncertain why the proponent has targeted Amazon, which appears to pay considerable attention to sustainability issues. The member who recommended a vote against the proposal contends that the company’s compensation system already addresses sustainability because it rewards a long-term perspective. The CCSR voted to abstain on the proposal, following the ACSR’s recommendation.

B. Pay disparity

A resubmission from 2016 to CVS Health on the disparity between executive compensation and employee wages reflected increasing concern about the widening gap between ordinary wages and the salaries and bonuses of company leaders:

> RESOLVED: Shareholders request the Board's Compensation Committee initiate a review of our company's executive compensation policies and make available, upon request, a summary report of that review by October 1, 2017 (omitting confidential information and processed at a reasonable cost). We request that the report include:
> 1) A comparison of the total compensation package of senior executives and our employees' median wage (including benefits) in the United States in July 2007, July 2012 and July 2017;
> 2) an analysis of changes in the relative size of the gap and an analysis and rationale justifying this trend;
> 3) an evaluation of whether our senior executive compensation packages (including, but not limited to, options, benefits, perks, loans and retirement agreements) should be modified to be kept within boundaries, such as that articulated in the Excessive Pay Shareholder Approval Act; and
> 4) an explanation of whether sizable layoffs or the level of pay of our lowest paid workers should result in an adjustment of senior executive pay to more reasonable and justifiable levels and how the Company will monitor this comparison annually in the future.

The ACSR voted 0-1-9 to recommend abstaining on the proposal. Committee members took note of extensive committee precedent on similar proposals on the gap between executive compensation and employee wages. Acknowledging the merit of the proponent's concerns, members wondered whether the pay ratio alone is an adequate index of pay disparity, noting that the CEO's pay in dollar terms, while high, is not an outlier and that the median wage at CVS reflects generally low pay scales in retail businesses. They noted as well that, according to information provided by CVS in proxy materials, annual bonuses to senior executives were 38 percent lower in 2016 than 2015, possibly reflecting increased attention to performance. Members recommending abstention on the proposal supported the principle of communicating concern about income disparity to company management, especially in light of provisions in the 2010 Dodd-Frank act on executive pay. But they raised questions about the purpose, clarity, and appropriateness of specific elements of the proposal, most notably section (4) which sought "an explanation of whether sizable layoffs or the level of pay of our lowest paid workers should result in an adjustment of senior executive pay." The member recommending a vote opposing the proposal contended that management and the board are responsible for setting pay levels and that the proposal is ineffective and intrusive. The CCSR voted to abstain on the proposal, following the ACSR's recommendation.

C. Vesting equity for government service

A proposal submitted for the second year to Citigroup and JP Morgan Chase asked these companies to end the practice of ensuring the vesting of equity for senior executives who leave a firm for service in a government post. The proposal reflects the proponent's belief that the practice may lead to conflicts of interest. The proposal requested that

> the Board of Directors adopt a policy prohibiting the vesting of equity-based awards for senior executives due to a voluntary resignation to enter government service (a "Government Service Golden Parachute").
>
> For purposes of this resolution, "equity-based awards" include stock options, restricted stock and other stock awards granted under an equity incentive plan. "Government service" includes employment with any U.S. federal, state or local government, any supranational or international organization, any self-regulatory organization, or any agency or instrumentality of any such government or organization, or any electoral campaign for public office.
>
> This policy shall be implemented so as not to violate existing contractual obligations or the terms of any compensation or benefit plan currently in existence on the date this proposal is adopted, and it shall apply only to equity awards or plan amendments that shareholders approve after the date of the 2016 annual meeting.

The ACSR recommend a vote opposing the resolutions at Citigroup (0-8-0) and JP Morgan Chase (0-10-0). Committee members expressed agreement with the reasoning supporting ACSR recommendations opposing this proposal at Citigroup, JP Morgan Chase, and two other companies in 2016. They took note, however, that (to the extent that Si2 research sheds light on the topic) transparency about vesting practices appears to be greater at Citigroup than at JP Morgan, observing as well that Citigroup appears to offer a broader application of this policy than JP Morgan, extending it to qualifying employees who are leaving the firm for opportunities in educational and charitable institutions as well as in government service. At the same time, they expressed continued skepticism that the policy increases the risk of a conflict of interest. The CCSR voted to oppose the proposals, following the ACSR's recommendation and precedent of both committees.

VII. Defense and security issues

A proposal submitted to Boeing for the second year sought detailed information on the company's business relationship with Israel. The proponent sought greater disclosure from Boeing about its business dealings with Israel, in light of concerns about human rights issues and casualties in outbreaks of violence in Palestine. The proposal requested that

> within six months of the annual meeting, the Board of Directors provide a comprehensive report, at reasonable cost and omitting proprietary and classified information, of Boeing's sales of weapons related products and services to Israel.

The ACSR voted 0-11-0 to recommend a vote against the resolution. The committee affirmed the support of the 2016 committee for the broad principle of disclosure of military sales. They agreed as well with the 2016 committee's concerns regarding the proposal's request for specific reporting on sales to one country and the proponent's targeting of sales to Israel. Members maintained that disclosure about sales of military products to foreign countries is appropriate and of value to shareholders, but is best achieved through general resolutions seeking disclosure of all military sales – citing precedent on ten such proposals between 2005 and 2009 – rather than resolutions which target sales to one country. They noted that, according to Si2, Boeing appears to provide extensive information on its military sales through means such as its website and that nearly all of its sales are conducted under the aegis of American foreign relations and are heavily regulated as well. The CCSR voted against the proposal, following the recommendation of the ACSR.

VIII. Charitable contributions

The committees considered two proposals requesting reports on companies' charitable giving. While differing in their approach, both appeared to be motivated by the proponent's concern that certain charitable contributions pose a reputational risk.

The first, to General Electric, sought information on the company's process for identifying charitable organizations to support and the business rationale for doing so. The proponent expressed concern that in the absence of transparency about its charitable contributions, General Electric may be putting its reputation – and the interests of its shareholders – at risk. The proponent identified Planned Parenthood, the Clinton Foundation, and the Center for American Progress as examples of organizations which have received contributions from General Electric and which could pose a reputational risk to the company. While the proposal's wording is new, it reflects many elements found in proposals made to PepsiCo, Citigroup, Coca-Cola, Boeing, General Electric, and Anheuser Busch between 2006 and 2009. The proposal requested that

> the company provide an annual report, omitting proprietary information and at reasonable cost, disclosing: the company's standards for choosing recipients of company assets in the form of charitable contributions; the business rationale and purpose for each of the charitable contributions, if any; personnel participating in the decision to contribute; the benefits to society at-large produced by company contributions; and a follow-up report confirming the contribution was used for the purpose stated. The report should be published on the company's website.

The ACSR voted 0-8-0 to recommend a vote opposing the proposal. Reviewing General Electric's charitable contributions, committee members observed that $120 million in donations is a small sum in comparison with this global company's $125 billion in sales annually. They took note that 90 percent of these charitable contributions are made by the GE Foundation, which already reports extensively on its giving, and that information is also available on charitable contributions made directly by the company. Addressing the proposal's requirement that General Electric provide a business rationale for each charitable contribution, committee members drew attention to the fact that a sizable portion of GE's giving occurs through programs that match employee contributions to charitable organizations. As a result, this requirement would impose a sizable reporting burden, given the large number and small size of such donations. Assessing the proposal's utility, a member drew a distinction between who is receiving contributions and why, arguing that GE already discloses the recipients, and that shareholders can make their own judgments about the rationale and benefits of such contributions. The CCSR voted against the proposal, following the ACSR's recommendation.

A new proposal to McDonald's asked that company to report on the alignment between the company's stated corporate values and the objects of its charitable giving. As with the proposal to General Electric, the proponent maintains that some of McDonald's charitable giving may be going to organizations which could potentially involve the company in reputational risks. The proposal requested that

> the Company prepare and annually update a report to shareholders, at reasonable expense and excluding proprietary information, listing and analyzing charitable contributions during the prior year. The report should:
>
> 1. Identify organizational or individual recipients of donations, whether cash or in-kind, in excess of $500 and aggregate of smaller contributions by categories of recipients such as community organizations, schools, dietary organizations, medical groups, environmental, churches, etc.;
> 2. Identify areas of alignment and potential conflict between the Company's charitable contributions and the Company's key stated ambitions, values and mission as stated in its corporate social responsibility reports and SEC filings;
> 3. Include management's analysis of any risks to the Company's brand, reputation, or shareholder value posed by public controversies associated with contributions or any incongruencies with corporate values;
> 4. Include coherent criteria for assessing congruency and brand risk, such as identifying philanthropic areas or initiatives considered most germane to corporate values and types of donations that may be contrary to company values or reputation; and
> 5. Based on the above, evaluate and state justification for any identified incongruent activities.

The ACSR voted 0-10-0 to recommend a vote opposing the proposal. The committee took note of past precedent regarding proposals requesting reports on charitable contributions and of the proponent's interest in calling attention to certain causes receiving contributions. Considering the requested minimum reporting threshold of $500, committee members described it as a burdensome requirement, especially since McDonald's, like other corporations, matches employee contributions to hundreds or thousands of charitable organizations. Members also questioned the feasibility and usefulness of a requested "congruency analysis" of the alignment between McDonald's corporate values and the values and activities of organizations that receive these charitable contributions. They expressed skepticism that the results of this detailed report and analysis would benefit shareholders or help reduce the company's reputational risk. The CCSR voted against the proposal, following the recommendation of the ACSR.

IX. Business ethics

A new proposal to Wells Fargo requesting a report on the causes of the company's fraudulent creation of millions of unrequested customer accounts and on programs and policies to prevent such practices in future:

> RESOLVED: Shareholders request that the Board commission a comprehensive report, available to shareholders by October 2017, on the root causes of the fraudulent activity and steps taken to improve risk management and control processes. The report should omit proprietary information and be prepared at reasonable cost.

The ACSR voted 8-0-0 to recommend a vote in favor of the proposal. Committee members remarked upon Wells Fargo's fraudulent consumer lending practices, the fine imposed by the Consumer Financial Protection Bureau, and the company's recent decision to "claw back" bonus compensation awarded to its CEO and head of consumer banking following an independent report commissioned by the firm. Committee members expressed the view that the report, which focuses on an analysis of the company's compensation incentive structure, falls short in its efforts to identify root causes and conveys the board's apparent reluctance to take responsibility for what occurred. It was noted as well that the company has also been the subject of a discriminatory lending lawsuit. Members agreed that the proposal is well-grounded with regard to business practices at Wells Fargo. They remarked that it is in the best interests of the company and its shareholders to obtain the information the report requested and that the business burden and competitive risk of seeking a better understanding of root causes is minimal. The CCSR voted in favor of the proposal, following the ACSR's recommendation.

CONCLUSION

The CCSR would like to thank the members of the ACSR for their hard work and generous time commitment during the 2017 proxy season, with special thanks to the ACSR Chair, Professor Howell Jackson, James S. Reid, Jr., Professor of Law, Harvard Law School, for his leadership this year. The CCSR relies heavily upon the ACSR's analyses of issues and voting recommendations. The ACSR's careful examination of the circumstances surrounding each case greatly strengthens the quality of Harvard's voting process. We look forward to working with continuing members of the ACSR in the coming year.

Appendix A
2017 ACSR/CCSR Proxy Season Summary – By Topic

Company/topic	Resolution	Company Meeting Date	ACSR	CCSR
Corporate Political Spending				
Report on lobbying				
1. Honeywell International	Report on lobbying	April 24	9-0-0	In favor
2. Citigroup	Report on lobbying	April 25	9-0-0	In favor
3. Wells Fargo	Report on lobbying	April 25	9-0-0	In favor
4. IBM	Report on lobbying	April 25	9-0-0	In favor
5. General Electric	Report on lobbying	April 26	9-0-0	In favor
6. AT&T	Report on lobbying	April 28	11-0-0	In favor
7. Boeing	Report on lobbying	May 1	11-0-0	In favor
8. AbbVie	Report on lobbying	May 5	11-0-0	In favor
Review/report on political spending				
9. Berkshire Hathaway	Review/report on political spending	May 6	10-0-0	In favor
10. AT&T	Report on indirect political spending	April 28	11-0-0	In favor
Shareholder advisory vote on political spending				
11. Home Depot	Adopt advisory vote on political spending	May 18	0-9-1	Against
12. Intel	Adopt advisory vote on political spending	May 18	0-9-1	Against
Environmental Issues				
Climate change				
Report on greenhouse gas emissions reduction targets				
13. Verizon	Report on GHG emissions	May 4	3-3-5	Abstain
Report on methane emissions and reduction				
14. Berkshire Hathaway	Report on methane emissions/reduction targets	May 6	10-0-0	In favor
Divest fossil fuel holdings				
15. Berkshire Hathaway	Divest fossil fuel holdings	May 6	0-10-0	Against
Renewable energy				
16. CVS Health	Report on renewable energy goals	May 10	10-0-0	In favor
Waste reduction				
Recycling policy/packaging				
17. McDonald’s	Report on packaging	May 24	10-0-0	In favor
Environment and agriculture/forestry				
18. PepsiCo	Report on supplier pesticide use	May 3	11-0-0	In favor
19. McDonald’s	Phase out antibiotic use in animal feed	May 24	10-0-0	In favor
Health Care – Product Safety				
Board oversight of product safety				
20. Merck	Adopt board oversight of product safety	May 23	10-0-0	In favor
Human Rights				
Country selection/risk assessment				
21. Coca-Cola	Report on country selection/assessment	April 26	0-8-0	Against
Human rights risk assessment				
22. Merck	Report on conflict zone operations	May 23	0-1-9	Abstain

Company/topic	**Resolution**	**Company Meeting Date**	**ACSR**	**CCSR**
Indigenous rights				
23. Wells Fargo	Report on indigenous people policy	April 25	6-1-2	In favor
Board oversight of human rights				
24. Verizon	Establish board committee on human rights	May 4	0-11-0	Against
Labor standards and employment policies and practices				
Fair employment principles				
25. Pfizer	Implement Holy Land Principles	April 27	0-10-1	Against
26. Boeing	Implement Holy Land Principles	May 1	0-11-0	Against
27. PepsiCo	Implement Holy Land Principles	May 3	0-11-0	Against
28. 3M	Implement Holy Land Principles	May 9	0-10-0	Against
29. Merck	Implement Holy Land Principles	May 23	0-10-0	Against
30. McDonald’s	Implement Holy Land Principles	May 24	0-10-0	Against
Equal opportunity and diversity				
31. Home Depot	Report on EEO and affirmative action	May 18	10-0-0	In favor
Female pay disparity				
32. Citigroup	Report on female pay disparity	April 25	8-0-0	In favor
33. Wells Fargo	Report on female pay disparity	April 25	8-0-0	In favor
34. Bank of America	Report on female pay disparity	April 26	8-0-0	In favor
35. JP Morgan Chase	Report on female pay disparity	May 16	10-0-0	In favor
Hiring practices				
36. Amazon	Report on background checks in hiring	May 23	0-1-9	Abstain
Executive Compensation				
Executive pay and sustainability				
37. Amazon	Link executive pay to sustainability metrics	May 23	0-1-9	Abstain
Pay disparity				
38. CVS Health	Report on pay disparities	May 10	0-1-9	Abstain
Vesting equity for government service				
39. Citigroup	Prohibit government service golden parachutes	April 25	0-8-0	Against
40. JP Morgan Chase	Prohibit government golden service parachutes	May 16	0-10-0	Against
Defense and security issues				
41. Boeing	Report on military sales to Israel	May 1	0-11-0	Against
Charitable contributions				
42. General Electric	Report on charitable contributions	April 26	0-8-0	Against
43. McDonald’s	Report on charitable contributions	May 24	0-10-0	Against
Business ethics				
44. Wells Fargo	Report on ethics and oversight	April 25	8-0-0	In favor

Appendix B
2017 ACSR/CCSR Proxy Season Summary – By Meeting

	Company	Resolution	Company Meeting Date	ACSR	CCSR
ACSR Meeting, April 10					
1.	Honeywell International	Report on lobbying	April 24	9-0-0	In favor
2.	Citigroup	Report on lobbying	April 25	9-0-0	In favor
3.	Citigroup	Report on female pay disparity	April 25	8-0-0	In favor
4.	Citigroup	Prohibit government service golden parachutes	April 25	0-8-0	Against
5.	Wells Fargo	Report on lobbying	April 25	9-0-0	In favor
6.	Wells Fargo	Report on indigenous people policy	April 25	6-1-2	In favor
7.	Wells Fargo	Report on ethics and oversight	April 25	8-0-0	In favor
8.	Wells Fargo	Report on female pay disparity	April 25	8-0-0	In favor
9.	IBM	Report on lobbying	April 25	9-0-0	In favor
10.	General Electric	Report on lobbying	April 26	9-0-0	In favor
11.	General Electric	Report on charitable contributions	April 26	0-8-0	Against
12.	Bank of America	Report on female pay disparity	April 26	8-0-0	In favor
13.	Coca-Cola	Report on country selection/assessment	April 26	0-8-0	Against
ACSR Meeting, April 17					
14.	Pfizer	Implement Holy Land Principles	April 27	0-10-1	Against
15.	AT&T	Report on lobbying	April 28	11-0-0	In favor
16.	AT&T	Report on indirect political spending	April 28	11-0-0	In favor
17.	Boeing	Implement Holy Land Principles	May 1	0-11-0	Against
18.	Boeing	Report on military sales to Israel	May 1	0-11-0	Against
19.	Boeing	Report on lobbying	May 1	11-0-0	In favor
20.	PepsiCo	Report on supplier pesticide use	May 3	11-0-0	In favor
21.	PepsiCo	Implement Holy Land Principles	May 3	0-11-0	Against
22.	Verizon	Establish board committee on human rights	May 4	0-11-0	Against
23.	Verizon	Report on GHG emissions	May 4	3-3-5	Abstain
24.	AbbVie	Report on lobbying	May 5	11-0-0	In favor
ACSR Meeting, April 24					
25.	Berkshire Hathaway	Divest fossil fuel holdings	May 6	0-10-0	Against
26.	Berkshire Hathaway	Report on methane emissions/reduction targets	May 6	10-0-0	In favor
27.	Berkshire Hathaway	Review/report on political spending	May 6	10-0-0	In favor
28.	3M	Implement Holy Land Principles	May 9	0-10-0	Against
29.	CVS Health	Report on pay disparities	May 10	0-1-9	Abstain
30.	CVS Health	Report on renewable energy goals	May 10	10-0-0	In favor
ACSR Meeting, May 1					
31.	JP Morgan Chase	Prohibit government golden service parachutes	May 16	0-10-0	Against
32.	JP Morgan Chase	Report on female pay disparity	May 16	10-0-0	In favor
33.	Home Depot	Report on EEO and affirmative action	May 18	10-0-0	In favor
34.	Home Depot	Adopt advisory vote on political spending	May 18	0-9-1	Against
35.	Intel	Adopt advisory vote on political spending	May 18	0-9-1	Against
ACSR Meeting May 8					
36.	Amazon	Report on background checks in hiring	May 23	0-1-9	Abstain
37.	Amazon	Link executive pay to sustainability metrics	May 23	0-1-9	Abstain
38.	Merck	Implement Holy Land Principles	May 23	0-10-0	Against
39.	Merck	Report on conflict zone operations	May 23	0-1-9	Abstain
40.	Merck	Adopt board oversight of product safety	May 23	10-0-0	In favor
41.	McDonald's	Implement Holy Land Principles	May 24	0-10-0	Against
42.	McDonald's	Phase out antibiotic use in animal feed	May 24	10-0-0	In favor
43.	McDonald's	Report on packaging	May 24	10-0-0	In favor
44.	McDonald's	Report on charitable contributions	May 24	0-10-0	Against

Appendix C
Alignment of ACSR Recommendations and CCSR Votes

While the two committees occasionally differ on the appropriate response to a shareholder proposal, the voting pattern over a period of years shows a high degree of agreement. Of the forty-four proposals considered by the committees during the 2017 proxy season, the ACSR and the CCSR were in complete agreement on forty-three proposals. In one instance, the ACSR recommendation was split between supporting, opposing, and abstaining, and the CCSR abstained. For a list of ACSR and CCSR votes by topic, see Appendix A. For a list of ACSR and CCSR votes by meeting date, see Appendix B.