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Proxy Voting Guidelines for External Managers

Topic: Corporate Political Spending
Subtopic: Lobbying and Political Spending
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Description:

Resolutions that seek to increase a company’s reporting and disclosure on political contributions, regarding (1) company policy and procedures governing direct contributions, direct lobbying, indirect lobbying, and grassroots lobbying communications, (2) expenditures for direct contributions, direct and indirect lobbying, and grassroots lobbying communications, or (3) alignment analysis with company environmental- or social-related commitments and statements.¹

Topic background:

Recent shareholder proposals on this topic tend to reflect proponents’ concerns about the role of corporate political spending on legislation and regulations, as well as concerns that political expenditures may expose companies to significant reputational risk, particularly if that spending supports political positions that do not align with a company’s public position on an issue.

Corporations and their industry groups may have significant influence over how policies are drafted, and further policy expansion or retrenchment. They can also influence how policy may be implemented and enforced. All this is done by engaging directly with politicians and regulators and/or indirectly through influencing public perception or bringing matters to the court system. Current levels of company disclosure are uneven across different categories of lobbying and indirect expenditure, and that it can be burdensome for a shareholder to independently compile information on a company’s political spending, since such information is dispersed across many sources, especially at state and local levels.

¹ Proposals on lobbying disclosure may include definitions of indirect lobbying and grassroots lobbying communications in terms such as the following: “Indirect lobbying” is lobbying engaged in by a trade association or other organization of which the company is a member. “Grassroots lobbying communications” are communications directed to the general public that refer to specific legislation or regulation, reflect a view on the legislation or regulation, and encourage the recipient of the communication to take action with respect to the legislation or regulation. For reference this language is drawn from Walden Asset Management’s 2018 proposal to AT&T. Please see the “[Overview of Harvard’s Proxy Voting Guidelines for External Managers](#),” for details of Harvard’s interests as an institution of higher education and specific policies Harvard has adopted and refer to Harvard’s [topic-specific guidelines](#) that may be relevant to shareholder proposals on lobbying. “[Reporting on Climate Change](#),” guideline addresses resolutions that ask companies to report on business risks associated with climate change and the potential impacts of these risks upon their business activities, as well as plans to address such risks.

Considerations for voting:

- We generally recommend support of well-constructed proposals requesting timely disclosure on corporate political spending. Such disclosures can have value to shareholders, helping them assess whether a corporation's use of assets is in shareholders' best interests and whether a company's political spending poses business risks.
- We are also informed by the Supreme Court's assumption – expressed in the *Citizens United* case² – that shareholders should be informed about the political spending of their corporations. In considering such proposals, we recommend that attention be given to the scope and scale of a company's political spending relative to its peers, as well as the degree to which its policies and practices promote transparency about political spending (the CPA/Zicklin Index provides useful information).
- We believe that companies can be helpful to shareholders with concerns about political spending by publishing such information so that shareholders may draw their own conclusions about matters such as reputational risk and the alignment of political spending with publicly stated corporate values. We also recognize that shareholders and other stakeholders may have legitimate particular concerns about corporate engagement with organizations that draft model legislation.
- We generally do not recommend support of proposals that go beyond requests for greater transparency about amounts and recipients of corporate political expenditures and reach into areas such as cost/benefit analyses of such spending. Such proposals may impose a substantial reporting burden on companies while offering little additional insight to shareholders.
- We acknowledge that it may be in a company's best interest to support industry trade associations that represent the views of many members, and it is unrealistic to expect perfect alignment between all of a company's values and all parts of a lobbying organization's agenda.

As noted above, better corporate disclosure and transparency about political spending may enable shareholders to draw their own conclusions about the potential benefits or risks associated with the specific relationships that are disclosed, as well as the alignment of these expenditures with corporate values.

Illustrative examples of votes:

1. Vote in support of shareholder resolutions requesting that a company disclose/report on payments used for (a) direct and indirect lobbying, or (b) grassroots lobbying communications
2. Vote in support of shareholder resolutions requesting that a company disclose memberships in and payments to any tax-exempt organization that lobbies on its behalf or writes and endorses model legislation.

² The U.S. Supreme Court's 2010 decision in *Citizens United* held that, under the First Amendment, the government may not limit corporate funding of independent political broadcasts in candidate elections.

3. Vote in support of shareholder resolutions requesting that a company disclose its policies and procedures governing lobbying, both direct and indirect, grassroots lobbying communications, and campaign spending.
4. Vote in support of shareholder resolutions requesting that a company disclose monetary and non-monetary contributions and expenditures, including the identity of the recipient(s).
5. Vote against shareholder resolutions requesting that a company undertake a cost/benefit analysis of political contributions and report the results to shareholders.

Harvard offers broader general guidance on its recommended approach to considering shareholder resolutions in “[Overview of Harvard University’s Proxy Voting Guidelines for External Managers](#)” (follow link to download full text). When determining votes on resolutions, we consider each resolution in light of this general guidance as well as in light of a resolution’s specific request and contextual information about the relevant company and its approach to the issue.