Harvard University

Corporation Committee on Shareholder Responsibility

Annual Report, 2011-2012

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2012 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 2012 spring proxy voting season (the period between March and June when most publicly-traded corporations hold annual meetings), the Committees considered forty-one proposals dealing with issues of social responsibility that were addressed to corporations whose securities were owned directly by Harvard[1]. 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 lobbying; and mortgage lending practices. New topics addressed in 2012 included the environmental impact of storm water runoff at "big box" retailer garden centers and parking areas; concerns about the high number of industrial accidents in oil and gas operations; the impact of paper sourcing on deforestation; and oversight of residential mortgage practices. (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 2012 proxy season. The report also provides a

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

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. 2012 Proxy Season

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 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 forty-one proposals considered by the Committees during the 2012 proxy season, the ACSR and the CCSR were in complete agreement on thirty-seven proposals (90%), the Committees partially agreed (e.g., one Committee abstained while the other voted against or in favor of the proposal) on two (5%), and the ACSR vote was split on two proposals (5%). (For a list of both Committees' votes by company, see Appendix A.)

This year, seventeen additional shareholder proposals came to vote after the ACSR meetings had ended. The CCSR's votes on thirteen proposals followed both ACSR and CCSR precedent. In four cases, however, there was no clear precedent available and the CCSR abstained.

Number of Social Issues Proposals Considered by both Committees Since 2001

Year	Total Voted
2002	108
2003	98
2004	157
2005	126
2006	130
2007	130
2008	111
2009	19*
2010	26*
2011	38
2012	41

* 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.

A. Environment

Corporate policies and practices related to the environment are of particular interest to shareholders, resulting in a large number of shareholder proposals in this area each year. In 2012, the Committees considered ten proposals that covered a range of environmental concerns. Below is a detailed account of the ACSR's recommendations and the CCSR's vote on each of the proposals.

1. Sustainability Reporting

C.R. Bard, a company involved in the design and manufacture of medical, surgical, and other health care devices, was asked to prepare a sustainability report. The proponents believe that data on product safety and quality, facility health and safety, and environmental impacts of manufacturing are especially important due to the nature of C.R. Bard's products. The company claims that such reporting would be expensive, time-consuming and unnecessary since it is already "committed to ethical business practices and compliance with the law in all areas of [its] operations." The resolution called on C.R. Bard to

> "…issue a sustainability report describing the company's ESG performance including GHG reduction targets and goals. The report should be available by September 1, 2012, prepared at reasonable cost, omitting proprietary information."

The ACSR voted unanimously (11-0-0) to recommend support of the proposal, agreeing that sustainability reporting is an emerging best practice and that Harvard should encourage companies to provide such reports to shareholders. Since the company already monitors ESG performance, they disagree with management's assertion that preparation of a sustainability report would be prohibitively expensive. ACSR members believe that it is within the rights of shareholders to request information that would allow better assessment of the company's performance, and point out that a vote in favor would be consistent with Harvard's commitment to sustainability. The CCSR voted in favor of the proposal following ACSR recommendation and precedent of both Committees in favor of a similar proposal to Google in 2010.

2. Climate Change

a. 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 ConocoPhillips 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 (omitting

> proprietary information and prepared at reasonable cost) to shareholders by September 30, 2012, on its plan to achieve these goals."

The ACSR unanimously voted (11-0-0) to recommend support of the proposal. It was noted that ConocoPhillips does not have a company-wide GHG emissions reduction target, and that both the GHG emissions and the carbon intensity of Conoco's operations (the amount of GHG emitted per unit of production) have increased, in large part because the company is relying more heavily on oil and gas resources that are difficult to acquire and require more energy to bring to market (for example, the company's extensive oil sands operations in Canada). They believe Conoco should do a better job integrating environmental goals into its overall policies, and view the proposal as an opportunity to encourage management to reduce GHG emissions. The CCSR voted in favor following ACSR recommendation and precedent of both Committees on identical proposals to ConocoPhillips, ExxonMobil and Mirant that came to vote in 2010.

b. Report on Risks Associated with Climate Change

A proposal to Amazon.com 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. Unlike many of its competitors, Amazon does not participate in the Carbon Disclosure Project (CDP). The company believes that its "e-commerce business model is inherently more environmentally friendly" than other retail businesses; that it has undertaken a variety of initiatives to reduce the use of paper, packaging and excess inventory; and that preparing an ad hoc report on climate change would not be an effective and prudent use of company time and resources. The resolution requested that

> "within 6 months of the 2012 annual meeting, the Board of Directors provide a report to shareholders, prepared at reasonable cost and omitting proprietary information, describing how Amazon.com Inc. is assessing the impact of climate change on the corporation, and specifically risks related to greenhouse gas emissions, energy use, and logistics, and the corporation's plans to publicly disclose this assessment."

The ACSR vote was split 3-1-3 on the proposal. ACSR members recommending support acknowledge that climate change is not a significant issue for the company's operations, but point out that Amazon does not address climate change in any public reports, and does not provide information to shareholders about its efforts to reduce greenhouse gas emissions. They support the efforts of the CDP, and believe a vote in favor would be in keeping with Harvard's own policies with regard to the environment. Abstaining members agree that the company could do a better job reporting, but argue that the proposal is too broad and that it is unclear whether reporting requirements would be limited to the company's own facilities (which are limited), or to Amazon's suppliers and carriers (which are extremely numerous). If limited to the company's own facilities, they do not believe the report would be particularly valuable to shareholders. The CCSR abstained on the proposal following arguments of ACSR members recommending abstention and in light of the ACSR's split vote.

c. Report on Steps to Reduce Coal Combustion Risks

Southern Company is the owner of four electric utilities serving over four million customers in the southeastern United States. Coal represents over half the company's electricity generation, and the proponents of a resubmitted proposal to the company are concerned about coal combustion byproducts (CCB), which contain substances that are known to be health risks to humans. At present, CCB is considered a non-hazardous solid waste, but the EPA is considering elevating its status to a hazardous "special waste," which would require power plants to install liners at waste storage sites, among other precautions. The proponents do not believe Southern Company has disclosed enough information about its management of CCB-contaminated wastewater, and would like the company to make efforts, beyond current compliance with state and local regulations, to reduce health hazards, particularly with regard to contaminated wastewater. Specifically, 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 2012, be prepared at reasonable cost, and omit confidential information such as proprietary data or legal strategy."

The ACSR voted unanimously (7-0-0) to recommend support for the proposal. ACSR members agree that if the EPA were to redesignate CCB as a hazardous waste the costs of compliance could be significant, particularly since the EPA has determined that unlined landfills present a substantial risk to health by contaminating surface and groundwater. They also point out that shareholders have a right to know whether Southern's wastewater ponds are lined and monitored, and do not believe the company's current level of reporting is sufficient to address the concerns raised by the proponents. Given the serious potential for environmental contamination, which could represent both financial and reputational business risks to the company, ACSR members recommend a vote in favor of the proposal. The CCSR voted in favor following ACSR recommendation and precedent on an identical proposal to the company in 2011.

3. Adopt Coastal Wetlands Protection Policy

ConocoPhillips has extensive oil exploration and production operations in coastal Louisiana, where wetland ecosystems play a critical role in protecting coastal areas from hurricane and flood damage. Over the years, oil and gas related dredging has destroyed over a million acres of wetlands in this area, and a group of shareholders would like ConocoPhillips to do more to mitigate both past and future harm. The resolution called on the company to

> "adopt environmental policies to address the environmental hazards of its oil and gas-related activities in coastal Louisiana by devising and implementing business practices that will prevent future harms to coastal Louisiana and by aiding in the restoration of wetlands lost through past actions of ConocoPhillips."

The ACSR narrowly voted (5-0-6) to recommend abstention on the proposal. Supporting members agree with the proponents that ConocoPhillips bears some responsibility for environmental damage in the coastal wetlands, and believe support for the proposal would encourage management to ameliorate past harm and to improve current practices to avoid future harm. Abstaining members agree with the spirit of the proposal, but some are concerned that as worded the resolution could be interpreted as requesting the company to stop all oil and gas operations in the area. Others point out that ConocoPhillips has been involved in a number of coastal restoration initiatives and adheres to federal and state regulations regarding dredging. Given that degradation of the coastal wetlands is an industry-wide problem, they do not see the value of asking individual companies to alter their practices, particularly since the proponents have not indicated any particular wrongdoing on the part of ConocoPhillips. They believe the issue would be better addressed by public policy. The CCSR abstained following ACSR recommendation and CCSR precedent on identical proposals to ConocoPhillips and ExxonMobil that came to vote in 2010.

4. Report on Steps to Reduce Accident Risk

A new proposal to ConocoPhillips addresses concerns about the high number of accidents in the oil and gas industry, as well the company's own record with regard to safety issues. According to Si2, since 2007 there have been several OSHA violations reported at the company's refineries. The resolution called on ConocoPhillips to

> "report, within ninety days of the 2012 annual meeting of stockholders, at reasonable cost and excluding proprietary and personal information, on the steps the Company has taken to reduce the

> risk of accidents. The report should describe the Board's oversight of process safety management, staffing levels, inspection and maintenance of refineries and other equipment."

The ACSR unanimously voted (11-0-0) to recommend support. ACSR members noted the antiquated infrastructure and the wide range of hazardous chemicals used in oil refining processes, and agreed that greater attention should be paid to worker safety. While some members questioned the value of a report to shareholders, given that the company already provides information about its safety programs on its website, they agreed that the second part of the proposal would encourage management to give greater attention, at the board level, to safety and maintenance issues. The CCSR voted in favor following ACSR recommendation.

5. Establish Stormwater Management Policy

Home Depot is the world's largest home improvement retailer, with over two thousand stores throughout the U.S., Canada, China and Mexico. A new resolution to the company addresses concerns about storm water runoff from Home Depot garden centers (where the company stores lawn and garden chemicals that are exposed to rainwater) and store parking areas. Although Home Depot has developed an environmental reporting and management structure that includes a direct link to the Board of Directors and the CEO, the company has no specific company-wide policy related to storm water runoff. The proponent would like the company to

> "establish a written Stormwater Management Policy, applicable to all locations, including warehouses, which will:
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> - Identify all sources of operations for which Home Depot may generate contaminated stormwater, including trucking operations, lawn and garden chemicals, tool rental and other storage of all vulnerable chemical products, and,
> - Prepare and publish, at reasonable cost, excluding proprietary information, a stormwater management status report by September 2012, from all Home Depot locations, addressing all chemical product storage, transportation, rental and other potential sources of contaminated stormwater runoff which are presently and/or could be exposed to precipitation events or discharge, and then,
> - Implement Best Management Practices or comparable prevention practices for all potential materials and operational sources of contaminated stormwater which either prevents such runoff, by eliminating the storage of contaminating products where they are subject to precipitation or runoff or minimizes the potential for such contaminated runoff."

The ACSR voted unanimously (7-0-0) to recommend support for the proposal. Members acknowledged that Home Depot's annual report has a section devoted to environmental issues, that the company has published its environmental principles on the company website (although information about its storm water management policy is not included), and that it is the only North American home center that has a full time staff dedicated to environmental issues. At the same time, they noted that in 2008, Home Depot was fined $1.3 million for violations of the Clean Water Act related to surface water runoff that contaminated nearby waterways. ACSR members are concerned that the company's current storm water management policy is decentralized and may not be effective. They believe the proposal is direct and explicit regarding actions the company could take to control surface water contamination, and believe that by adopting the proposal, Home Depot would have an opportunity to make a difference in this area. They are also concerned that the company's current practices could expose it to reputational risk.

The CCSR abstained, recognizing that storm water runoff is a significant issue, but with concern that efforts to "Identify all sources of operations for which Home Depot may generate contaminated stormwater," followed by the publication of a status report for all the Home Depot locations ("addressing all chemical product storage, transportation, rental and other potential sources of contaminated stormwater runoff which are presently and/or could be exposed to precipitations events or discharge") would be extremely burdensome. They are also concerned that the publication of such a report could subject Home Depot to increased liability in the event of a storm, should any of its efforts to control surface water contamination fall short.

6. Elect Environmental Expert to Board of Directors

A resolution to Occidental Petroleum asks that the company specifically include an environmental expert on its board of directors. The following proposal was presented:

> "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 relating to the environmental impacts of 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."

The ACSR narrowly supported the request (6-0-5). It was noted that the resolution was brought forward in part because of concerns about damage to both human health and the environment caused by Occidental's oil and gas operations in Peru. Supporting members believe the request is reasonable in light of the serious environmental issues facing companies in the oil and gas industry. They point out that including a recognized environmental expert on the board is becoming best practice in the industry. Abstaining members support the spirit of the proposal, but believe the resolution is moot because the company already has an environmental committee of its board and an independent director with credible environmental credentials. They point out that the resolution does not address the proponents' underlying concerns about environmental damage caused by the company's operations in Peru. The CCSR abstained on the resolution following the arguments of abstaining ACSR members, and in light of the CCSR's vote against a similar proposal to the company last year, while recognizing concerns expressed by supporting members.

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

A resolution to McDonald's addresses concerns about the possible connections among fast food consumption, childhood obesity, and diet-related diseases. According to Si2, childhood obesity remains a major problem in the U.S., where over twenty-five million children are overweight or obese. The number of children consuming food at restaurants rather than at home has increased dramatically in the past few decades, and as a result, children are eating more fat and sugar. In 2012, the American Journal of Preventative Medicine underscored the link between high calorie intake and obesity rates, and linked marketing to obesity. Last July, the Federal Trade Commission proposed the development of new guidelines for marketing food to children. In response, the fast food industry developed its own voluntary code, which many view as inferior and not requiring significant changes on the part of fast food companies in regard to their marketing practices. McDonald's, the world's largest fast food company, serves over sixty million customers per day. The proponents do not think the company has done enough to anticipate and respond to public concerns about the potential link between fast food and childhood obesity, and would like an assessment of the impact of public concern about these issues on the company's finance and operations. The proposal called on the company to

> "issue a report, at reasonable expense and excluding proprietary information, within six months of the 2012 annual meeting, assessing the company's policy responses to growing evidence of linkages between fast food and 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 voted 0-2-4 to recommend abstention on the proposal. ACSR members agree that McDonald's marketing practices inappropriately target children and would prefer a resolution that more directly addresses this concern. Those recommending a vote against the proposal point out that the SEC already requires companies to report on material risk, and they see no benefit in asking the company to duplicate this information in a report to shareholders. Abstaining members agree that the proposal is too broadly written, but would also like to encourage management to give greater thought to developing and promoting healthier food options. They are concerned a vote against would indicate a lack of concern about this issue. The CCSR abstained on the resolution following ACSR recommendation and precedent of both Committees on an identical proposal to the company in 2011.

8. Report on Supply Chain Impact on Deforestation

Kraft, one of the world's largest consumer products companies, publishes an annual sustainability report, which includes metrics on the volumes and percentages of sustainable sourcing of a small number of its products, including cocoa, coffee, cashews and palm oil. Information about the sourcing of paper, beef, soy and sugar is not published. The proponents of a new proposal to the company argue that the increasing demand for these products is a driving force behind deforestation—a major contributor of greenhouse gases. They would like the company to

> "prepare a report, at reasonable cost and omitting proprietary information, by December 1, 2012, describing how Kraft is assessing the company's supply chain impact on deforestation and the company's plans to mitigate these risks."

The ACSR voted unanimously (6-0-0) to recommend support of the proposal. ACSR members note that Kraft has fallen behind some of its competitors, particularly with regard to reporting on forest sustainability issues related to paper sourcing. There are several initiatives available to ensure sustainable sourcing of paper products, including the Forest Stewardship Council and the Sustainable Forestry Initiative. ACSR members are concerned that the company does not use a certification system for paper sourcing, and would like to encourage management to report more fully on its sustainable sourcing efforts. The CCSR voted in favor of the proposal following ACSR recommendation.

9. Report on Recycling Policy

Concerns about poor recycling rates of beverage containers prompted a group of shareholders to ask Kraft Foods to consider stronger environmental policies regarding its beverage containers. The proponents describe an Extended Producer Responsibility policy, which shifts the accountability for collecting and recycling waste from consumers and governments to producers. Coca-Cola, PepsiCo and Nestle have adopted such policies, which are the norm in some European countries. The proposal called on the company to

> "issue a report at reasonable cost, omitting confidential information, by Sept. 1, 2012, assessing the feasibility of adopting a policy of Extended Producer Responsibility for post-consumer product packaging as a means of reducing carbon emissions and air and

> water pollution resulting from the company's business practices, and increasing rates of packaging recycling; and describing efforts by the company to implement this strategy."

The ACSR voted unanimously (6-0-0) to recommend support of the proposal. ACSR members noted that Kraft appears to have made significant efforts to reduce waste and has a fairly progressive policy in this regard. At the same time, they agree with the proponents that the company might be more effective in handling post-consumer waste, and they support the goal of an extended recycling policy. Since the resolution is simply asking for a feasibility study regarding an extended recycling policy, not for the adoption of a policy, they believe a vote in favor is appropriate and is in keeping with precedent of both Committees on a similar proposal to McDonald's last year. The CCSR voted in favor of the proposal following ACSR recommendation and precedent of both Committees on a similar proposal to McDonald's in 2011.

B. Human Rights

A group of shareholders is concerned about JPMorgan Chase's investments in PetroChina, a company that has connections to oil production projects in the Darfur region of Sudan through its parent company, the China National Petroleum Corporation. According to the Si2 background report, JPMorgan has approximately $1.5 billion invested in PetroChina on behalf of its clients. The resolution called on the company to

> "institute transparent procedures to avoid holding investments in companies that, in management's judgment, substantially contribute to genocide or crimes against humanity, the most egregious violations of human rights, and to assist customers in avoiding the inadvertent inclusion of investments in such companies in their portfolios. These procedures may include time-limited engagement if management believes it can change the behavior of problem companies."

The ACSR voted 0-7-2 to recommend opposition. Members recommending a vote against were persuaded by arguments that the request is redundant, since JPMorgan already has a human rights policy in place that is based on the Universal Declaration of Human Rights; that the majority of JPMorgan's holdings in PetroChina are the investment choices of customers, over which the company has no control; and that the proposal is too broadly worded and could open the company to criticism around issues of human rights in a wide range of countries. Abstaining members would support efforts to ensure that the company's investments are in line with generally accepted values on human rights, but agree with opposing members that the proposal is too broadly worded and that JPMorgan has no control over the investment decisions of its customers. They are concerned, however, that a vote against might indicate a lack of concern about human rights issues. The CCSR voted against the resolution following ACSR recommendation.

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 growing number of states prohibit discrimination based on both sexual orientation and gender identity, but since there are no such protections at the Federal level, corporate anti-discrimination policies can vary from state to state. This year, shareholders called on ConocoPhillips to

> "amend its written equal employment opportunity policy to explicitly prohibit discrimination based gender identity or expression and substantially implement the policy."

The ACSR voted unanimously (11-0-0) to recommend support for the proposal. Members noted that most Fortune 500 companies have already adopted policies that protect workers from discrimination based on sexual orientation and gender identity, as does Harvard's own anti-discrimination policy, and they strongly supported the proposal to ConocoPhillips. The CCSR voted in favor following the ACSR recommendation and long-standing precedent of both Committees.

A related proposal to Home Depot addressed the issue of corporate reporting of Equal Employment Opportunity information. The resolution called on the company to

> "prepare a diversity report, at reasonable cost and omitting confidential information, available to investors by September 2012, 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 any policies and programs oriented specifically toward increasing the number of managers who are qualified females or minorities."

The ACSR voted 7-0-2 to recommend a vote in favor. It was noted that this is the 10th year this resolution has been brought before Home Depot, and each time it has received support from more than twenty percent of shareholders. Home Depot's non-discrimination policy is available on its website, but the company does not provide diversity data or information about the demographics of its workforce. ACSR members recommending support believe that employment barriers still exist for women and minorities, and are concerned about the company's history of discrimination settlements, noting that in 1997 Home Depot paid over $87 million to settle a series of gender discrimination lawsuits. These members believe that a report about the company's workforce would be of interest to shareholders and would be easy to prepare, since the requested data is already collected for EEO1 reporting purposes. Abstaining members support the spirit of the proposal, but think the level of detail requested is excessive. They also pointed out that given the company's size, and the fact that there have been no major claims of discrimination since the 1997 settlement, the facts do not support the proponents' claims that there is a pattern of discrimination at Home Depot. The CCSR voted in favor of the resolution following ACSR recommendation and precedent of both Committees.

D. Political Contributions

1. Adopt Policy Prohibiting Political Contributions

Although Bank of America does not make contributions to candidates for public office and does not engage in grass roots lobbying, a group of shareholders would like the company to go further and institute a policy prohibiting all political contributions. The resolution called on the company to

> "adopt a policy prohibiting the use of corporate funds for any political election or campaign."

The ACSR voted 0-8-3 to recommend a vote against the proposal. Opposing members agree with past arguments that it is inappropriate to request companies unilaterally to end political contributions. Although some members would support an end to corporate political contributions, they voted against or abstained on the proposal based on the view that it would be ineffective in addressing more serious concerns about corporate contributions to Super PACs, non-profit organizations, and trade associations. The CCSR voted against the resolution following ACSR recommendation and precedent of both Committees on similar proposals.

2. Shareholder Approval of Political Contributions

A new proposal to Johnson & Johnson sought to limit the amount of contributions the company is allowed to make without the approval of a majority of shareholders. The ACSR voted 0-11-0 to recommend a vote against a proposal calling on the company to

> "… make no political contributions without the approval of the holders of at least 75% of its shares outstanding."

In recommending a vote against, ACSR members noted that Johnson & Johnson has received mixed reviews regarding its disclosure of political spending. Although the company provides independent disclosure of political contributions, including information about recipients, political party affiliations, and the amount contributed, broken down by state, the company does not disclose information about trade association memberships. ACSR members noted that by requiring the company to gain the approval of seventy-five percent of outstanding shares prior to making a political contribution, the proposal would essentially prohibit the company from making any political contributions, regardless of the level of disclosure. Although members expressed some concern about the lack of transparency regarding the company's membership in trade associations, and noted that the proponents raise valid concerns about the role of corporations in politics, they do not believe the proposal as worded would be effective in addressing these concerns.

The CCSR voted against the resolution following ACSR recommendation. As ACSR members point out, the proposal would effectively prohibit all political contributions. In the past, both Committees have opposed resolutions that call for an end to political contributions based on the view that requiring companies unilaterally to end political contributions could put them at a competitive disadvantage in relation to companies that make such donations and would infringe on their freedom of speech.

3. Disclose Political Contributions

a. Report on 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 semiannually, 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 responsible for the decision(s) to make the political contributions or expenditures.

> The report shall be presented to the board of directors or relevant board oversight committee and posted on the Company's website."

The ACSR voted unanimously to recommend support for proposals to CVS Caremark (9-0-0), JPMorgan Chase (9-0-0), Sprint Nextel (9-0-0), Republic Services (9-0-0), Amazon (6-0-0), and Allstate (6-0-0) referring to precedent of both Committees on identical proposals last year. In 2011, the ACSR supported this type of proposal arguing that the 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), rather it asks for the "title(s)" of the person(s) in the company who make such decisions. This year's ACSR agrees 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. In each case, ACSR members noted that the companies had received extremely low ratings by the Center for Political Accountability with regard to transparency about their political spending. The CCSR voted in favor of the resolutions following ACSR recommendation and precedent of both Committees.

A related proposal to IBM focused on the company's involvement in trade associations that often use membership dues for lobbying purposes. The resolution follows:

> "Resolved: Shareholders request that independent Board members institute a comprehensive review of IBM's policies and oversight processes related to political spending and public policy, both direct and indirect, including through trade associations, and present a summary report by September 2012. The report may omit confidential information and limit costs. Items for review include:
>
> - Risks and responsibilities associated with serving on boards of and paying dues to trade organizations where their positions contradict IBM's own positions.
> - How IBM's Board representatives on trade associations can more effectively advocate IBM's sustainability agenda and influence policy.
> - Management and Board trade association oversight processes.
> - The case for IBM publicly explaining why they differ from a trade association on a priority issue.
> - Review and disclosure of any direct and indirect expenditures supporting or opposing candidates, for issue ads designed to affect political races, including dues and special payments made to trade associations, such as the U.S. Chamber of Commerce."

The ACSR voted 3-7-2 to recommend a vote against the proposal. Members noted that IBM has a clear policy not to spend money on political contributions, and specifically requires that any trade associations in which they participate do not use dues for political purposes. The company has made this policy clear on its website. Opposing members do not believe the proponents have any particular concerns about IBM, and see no reason to support the request for an additional report. Supporting members do not believe the report would be difficult to produce, and would provide shareholders with a deeper level of understanding about corporate political spending. The CCSR voted against the resolution following ACSR recommendation.

b. Publish Details of Political Contributions in Newspapers

The proponent of a resolution to Pfizer would like the company to publish details of its political spending in newspapers in several major U.S. cities. This proposal has been presented to numerous companies over the past twenty years. Specifically, the resolution calls on Pfizer to

> "direct management that within five days after approval by the shareholders of this proposal, the management shall publish in newspapers of general circulation in the cities of New York, Washington, D.C,. Detroit, Chicago, San Francisco. Los Angeles, Dallas, Houston and Miami, and in the Wall Street Journal and U.S.A, Today, a detailed statement of each contribution made by the Company, either directly or indirectly, within the immediately preceding fiscal year, in respect of political campaign, political party, referendum or citizens' initiative, or attempts to influence legislation, specifying the date and amount of each such contribution and the person or organization to whom the contribution was made. Subsequent to this initial disclosure, the management shall cause like data to be included in each succeeding report to shareholders. And if no such disbursements were made, to have that fact publicized in the same manner."

The ACSR voted 0-11-0 to recommend opposition to the proposal. ACSR members noted that the company has an exceptional record with regard to reporting on political contributions: the company reports twice a year with regard to federal and state contributions (available on the company's website), and includes the names and party affiliations of recipients, the offices of candidates, and whether the candidate represents a constituency where the company has a facility. Pfizer also provides a partial listing of trade association memberships on its website. In voting against the proposal, ACSR members agree with management that the purchase of newspaper space is an unnecessary expenditure of company funds. They do not believe that such reporting would be particularly helpful to shareholders, and point out that the amount of newspaper space required to print a quarterly lobbying report would be prohibitively expensive. The CCSR votes against the resolution following ACSR recommendation and precedent of both Committees.

4. Report on Lobbying

According to 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 newly-elected legislators. In 2012, the ACSR made recommendations on several proposals calling for a report on lobbying. The first, to IBM, called for

> "preparation of a report, updated annually, disclosing:
> 1. Company policy and procedures governing the lobbying of legislators and regulators, including that done on our company's behalf by trade associations. The disclosure should include both direct and indirect lobbying and grassroots lobbying communications.
> 2. A listing of payments (both direct and indirect, including payments to trade associations) used for direct lobbying as well as grassroots lobbying communications, including the amount of the payment and the recipient.
> 3. Membership in and payments to any tax-exempt organization that writes and endorses model legislation.
> 4. Description of the decision making process and oversight by the management and Board for
>   a. direct and indirect lobbying contribution or expenditure; and
>   b. payment for grassroots lobbying expenditures.
>
> For purposes of this proposal, a "grassroots lobbying communication" is a communication directed to the general public that (a) refers to specific legislation, (b) reflects a view on the legislation and (c) encourages the recipient of the communication to take action with respect to the legislation. Both "direct and indirect lobbying" and "grassroots lobbying communications" include efforts at the local, state and federal levels.
> The report shall be presented to the Audit Committee of the Board or other relevant oversight committees of the Board and posted on the company's website."

The ACSR voted 2-10-0 to recommend a vote against the proposal. ACSR members noted that lobbying is highly regulated at both the state and federal levels, and that all lobbyists must register and report quarterly on any payment over one thousand dollars per month. These reports are highly detailed, and include the names of individuals contacted and the substance of the conversation. IBM provides links on its website to reports at the federal level, but the proponents would like the company to prepare a report on all IBM's lobbying practices, including those at the state level. ACSR members noted that IBM spent $4.5 million on lobbying in 2010—a very small amount in comparison with other firms in the information technology industry. Opposing members believe that publicly available information about lobbying is sufficient, and that IBM is one of only a handful of companies that provides links to this information on its website. They do not see the value of requesting additional information from IBM, since the only added value would be reporting on state expenditures, which for IBM is minor and fragmented. Given that the company is already very open about its policies, they saw no reason to press for further action on this issue. Supporting members are in favor of greater transparency regarding corporate political spending. The CCSR voted against the resolution following ACSR recommendation.

Later in the season, the ACSR voted unanimously to recommend a vote against identical resolutions to Bank of America (0-11-0); ConocoPhillips (0-11-0); Amgen (0-7-0); Goldman Sachs (0-7-

0); Southern Company (0-7-0); and Kraft Foods (0-7-0). Members noted that for these companies, most lobbying is done at the federal level, which is highly regulated and subject to comprehensive disclosure. They do not believe the proposal as written would have an impact on corporate activities at the state level, and did not see the value of an additional report to shareholders on this issue. The CCSR voted against the resolutions following ACSR recommendation and precedent against the proposal to IBM earlier in the year.

5. Affirm Political Non-partisanship

For several years, a shareholder activist has submitted proposals to numerous companies requesting that they refrain from activities that could be construed as coercing employees to vote against their personal inclination. This year the proposal was presented to J.P. Morgan Chase, calling 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 station locations."

The ACSR voted unanimously (0-9-0) to recommend opposition to the proposal, citing strong precedent of both Committees for this type of proposal. Members noted that JPMorgan Chase has a Political Activities Statement that is available on the company's website, has board oversight of political contributions, and is noted for following best practice in the industry with regard to corporate political contributions. In addition, the company states that it does not engage in any of the five practices referred to in the proposal, all of which are illegal. The CCSR voted against the resolution following ACSR recommendation and precedent of both Committees.

6. Adopt Policy Regarding Political Contributions

A new proposal to Home Depot combines a request for transparency with a request for an advisory shareholder vote on political spending. The resolution called on the company to

> "adopt a policy under which the proxy statement for each annual meeting will contain a proposal on electioneering and political contributions and communications describing:
> - the Company's and HDPAC policies on electioneering and political contributions and communications,
> - any electioneering and political contributions and communications expenditures known to be anticipated during the forthcoming fiscal year,
> - the total amount of such anticipated expenditures,
> - a list of specific electioneering and political contributions and communications expenditures made in the prior fiscal year,
> - management's analysis of the congruency with company values and policies of those political and electioneering policies, and of resultant expenditures for the prior year and the forthcoming year,
> - and providing an advisory shareholder vote on those policies and future plans."

The ACSR voted unanimously (0-9-0) to recommend opposition, observing that Home Depot appears to be ahead of its industry peers with regard to oversight and reporting of political contributions. The company has a policy that requires board-level approval of all political contributions, as well as approval of any public advertising to express support for political candidates. Home Depot's political spending is about half that of the average for all S&P 500 companies, and about one quarter that of its industry peers. In addition, the company provides links on its website to information about political contributions at the federal and state level. Although ACSR members support greater transparency with regard to political contributions, they believe the request for an advisory shareholder vote for all political spending policies and plans would be unnecessarily cumbersome. The CCSR voted against the proposal following ACSR recommendation.

A related proposal to Intel called on the company to

> "adopt a policy under which the proxy statement for each annual meeting will contain a proposal on political contributions describing:
> - any political contributions known to be anticipated during the forthcoming fiscal year,
> - the total amount of such, anticipated expenditures,
> - management's analysis of the congruency with company values and policies of the company's and INTCPAC's policies on electioneering and political contributions and communications, and of the resultant expenditures for the prior year and the forthcoming year;
> - and providing an advisory shareholder vote on those policies and future plans."

The ACSR voted unanimously (0-9-0) to recommend opposition to the proposal. Members noted that Intel has an exceptional record with regard to disclosure, providing shareholders not only with information about state and federal contributions, but also with information about contributions and dues paid to trade associations. Although ACSR members support greater transparency with regard to political contributions, they believe the request for an advisory shareholder vote for all political spending policies and plans would be unnecessarily cumbersome. The CCSR voted against the resolution following ACSR recommendation.

E. Charitable Contributions

Home Depot has a long history of charitable giving to a wide range of causes. The proponent is concerned about specific donations made by the company to organizations that support gay rights and birth control. The resolution called on the company to

> "list the recipients of corporate charitable contributions or merchandise vouchers of $6,000 or more on the company website."

The ACSR unanimously voted (0-9-0) to recommend opposition to the proposal. ACSR members referred to past arguments that firms are already required by law to provide information about charitable giving, and they did not see the value of another report to shareholders on this issue. In addition, they thought the request for a list of all donations over $6000 asked for an unreasonable level of detail. The CCSR voted against the resolution following ACSR recommendation and precedent on similar proposals to GE and Anheuser Busch in 2008.

A similar proposal was presented to Merck:

> "Resolved: the shareholders request that the independent members of the Board of Directors institute a comprehensive review of Merck's charitable contributions and political contributions and issue a report addressing the interrelation of both and how will they serve overall corporate policy."

The ACSR voted unanimously (0-7-0) to recommend opposition. As with the proposal to Home Depot, the proponent is concerned about donations made to charitable organizations that support gay rights and birth control. In voting against the proposal, members noted that Merck is ahead of its peers in disclosing information about contributions to both political and charitable organizations, receiving a top rating from the Center for Political Accountability for disclosure, and has a board committee that oversees contributions. Given the level of information already provided by Merck, ACSR members saw no reason to support the request for an additional report. The CCSR voted against the proposal following ACSR recommendation.

F. Animal Welfare

A resolution to Johnson & Johnson addressed concerns about the use of live animals for training health professionals in the use of the company's medical devices. Although the company has extensive guidelines on the appropriate use of animals in research and testing, and is in compliance with the Animal Welfare Act and USDA guidelines, the proponents are concerned that the company had violated its own guidelines at one of its overseas facilities. The following resolution was presented:

> "RESOLVED, to maintain and promote the best and most humane training standards, the Board is requested to adopt available non-animal methods for medical device training procedures and incorporate them consistently throughout all the Company's operations."

The ACSR voted 0-10-1 to recommend a vote against the proposal. Opposing members cited precedent against an identical proposal to the company in 2011. They noted that Johnson & Johnson has a comprehensive policy regarding the use of animals and is considered a leader in seeking and applying alternatives to animal testing. They argued that the evidence brought forward by the proponents regarding violations of the policy at an overseas facility does not indicate a systematic departure from company policy, and they do not believe that shareholder intervention is necessary. Some members expressed concern that the proposal simply asks the company to adopt non-animal methods for training, and does not include the caveat that they use non-animal methods "where possible" or "where the use of non-animal methods has comparable results." The CCSR voted against the proposal following ACSR recommendation and precedent of both Committees on an identical proposal in 2011.

Similarly, a new proposal to Amgen addressed concerns about the company's oversight of animal testing and care. According to the Si2 background report, Amgen has policies in place regarding animal treatment and develops and uses alternatives to animal use where appropriate. The company claims that its contract facilities are in compliance with its own policy and are reviewed by objective experts. At the same time, the proponents pointed to violations of the Animal Welfare Act by Amgen and one of its contract laboratories. They argue that Amgen's reporting does not meet industry best practice, and that oversight is inadequate. The resolution called on the company to

> "issue an annual report to shareholders detailing measures taken to ensure that Amgen's animal experimentation oversight committee functions properly with regard to the use of animals in painful and lethal experiments, procedures to ensure appropriate animal care in-house and at contract laboratories, and specifics on how Amgen uses animals and plans to promote alternatives to animal use."

The ACSR vote was split 3-1-2 on the proposal. The opposing member did not believe there is there a compelling case that Amgen is behaving irresponsibly with regard to its own practices or its oversight of contract laboratories, since the violations mentioned by the proponents were not recent and did not appear serious. Members recommending abstention intended to indicate support for the underlying goal of greater transparency with regard to animal testing. Supporting members consider federal regulations insufficient to ensure animal welfare and are concerned about the Amgen's continued use of a laboratory that has been cited repeatedly for violations. These members would like the company to make greater efforts to ensure that its policies are being enforced at both its own facilities and those of contract laboratories. The CCSR abstained on the proposal in light of the ACSR's split vote on this new proposal.

G. Mortgage Lending Policies

A new proposal to Bank of America focuses on concerns about the company's internal controls and oversight of mortgage related activity in light of the financial crisis of 2008. Bank of America remains heavily invested in the home mortgage market, and is currently the target of a large number of lawsuits related to mortgage backed security transactions. The company recently agreed to pay nearly $12 billion in a settlement with the Department of Justice regarding unfair foreclosure practices. Since Bank of America does not release credit rating information regarding its residential mortgage backed securities, the resolution's proponents argue that shareholders have no way to assess risk in this area. The company was asked to

> "have its Audit Committee conduct an independent review of the Company's internal controls related to residential mortgage loan modifications, foreclosures and securitizations, and report to shareholders at reasonable cost and omitting proprietary information, its findings and recommendations by September 30, 2012.
>
> The report should evaluate (a) the Company's compliance with (i) applicable laws and regulations and (ii) its own policies and procedures; and (b) policies and procedures to address potential financial incentives to foreclose when other options may be more consistent with the Company's long-term interests."

The ACSR voted 0-4-7 to recommend abstention. Opposing members believe the requested report could create automatic legal liability for the company, regardless of whether the company has behaved improperly. They point out that securities litigation rarely goes to jury and that no clear inferences arise from settlements with regard to wrongdoing. In addition, they believe the resolution is redundant given new regulations that include outside monitoring of compliance. Abstaining members acknowledged these arguments, but did not want to vote against the proposal because they believe the company may have acted improperly and should be encouraged to improve its practices to reduce future risk.   The CCSR abstained following arguments of ACSR members recommending abstention.

A related proposal to JPMorgan addressed concerns that the company may be exposed to reputational, financial and litigation risks if it uses different approaches for loan modifications and foreclosures for loans that it owns versus the loans it services. Specifically, the proponents requested the company to

> "oversee development and enforcement of policies to ensure that loans that are in default or foreseeable default are adequately modified by similar methods for the same loan types for those owned by JPM and those serviced for others, whether serviced directly or by subservicers, subject to valid constraints of pooling and servicing agreements, and report policies and results to shareholders by October 30, 2012."

The ACSR voted 2-7-0 to recommend opposition. ACSR members noted from the Si2 report that the company's own mortgage loans are worth approximately $200 billion, while it services an additional $900 billion in mortgage loans for third parties. JPMorgan provides information about the number of delinquent and modified loans it owns, but does not provide such information for serviced loans, making it difficult for shareholders to determine whether loans are treated in the same manner. ACSR members recommending a vote against point to JPMorgan's claims that, where possible, loan modification policies are applied uniformly to both owned and serviced loans. They agree with management that it is unreasonable to ask the company to ensure that all loans are treated the same because loan modifications for serviced loans are subject to possible contractual limitations set by the mortgage holder. (This information was not considered by the ACSR last year.) In addition, lending companies are required to comply with laws at both the federal and state level regarding lending practices, and there is no evidence of wrongdoing on the part of JPMorgan. Supporting members point out that the proposal acknowledges the constraints on serviced loans, and would not require the company to ensure that such loans are treated the same as in-house loans. They believe a vote in favor would send a message to JPMorgan to do all it can to apply loan modification policies equally to owned and serviced loans (subject to contractual limitations). The CCSR opposed the resolution, agreeing with this year's ACSR that the proposal is unnecessary, given management's stated position.

H. Net Neutrality

The proponents of a new proposal to Sprint Nextel are concerned about the ability of broadband providers to interfere with content, applications, services, and devices of internet users. They would like the company to commit to net neutrality principles in order to preserve current freedoms. Sprint Nextel agrees that there should be an open internet, and points out that it is in compliance with FCC regulations. At the same time, the company argues that adoption of the proposal would put it at a competitive disadvantage by limiting its ability to manage its wireless network effectively. The proposal called on the company to

> "publicly commit to operate its wireless broadband network in accordance with network neutrality principles - i.e., operate a neutral network with neutral routing along the company's wireless infrastructure such that the company does not privilege, degrade or prioritize any packet transmitted over its wireless infrastructure based on its source, ownership or destination."

The ACSR voted 0-9-0 to recommend opposition to the proposal. ACSR members noted that there is no evidence of wrongdoing by Sprint Nextel, and see no reason to ask the company to adopt a policy of net neutrality unilaterally. Members also considered that the wireless internet is a new and growing industry, and that flexibility is important for the success of companies entering this market. They pointed out that since the principles of net neutrality are still under debate, the request is premature. The CCSR voted against the resolution following ACSR recommendation.

II. Conclusion

The CCSR would like to thank the members of the ACSR for their hard work and generous commitment of time during the 2012 proxy season, with special thanks to Professor Allen Ferrell, the ACSR Chairman, for his leadership. The University has benefited greatly from the Committee's thoughtful consideration of many complex issues and careful examination of the circumstances surrounding each recommendation. The CCSR relies heavily upon the ACSR's analysis of issues to support the University's commitment to voting proxy resolutions addressing social and ethical issues. We look forward to working with Professor Ferrell and other continuing members of the Committee in the coming year.

Appendix A
2012 Proxy Season Summary

	COMPANY	RESOLUTION	Meeting Date	ACSR Vote	CCSR Vote
1.	C.R. Bard	publish sustainability report	4/18/2012	11-0-0 In favor	In favor
2.	IBM	review/report on political spending	4/24/2012	3-7-2 Oppose	Oppose
3.	IBM	report on lobbying	4/24/2012	2-10-0 Oppose	Oppose
4.	Johnson & Johnson	end animal use in sales training	4/26/2012	0-10-1 Oppose	Oppose
5.	Johnson & Johnson	shareholder approval of political spending	4/26/2012	0-11-0 Oppose	Oppose
6.	Pfizer	disclose political contributions in newspapers	4/26/2012	0-11-0 Oppose	Oppose
7.	Occidental Petroleum	Nominate environmental expert to board	5/4/2012	6-0-5 In favor	Abstain
8.	ConocoPhillips	Adopt GHG reduction targets	5/9/2012	11-0-0 In favor	In favor
9.	ConocoPhillips	Adopt coastal wetlands policy	5/9/2012	5-0-6 Abstain	Abstain
10.	ConocoPhillips	Report on accident prevention efforts	5/9/2012	11-0-0 In favor	In favor
11.	ConocoPhillips	Adopt sexual gender identity anti-bias policy	5/9/2012	11-0-0 In favor	In favor
12.	ConocoPhillips	Report on lobbying	5/9/2012	0-11-0 Oppose	Oppose
13.	Bank of America	Review home mortgage policies	5/9/2012	0-4-7 Abstain	Abstain
14.	Bank of America	End political spending	5/9/2012	0-8-3 Oppose	Oppose
15.	Bank of America	Report on lobbying	5/9/2012	0-11-0 Oppose	Oppose
16.	CVS Caremark	Review/report on political spending	5/10/2012	9-0-0 In favor	In favor
17.	JPMorgan Chase	End investments in genocide-connected cos.	5/15/2012	0-7-2 Oppose	Oppose
18.	JPMorgan Chase	Adopt loan modification policy	5/15/2012	2-7-0 Oppose	Oppose
19.	JPMorgan Chase	Affirm political non-partisanship	5/15/2012	0-9-0 Oppose	Oppose
20.	JPMorgan Chase	Review/report on political spending	5/15/2012	9-0-0 In favor	In favor
21.	Sprint Nextel	Commit to net neutrality	5/15/2012	0-9-0 Oppose	Oppose
22.	Sprint Nextel	Review/report on political spending	5/15/2012	9-0-0 In favor	In favor
23.	Home Depot	Adopt stormwater management policy	5/17/2012	7-0-0 In favor	Abstain
24.	Home Depot	Report on EEO and affirmative action	5/17/2012	7-0-2 In favor	In favor
25.	Home Depot	Adopt advisory vote on political spending	5/17/2012	0-9-0 Oppose	Oppose
26.	Home Depot	Report on charitable contributions	5/17/2012	0-9-0 Oppose	Oppose
27.	Intel	Adopt advisory vote on political spending	5/17/2012	0-9-0 Oppose	Oppose
28.	Republic Services	Review/report on political spending	5/17/2012	9-0-0 In favor	In favor
29.	Allstate	Review/report on political spending	5/22/2012	6-0-0 In favor	In favor

30.	Merck	Report on charitable contributions	5/22/2012	0-7-0 Oppose	Oppose
31.	Amgen	Report on lobbying	5/23/2012	0-7-0 Oppose	Oppose
32.	Amgen	Report on use of animal testing	5/23/2012	3-1-2 Split	Abstain
33.	Kraft Foods	Report on lobbying	5/23/2012	0-7-0 Oppose	Oppose
34.	Kraft Foods	Report on supply chain deforestation impacts	5/23/2012	6-0-0 In favor	In favor
35.	Kraft Foods	Adopt extended producer recycling policy	5/23/2012	6-0-0 In favor	In favor
36.	Southern Company	Report on lobbying	5/23/2012	0-7-0 Oppose	Oppose
37.	Southern Company	Report on coal ash risks	5/23/2012	7-0-0 In favor	In favor
38.	Amazon.com	Report on climate change	5/24/2012	3-1-3 Split	Abstain
39.	Amazon.com	Review/report on political spending	5/24/2012	6-0-0 In favor	In favor
40.	Goldman Sachs	Report on lobbying	5/24/2012	0-7-0 Oppose	Oppose
41.	McDonald's	Report on fast food and childhood obesity	5/24/2012	0-2-4 Abstain	Abstain

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.