

# Unlocking the Power of the Proxy

**How Active Foundation  
Proxy Voting Can Protect  
Endowments and Boost  
Philanthropic Missions**

A joint publication of  
Rockefeller Philanthropy Advisors  
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## Executive Summary

Active proxy voting means paying attention to issues raised by shareholders that have corporate governance or social implications for foundations, developing a position on them, and ensuring that an institution's votes are cast and its voice is heard. A recent survey by the Council on Foundations suggests that most foundations have not instituted specific proxy voting policies for publicly traded companies held in their investment portfolios. A proxy voting policy can boost philanthropic mission in two important ways:

- It supports actions which seek to strengthen management at publicly traded companies, protecting long-term shareholder value and the value of foundation endowments.
- It has the potential to strengthen a foundation's charitable mission by using proxy voting to support social and environmental goals that are often at the heart of a foundation's work.

Diligent proxy voting has long been affirmed a fiduciary duty of private pension funds. In response to recent corporate scandals, the Securities and Exchange Commission requires mutual funds and investment managers to develop and disclose proxy voting policies effective with 2004 shareholder votes. Now is a crucial time for foundations to pay closer attention to their responsibilities as shareholders by actively evaluating issues raised in proxy statements so they can vote in an informed manner on shareholder proposals.

Proxy voting can help boost a foundation's financial or social bottom line:

- 25 proposals asking for expensing of stock options received majority votes in 2003 sending a strong message to corporate management.
- A foundation promoting affordable health care can strengthen its mission by supporting up to 20 pending proposals asking pharmaceutical companies to widen access to HIV/AIDS retroviral drugs and firms with employees in Africa to report on the impact of AIDS on their operations.
- If environmental protection is part of a foundation's mission, it can support up to 30 proposals being filed in 2004 asking companies to

calculate and prepare for financial risks posed by global climate change.

Several foundations have established proxy voting policies and monitor how they are voted including Ford Foundation, Boston Foundation, Nathan Cummings Foundation, Educational Foundation of America, Rockefeller Family Fund, Needmor Fund, Jennifer Altman Foundation, William Bingham Foundation, Shefa Fund, and Jessie Smith Noyes Foundation.

This report features a step-by-step process to assist foundations in developing proxy voting guidelines in a simple and cost effective manner. Key recommendations include: find a champion to coordinate the process and develop a proposal for the board of directors explaining the benefits associated with aligning philanthropic mission and funding areas with investment strategy.

Once guidelines are developed, options for implementing a policy including hiring a proxy voting service, asking a broker or money manager to vote in line with the policy, or develop the capacity to vote in-house. The report contains a comprehensive Resource Section listing sample voting policies and numerous sources that can assist in developing and implementing proxy voting guidelines.

There is no such thing to my mind . . . as an innocent stockholder. He may be innocent in fact, but socially he cannot be held innocent. He accepts the benefits of the system. It is his business and his obligation to see that those who represent him carry out a policy which is consistent with the public welfare.<sup>1</sup> — *Louis Brandeis*

# Introduction

## **An Invitation to Engaged Proxy Voting**

Every foundation has a mission. There seems to be no pervasive social problem that foundations are unwilling to tackle: poverty, disease, illiteracy, social injustice, environmental pollution. Yet when it comes to using common fiduciary tools to enhance their mission and protect the invested endowments on which their grantmaking depends, most foundations have been uncharacteristically passive. This booklet is an invitation to foundations to adopt active, engaged, proxy voting.

American foundations have total endowments of about \$400 billion, much of it invested in the equities of U.S. companies, a little more than 2% of the total market. Like other investors, foundations have both a right and a

responsibility to pay attention to how the publicly traded companies held in their portfolios are managed. Some institutional investors such as pension funds and religious organizations are required to manage their funds in a way that support both their mission and their financial goals.

Federal securities regulations allow investors to engage management of companies they hold on important governance and social issues. In 2003, more than 1000 proxy proposals were filed by shareholders on issues including executive pay, global climate change, board diversity, protecting employee rights, renewable energy, sexual orientation and many other issues.

Many shareholders do not study their investments or consciously vote their proxies. Such fiduciaries, whose reluctance to credibly monitor corporate governance, helped foster a “business as usual” culture in which the recent accounting and management abuses could thrive. These abuses have sapped billions of dollars of profits from financial markets. The resulting losses have diminished the grantmaking abilities of foundations. Passive foundation shareholders also lose an important opportunity to send a clear message to management about social issues often directly relevant to their mission and areas of grant making.

Foundations generally commit 5% of their endowment annually to support their mission but how many consider the potential embedded in the remaining 95% to promote this same mission?

Now is a crucial time for foundations to pay much closer attention to their rights and responsibilities as shareholders, by actively evaluating the issues raised in proxy statements of companies held in their portfolios so they can vote in an informed manner on shareholder proposals. The recent scandals demonstrate how readily securities laws can be violated. But as our lawmakers and regulators rush to try to fix the problems with a raft of new regulations, it is important to remember that no amount of new rules can match an evolved corporate culture of integrity. Conscious proxy voting sends a much-needed message to companies that shareholders are watching and expect honest, responsive management.

Paying attention to your foundation’s investments does not necessarily

mean embracing the selective screening of stocks. It does involve paying attention to issues raised by shareholders that have corporate governance or social implications for foundations, developing a position on them, and ensuring that your votes are cast and your voice is heard.

## How to Use This Guide Book

This publication will show how foundations can become engaged investors in a cost-effective manner by developing a set of proxy voting guidelines and a system for implementing them. Here are some of the reasons foundations cite as barriers to informed proxy voting:

- *“I don’t understand this whole proxy process.”*
- *“It won’t make any difference.”*
- *“My board won’t go for it.”*
- *“It will cost too much.”*
- *“We don’t have the staff for it.”*
- *“Sounds great but I don’t know where to begin.”*

This publication is the place to begin. It is designed to provide answers to these concerns.

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**Chapter 1** Makes the case for proxy voting

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**Chapter 2** Describes the impact proxy voting has had on corporate governance and social issues

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**Chapter 3** Profiles foundations that have made the transition to active investing, and describes the proxy voting process

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**Chapter 4** Suggests ways to develop voting guidelines and get them approved

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**Chapter 5** Profiles the different means of implementing voting policies and research services available

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**Appendix A** Provides a sampler of proxy voting policies

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**Appendix B** Discusses foundations that have moved beyond proxy voting to participation in shareholder advocacy

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**Appendix C** Provides a list of resources to assist in developing and implementing proxy voting policies



Conscious proxy voting can be a double win for foundations. First, it supports actions designed to promote strong management which protects long-term shareholder value and the value of your foundation endowment. Second, it supports the stated charitable mission of many foundations by backing stronger corporate social and environmental practices at U.S. corporations.

This is a momentous and exciting time to get involved in proxy voting. The results of the 2003 proxy season suggest that investors burned by recent scandals are not content with new laws and regulations governing corporate behavior. They are seeking additional protections through the proxy voting process to ensure accountability. Also, a new law requiring all money managers and mutual funds to disclose for the first time in 2004 how they vote their proxies has the potential to dramatically increase the power of proxy voting. Lifting the veil of secrecy on how large investors vote is likely to prompt a reconsideration of voting practices. Being forced to vote on the record may change voting patterns. Proposals that previously received automatic votes for management's position could now get dramatically increased levels of support from shareholders.

## ENDNOTES

- 1 Louis Brandeis, *Other People's Money and How the Bankers Use It*, Bedford/St. Martins, 1995

# Chapter One

## The Case For Engaged Proxy Voting By Foundations

Philanthropic influence is maintained by the ability to execute grants funded from a well-managed endowment fueled by equity holdings. With literally billions invested in the stock market, foundations are, indeed, major shareholders.

Companies communicate with shareholders using a proxy statement which each year provides details about the company's structure, board composition, share ownership and executive compensation. It also includes a list of issues to be voted on at its annual meeting. Shareholders are empowered by law to elect board members, ratify the choice of auditors, and vote on certain compensation issues. They may also engage in dialogues with management and file shareholder proposals on corporate governance and social issues which are voted on by shareholders via the company's proxy. So it is puzzling that many foundations, in comparison with other major investors, have been for the most part silent, passive shareholders for decades. The passivity has become more pronounced recently as accounting and management scandals drained billions of dollars from investment portfolios. By not thoughtfully voting on proxy issues, many foundations are ceding the considerable power of their shareholder status to engage management on social and environmental issues that are often at the heart of a foundation's work.

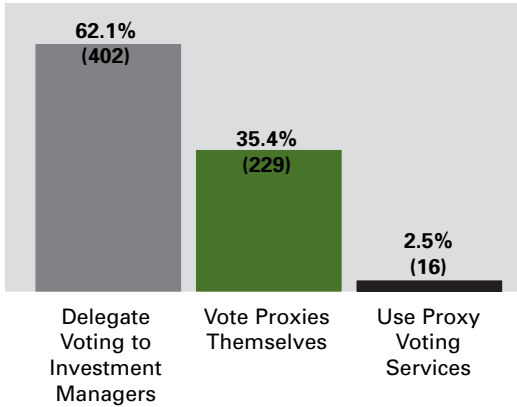
One measure of broad shareholder engagement is the number of shareholders who directly return their ballots. Only 68% of all shareholder proxy ballots were returned directly from shareholders in 2003, according to ADP, which processes about 97% of U.S. proxy ballots. At the bottom end, shareholders holding 1000 shares or less of stock specified votes only about 40% of the time. The best record on active voting was with large shareholders; those with 300,000 shares or more returned ballots at a 70% rate.<sup>1</sup> If shareholders do not vote the shares, investment managers or brokers where the funds are in custody will vote them. Traditionally, brokers have voted strictly in line with management.

## How Foundations Currently Vote Their Proxies

A recent foundation poll suggests many have a long way to go to become active and aware of their proxy voting. More than 60% of 680 respondents to a recent Council on Foundations survey said they delegate proxy voting to investment managers, suggesting that a substantial number do not pay attention to the issues. Of the 54% that said they do not automatically vote in accordance with management recommendations, 90% have no written guidelines for voting proxies on social or environmental issues. (See Figures 1-3).<sup>2</sup>

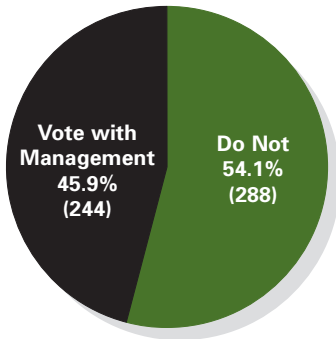
**Figure 1 Who Votes Foundation Proxies?**

(# of respondents in parentheses) Source: Council on Foundations



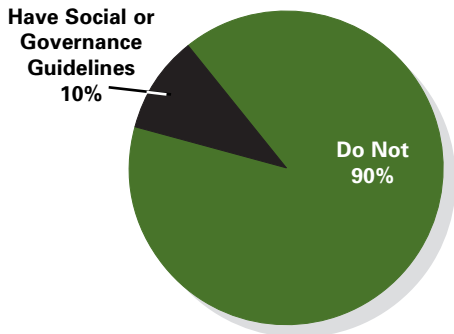
**Figure 2 Foundations That Reported Automatically Voting With Management**

(# of respondents in parentheses)  
Source: Council on Foundations



**Figure 3 Foundations With Written Voting Guidelines For Corporate Governance or Social Issues\***

\*of 288 Foundations not automatically voting with management  
Source: Council on Foundations



Foundations have traditionally abstained from the proxy voting process and have ceded their proprietary interest, by default, to their financial managers. The interests of financial managers are usually driven by short-term financial considerations. Yet many of the recent abuses such as executive compensation excesses and manufactured earnings occurred due to negligence by financial managers as well as analysts, regulatory agencies, corporate boards and stock exchanges all charged with protecting investors from corporate abuses but who failed to do so.

When the integrity of the financial system that allows philanthropic endowments to sustain themselves is at risk, it is time for foundations to pay more attention to the underlying problems of corporate governance. Some large foundations are ready to engage. The Boston Foundation, one of the nation's largest community foundations, has adopted an investment policy that affirms a direct link between proxy voting, its fiduciary duty and its grant making duty.

“As an institutional investor, the foundation now recognizes that proxy voting is subject to fiduciary standards similar to those affecting private pension plans, that voting rights have economic as well as moral value and therefore should be treated as assets, and that knowing so means proxies are voted in accordance with publicly stated policy and guidelines,” states Jim Pitts, Chief Financial Officer for the foundation.

The Nathan Cummings Foundation has also developed guidelines that take its mission into account when voting proxies. “Foundations are major investors in corporate America,” states Cummings President Lance Lindblom. “We need to recognize and exercise the responsibilities of ownership. We can vote our values with our investment dollars, but the real leverage for change is an asset that most foundations ignore—the proxy vote. It is a right and a fiduciary obligation to vote the proxies we hold in accordance with our foundations’ values.”<sup>3</sup> (See Chapter 3 for a fuller discussion of proactive foundations.)

The impact of accounting and management scandals on endowments provide a powerful incentive to proactively vote proxies on corporate governance issues. There is also a compelling argument for foundations to engage on social and environmental issues. Foundations with specific

missions would seem to have even more of an obligation than a public or labor pension fund to act as an engaged investor. Foundations do not exist mainly to protect the retirement benefits of workers as a pension fund does; they exist to challenge and improve our society. Engagement with corporations, who play a powerful and growing role in shaping every facet of our society, is a natural and complementary extension of a foundation's mission.

So it is ironic that shareholder engagement to date has been led by other groups such as public and labor pension funds who are seeking to give shareholders a voice in monitoring corporate behavior, along with the growing number of socially conscious and faith-based investors who insist on giving social values a place at the decision making table. For the most part, foundations, for all their leadership potential, have remained aloof from both movements.

### **Pension Funds, Legal Mandates and Proxy Voting**

Private and public pension funds with worker endowments to protect have long been more vigilant than foundations in utilizing their rights as investors despite working under strict federal and state guidelines. Private pension funds are governed by standards set in the Employee Retirement Income Security Act of 1974 (ERISA). Interpretations of ERISA issued by the U.S. Department of Labor state that a fiduciary must act “solely in the interests of the plan’s beneficiaries and for the exclusive purpose of providing benefits to their participants and beneficiaries.”<sup>4</sup>

The standard set by ERISA is very high but it does not preclude consideration of other factors. An ERISA interpretive bulletin affirms the right of plans to utilize proxy voting and shareholder advocacy to protect the value of their investments. In fact, it says proxy voting is a formal duty of a pension plan manager: “The fiduciary act of managing plan assets that are shares of corporate stock includes the voting of proxies appurtenant to those shares of stock.” Influencing management, a common result of informed proxy voting, is also a duty of a fiduciary when deemed likely to enhance the value of the investment.<sup>5</sup>

The bulletin affirms that such monitoring of companies definitely includes non-financial factors: “Active monitoring and communication activities

would generally concern such issues as the independence and expertise of candidates for the corporation's board of directors and assuring that the board has sufficient information to carry out its responsibility to monitor management. Other issues may include such matters as consideration of the appropriateness of executive compensation, the corporation's policy regarding mergers and acquisitions, the extent of debt financing and capitalization, the nature of long-term business plans, *the corporation's investment in training to develop its work force, other workplace practices and financial and non-financial measures of corporate performance.*" (emphasis added)

Retirement plans are of course different from foundations. But the logic of ERISA is applicable to all fiduciaries. If strictly regulated pension funds are told it is their duty to carefully consider their proxy votes, it seems reasonable that foundation trustees, seeking to act as responsible stewards of their assets should also actively engage in proxy voting. Monitoring corporate behavior is a matter of good stewardship whether the shareholder is an individual, pension fund or foundation.<sup>6</sup> David George Ball, a former Assistant Secretary of Labor, bluntly affirmed that a fiduciary who "fails to vote, or casts a vote without considering the impact of the question or votes blindly with management" violates the fiduciary's rule of prudence.<sup>7</sup>

State and labor pension funds have been at the forefront of corporate reform efforts and shareholder engagement, filing hundreds of proposals in 2003 on cutting edge governance issues such as executive pay, limits on auditing, and independent boards. This pressure has effectively forced good governance measures such as expensing stock options, diversification of auditors and removal of family members and business associates from corporate boards.

Investors focused on corporate social responsibility have been working steadily for 25 years on social justice and environmental issues. Led most often by religious institutional investors, their work aided the fall of apartheid in South Africa, exposed unethical marketing of infant formula in developing countries, and diversified the management and work force of hundreds of companies. More recently, socially conscious investment firms and mutual funds have scored victories on environmental and labor rights issues. Chapter Two provides more detail on recent efforts.

Foundations may now be convinced of their duty to take special care to consider proxy votes but have concerns whether voting for progressive social and environmental goals may conflict with their economic goals of maximizing financial return. The answer is generally no. First, almost all proposals are purely advisory and the act of supporting them implies no specific, measurable economic impact. Proposals usually serve as requests to management to study the issue at hand to find a way to make it work in a cost effective manner. Many social proposals ask for the company to study a change rather than to enact it. There is no direct risk to a fiduciary as management is not legally bound to act on any proposal unless it seeks to change the corporation's charter. Second, a presumption that voting for stronger social and environmental practices necessarily means additional costs or reduced financial return is incorrect. In fact, the success of the growing \$150 billion socially screened mutual fund industry, as noted later, is largely due to a growing body of data indicating that companies with more progressive social and environmental policies often have better financial returns.

So why should a foundation and its trustees and staff consider proxy voting to be an important element of its mission? First, informed proxy voting provides direction to management which can improve corporate governance which generally improves financial return. Second, the social and environmental issues espoused in many proxy proposals are likely to touch upon some stewardship elements of the foundation's mission. Foundations should take advantage of the opportunity to utilize the proxy process, where appropriate, to further the social goals of the institution. Third, such proposals are now treated with serious consideration and respect by management as corporate social responsibility has become an accepted part of corporate culture. While debate still continues around the issue of screened funds, it is big business and many companies now compete to be included in such portfolios.

## **Governance**

The outrageous management and accounting frauds and abuse unearthed in recent scandals should provide a wake up call to foundation trustees who may not have previously paid much attention to corporate governance. The scandals have exposed a culture of greed and deception in the operations of a surprising number of companies. The result has been a broad set of

reforms including the 2003 federal Sarbanes-Oxley law, new operating rules for members of the New York Stock Exchange, and additional reforms proposed by New York Attorney General Eliot Spitzer and several large institutional investors.

In theory, a corporation's board of directors is supposed to monitor and discipline the performance of management. We now know many boards were asleep at the wheel in regard to management rather than asking tough questions. The result? Enron's board failed to exercise minimal oversight of the company's investment activities or its artificial manipulation of energy prices. WorldCom (now MCI) allegedly inflated its profits by \$9 billion without attracting concern from its audit committee. Tyco executives are charged with stealing \$170 million from the company and selling \$430 million worth of securities fraudulently without attracting the concern of its board.

Investors are recoiling at reports of the lavish pay showered on top executives. Richard Koppes, former General Counsel for the California Public Employees Retirement System (CalPERS) puts it this way: "Far too many executives in the go-go economy of the '90s were much too greedy and richly rewarded to excess. And many of these CEOs didn't put their money where their mouths were. They championed a new capitalism in which the rapid exploitation of the Internet and other technological breakthroughs would soon enrich executives. Main Street investors and workers were encouraged to plow their retirement savings into their employers' stock. But the zeal of those CEO champions, many of whom benefited from intimate knowledge of industry and company conditions, did not stifle their instincts for self-preservation. They made their stock-market killings not long before the revelry ended, confirming the age-old truism — to paraphrase Leona Helmsley — only the little people take losses."<sup>8</sup>

Another concern is how severely excessive executive compensation dilutes the returns of all investors. In 2002 CEO compensation averaged \$10.8 million, a 6% increase, while average share prices dropped by 24%. The amounts paid out through share options dwarf those paid by golden parachutes or other mechanisms. Handing out stock options had the cumulative effect of diluting shareholders' equity by a record 15.7% in 2002, according to the Investor Responsibility Research Center.<sup>9</sup>



Koppes also excoriates *accountants* for “violating the prime directive of their profession—namely, to make sure the numbers add up and reflect financial reality”; *attorneys* for “covering their ears” when faced with management’s greedy tactics; and *institutional investors* for insufficient vigilance. While a few investors have been very active, they can be counted on the fingers of one hand.

The net result, of course, has been reduced corporate earnings and reduced returns to foundation portfolios. Engaging on issues such as executive compensation and restructuring boards so that they provide stronger independent oversight should be high on the agenda of every investor. This issue is a natural for foundations as trustees and staff demand strong accountability from the nonprofits they support (as well as themselves). They should expect the same of the companies in which they hold shares.

About 400 shareholder proposals in 2003 sought to reign in executive compensation, compromised boards and accountants — issues that could help right a foundation’s investment returns. Did your investment managers or chief financial officer vote your shares in favor of these proposals? It is very likely that they did not, unless specifically instructed to. Many CFO’s are reluctant to raise such issues, feeling that it is the board’s role to initiate such a policy or that they may be burdening the board with extra work. Many investment and mutual fund managers fear to cross management by voting for sensible shareholder proposals. They may fear offending their friends in management or they may have a conflict of interest because they are seeking to manage retirement funds or solicit other business from companies they invest in. The only way to make certain your voice is heard is to ask your managers how they voted or give specific instructions on how your shares are to be voted. (Chapter Four explains how to start this process.)

## **Financial Performance**

Corporate governance has become a powerful force in investing over the past two decades. Honest, effective corporate management is not only the right thing to do; it has also been demonstrated to be more profitable. CalPERS, the world’s largest pension fund, is recognized as a standard-bearer for the corporate governance movement and is generally credited as a founder of governance shareholder activism.

Each year CalPERS publishes a “focus list” of under performing and poorly managed companies and uses its clout to pressure the companies to change. In 2003, for instance, one of its targets was Xerox. While it is one of the world’s best known brands, its performance has been dismal for several years and CalPERS cited it as having one of the worst boards among its holdings. The company was fined by the SEC and forced to restate earnings from 1997 through 2000, and its board was publicly accused of faulty financial manipulation by former employees.

CalPERS asked Xerox to add three new independent directors, maintain 100% independent directors on its audit, compensation and nominating committees, split the Chairman and CEO positions, and seek shareholder approval for executive compensation policies.

The fund’s efforts to publicly challenge companies have been so successful in boosting returns that they have come to be known as the “CalPERS effect.” One recent study showed that while focus list company performance trailed the Standard & Poor’s 500 index by 96 per cent in the five-year period before CalPERS acted, the same stocks outperformed the index by 14 per cent in the following five years — adding 150 million dollars annually in extra returns to the fund.

In 2002, the Journal of Organization Studies published the first rigorous meta-analysis on corporate responsibility and financial performance. In the largest study to date, an analysis of more than 30 years of corporate data based on nearly 34,000 observations (primarily of US corporations) confirmed a positive link between corporate social responsibility and a company’s bottom line. The study’s author, Dr. Marc Orlitzky said “My research adds to the growing evidence that when corporations are good citizens, business risk decreases, for both large and small firms.”<sup>10</sup>

Another celebrated study of the link between governance and performance was done by Paul Gompers, Professor of Business Administration at the Harvard Business School. Using a universe of 1,500 U.S. companies, he and his colleagues concluded that if a fund had invested in companies ranked in the top decile for their corporate governance and shorted those in the bottom decile; they would have outperformed the market by 8.5 per cent per year throughout the 1990s.

And in a recent study by Governance Metrics International, which rates companies on their governance, labor, environmental and litigation histories, it found that stocks of the top-ranked firms significantly outperformed the market over time; while low rated firms trailed the market.

## Stewardship

The trustees of a foundation are the stewards of a set of social values articulated in the organization's mission statement. Unlike large mainstream investors such as banks and insurance companies, foundations are motivated by more than a single, profit-driven bottom line. The fiduciary duty of trustees suggests an obligation to use their status as shareholders to support efforts undertaken through the proxy process to promote honest corporate governance and protection of long-term shareholder value. A foundation's focus on uplifting the human condition suggests a duty to use its shareholder status to support proxy efforts urging companies to report on or adjust policies relating to social and environmental issues that are critical to the mission of the institution. Here are two examples:

### **The AIDS Pandemic**

Assume for a moment that your foundation promotes affordable health care. The HIV/AIDS crisis is the most daunting health care challenge of our generation. As many as 65 million people are expected to die prematurely due to the virus in the next two decades. For the past three years, shareholders have been engaging manufacturers of pharmaceuticals such as Abbott Laboratories, Merck & Co. and Eli Lilly Co. to provide affordable medicines for Africa where AIDS has reached pandemic proportions.

A shareholder coalition plans to file proposals at 20 U.S. and Canadian companies in 2004. Pharmaceutical companies will be asked to widen access to retroviral drugs. Companies with substantial numbers of employees in Africa will be asked to report on the effect of the health pandemic on their companies' operations. James Gunning, treasurer of the Unitarian Universalist Service Committee and the filer of a proposal at Merck said "some drug companies are taking positive steps — Bristol Myers Squibb has relaxed patents, Merck has invested in infrastructure projects, and GlaxoSmithKline has cut prices — but no company is doing everything it could be doing to fight AIDS. Prices are still too

high and drugs are still too hard to get.”<sup>11</sup>

The shareholder proponents include 35 religious institutional investors, six screened investment funds, five health systems, three trusts, two pension funds, and — one foundation. As a shareholder of Abbott, Merck or Lilly, foundations could enjoy a direct communications pipeline to management. It is difficult to understand why more foundations holding pharmaceutical companies in their portfolios do not seize the moment to ensure that their shares are voted for such proposals, and also perhaps speak as concerned shareholders to management at annual meetings. Here is a golden opportunity to leverage shareholder status to engage corporate management where millions of lives hang in the balance. While advocacy groups can be marginalized by management as outsiders with a separate agenda, shareowners are usually treated with respect and can gain access to upper management in a way advocacy groups may not.

### **Global Warming**

Now assume your foundation’s mission is to protect and preserve the environment. Global climate change has emerged as a serious economic and environmental risk. There is considerable scientific evidence that left unchecked, global warming will destabilize the planet’s climate, cause irreparable damage to ecosystems, public health, economies, and exacerbate inequalities among the world’s population. Consistent with predictions of increasingly severe weather due to climate change, natural disaster losses appear to be doubling every decade and in the next ten years will reach close to \$150 billion annually if current trends continue, according to the UN Environment Program’s Finance Initiative.

The giant reinsurer Swiss Re, recognizing climate change to be a potentially serious exposure for officers and directors, now requires companies to detail their climate strategy as part of their director and officers liability insurance application. In 2003, 31 proposals were filed with major oil and gas, electric power and transportation companies asking them to describe financial risks to the company associated with climate change and to explain how the company will mitigate those risks. The proposals were supported by both mainstream and the socially conscious investors. Proposals were filed and supported by the New York City and Connecticut State pension plans. Institutional Shareholder Services, the largest proxy

advisory firm, recommended that shareholders support the proposals.

The global warming issue enjoys an unusually strong body of scientific evidence relating to the threat posed to humans and the environment and risk estimates provided by the insurance industry, forming a strong business case for investors. Here is an issue with such enormous liability implications that it moves beyond being an environmental issue and becomes a clear financial risk as well.

The effects of foundation operating decisions can be profound. What are the interests or obligations with respect to the AIDS pandemic in Africa or a warming, deteriorating Earth? For foundations as agents of social change, such questions should be central. They may be a matter of consistency with the vision of the world expressed or implied by the founding donors and the governing documents that established the institution. For foundations as investors, they are the sum and substance of their stewardship of assets.

## **Corporate Social Responsibility**

Many corporations, brokers and money managers still hue to the old school view that the role of a company is to make money rather than to be a force for social responsibility. This was typified by Milton Friedman's famous 1970 essay "The Social Responsibility of Business is to Increase its Profits," which argued that business basically had no responsibility other than to maximize profits for shareholders. In the following three decades this work has been discredited by the demonstrated success of socially screened investing and the emergence of corporate social responsibility initiatives, accompanied by increasing recognition by companies themselves that they have responsibilities to numerous stakeholders in addition to shareholders. In 2003, many Fortune 500 executives enthusiastically endorse the notion of corporate social responsibility as part of a company's obligation to stakeholders as well as something that pays its way. Companies have developed social responsibility strategies as a result of concerns received from stakeholders including customers, employees, investors and activists. Such strategies and practices include:

- A commitment to diversity in hiring employees and barring discrimination;
- Management teams that treat employees as assets rather than costs;
- High performance workplaces that integrate the views of line employees

into decision-making processes;

- Adoption of performance goals that go beyond compliance with environmental rules to promote measures to reduce ecological footprints such as the CERES Principles;
- Advanced resource productivity, focused on the use of natural resources in a more productive, efficient and profitable fashion (such as recycled content and product recycling); and
- Responsibility for the conditions under which goods are produced by contract employees domestically or abroad.

Corporate social responsibility can be evaluated by performance indicators including reduced operating costs, enhanced brand image, increased sales and productivity, employee retention, and reduced regulatory costs and oversight.

In a fall 2003 keynote address, Hewlett-Packard CEO Carly Fiorina told a Business for Social Responsibility conference that “the idea that companies have no responsibility to the communities in which they operate; that in other words, we operate in a vacuum, or the idea that our actions have no consequences on the world around us is short-sighted at best, and it is certainly not sustainable for very long.”<sup>12</sup>

Fiorina said the company’s social responsibility initiatives — including investing in overseas communities in which they do business — are not only the right thing to do but make economic sense as well. She asked what kind of future businesses will have in a world where half the population lives on two dollars a day.

Scores of companies now produce corporate social responsibility reports in which CEOs routinely discuss their responsibilities to a variety of stakeholders including employees, shareholders, and the communities in which they operate.

## **Socially Screened Investing**

This report does not take a position on the merits of socially screened investing. However, the financial success of screened funds and investments and their increasing ability to prod companies to improve their social and environmental policies needs to be recognized. Screened funds and social

investment managers have become strong shareholder activists in the past decade. Many companies now compete for inclusion on the buy lists of nearly 200 mutual funds with assets of more than \$150 billion that screen for superior social and environmental performance. These funds have been racking up impressive rates of return.

Since the early 1990s, studies assessing the performance of these funds have shown that screened funds are in many cases equal to, or outperform traditional funds. As of 2002, the oldest screened index — the Domini Social Index — has outperformed the S&P500 on a three-, five- and ten-year basis. The United Kingdom's FTSE4-Good World Index was up eight per cent over five years against the FTSE All World index as of June 30, 2002. The Dow Jones Sustainability Index appreciated 1.9 per cent over three years and 5.1 per cent over five years compared to the Dow Jones Global Index as of June 30, 2002.

The results are even more striking in Asia. Since its launch in early 2001, the Kingsway Korea Fund gained 20 per cent compared to its benchmark the Korea Composite Stock Price Index. The world's first Asia-Pacific SRI fund, Henderson NPI Global Care Asia Pacific Fund, rose 23 per cent against its benchmark index — equally weighted between MSCI Japan and MSCI ex-Japan — since it was set up in 1998. The Dow Jones Sustainability Group Index — Asia Index outgunned the MSCI Pacific and the FTSE Asia Pacific by 27 per cent from 1999 to end-2001.<sup>13</sup>

Mutual fund analysts have recognized the out-performance of screened funds. Sixteen of 21 screened funds (76%) with \$100 million or more in assets achieved the highest rankings for performance from either or both Morningstar and Lipper for the one- and three-year periods ending June 30, 2003.<sup>14</sup>

This combination of profitability and social concern should be of strong appeal to foundations which always seek a strong return on their investments to sustain their philanthropy, while at the same time, seek a parallel return from their grantmaking in the form of a more just and humane world.

## ENDNOTES

- 1 Source: ADP Investor Communication Services. See [http://ics.adp.com/release10/public\\_site/about/stats.html#three](http://ics.adp.com/release10/public_site/about/stats.html#three).
- 2 2002 Foundation Management Survey, Council on Foundations, unpublished.
- 3 “We’re Owners, Not Traders.” Lance E. Lindblom, *Foundation News & Commentary*, Sept/Oct 2002 Vol. 43, No 5.
- 4 29CFR Sec. 2509.94-1.
- 5 29CFR Sec. 2509.94-2 “An investment policy that contemplates activities intended to monitor or influence the management of corporations in which the plan owns stock is consistent with a fiduciary’s obligations under ERISA where the responsible fiduciary concludes that there is a reasonable expectation that such monitoring or communication with management, by the plan alone or together with other shareholders, is likely to enhance the value of the plan’s investment in the corporation, after taking into account the costs involved.”
- 6 An extensive discussion of the legal and ethical issues faced by fiduciaries in pension funds and foundations in considering social and environmental issues while making investment decisions, voting proxies or engaging in shareholder activism is found in the 2002 report “*The Environmental Fiduciary: The Case for Incorporating Environmental Factors into Investment Management Policies*,” by the Rose Foundation for Communities and the Environment. Available online at <http://www.rosefdn.org/efp.html>.
- 7 “Ball Signals Continued Commitment to Proxy Voting Issues at Department,” 17 *Pension and Benefits Reporter* (BNA) 207 (Jan. 29, 1980).
- 8 “The greatest governance need: the restoration of trust requires a renewal of ethical standards in Corporate America,” Richard Koppes, *Director & Boards*, January 2003.
- 9 “Fat Cats Feeding—Executive Pay,” *The Economist*, Oct. 11, 2003.
- 10 “New Study Shows Good Corporate Citizenship Pays Off,” Alan Valvasori, *Australian Graduate School of Management Magazine*, October 1, 2002; also “Where Can Execs Learn Ethics,” Brian Hindo, *Business Week*, June 13, 2002.
- 11 “Religious Shareholder Step Up Fight to Get AIDS Drugs to World’s Poor,” Press Release, Nov. 24, 2003; Interfaith Center on Corporate Responsibility.
- 12 BSR Annual Conference, Nov. 12, 2003. Full text of remarks on the Hewlett-Packard website.
- 13 “The Case for SRI’s,” *New Straits Times*, November 18, 2003.
- 14 Social Investment Forum, news release, July 29, 2003.



# Chapter Two

## The Impact of Proxy Voting

For more than 25 years, shareholder proponents have used proxy initiatives as a tool for getting managements to engage in dialogues about corporate governance, social and environmental issues, and to improve their practices in these areas.

Proposals are usually filed to encourage company management to address an issue after an initial dialogue has failed. Most proposals are non-binding in nature so even a majority vote does not require management to act. Nevertheless, most companies strive to maintain good relations with their investors, because minority or even minimal votes can often influence a company.

There are two categories of proposals — corporate governance and social. Common corporate governance proposals include auditor independence, cumulative voting, classified boards, revoking “poison pill” provisions designed to protect management during hostile takeovers, and “golden parachutes,” providing often lavish packages for departing executives. Social proposals may ask the company to study or adjust practices relating to diversity, environment, human rights, labor rights, product integrity, and many other issues. (For a useful summary of common proposals, consult Domini Social Investments Proxy Voting Guidelines publication at [www.domini.com](http://www.domini.com).)

### Corporate Governance Proposals

Corporate governance proposals regularly receive an average of 20 to 40% of the total votes. But the corporate governance scandals have fueled new interest in shareholder activism. “The most desirable feature of good governance,” argues Richard Breeden, a former chairman of the Securities and Exchange Commission, “is a balance of power between shareholders, directors and managers. [WorldCom’s then chief executive] Bernard Ebbers became an unrestrained force which created conditions for WorldCom’s \$11 billion fraud and bankruptcy, the biggest ever. One cannot say that the

checks and balances didn't work adequately," writes Mr. Breeden. "There were no checks and balances."<sup>1</sup>

Not surprisingly, shareholders decided to use their proxy power to send a direct message to corporate management about the need for reform. A record 130 proposals received more than 50% support from shareholders in 2003 (See Table 1). At least 25 of the majority votes related to expensing stock options. Nine companies had majority votes favoring submitting executive severance packages for shareholder approval.

**Table 1: Average Vote Results on Significant Corporate Governance Proposals**

Issue	2003		2002	
	Proposals	Avg. vote	Proposals	Avg. vote
Repeal classified board	38	62.7	42	61.6
Eliminate supermajority vote	8	61.1	10	61.5
Redeem or vote on poison pill	79	60.0	50	60.2
Vote on future golden parachutes	17	54.0	19	34.9
Expense stock options	64	48.1	2	29.2
Provide for cumulative voting	20	34.1	19	33.2
No repricing underwater options	1	33.0	2	41.0
Increase board diversity	5	27.1	4	21.9

Source: Investor Responsibility Research Center

Here are some important changes in corporate governance achieved in recent years that were initiated through shareholder proposals:

- Boeing shareholders, upset with the personal conduct of the company CEO and the company's performance, unleashed several governance proposals challenging his benefits and board selections. The pressure from shareholders hastened the resignation of the CEO.
- Qwest Communication's retirees were able to limit the company's executive compensation package after Qwest erased \$2.5 billion in profits in an accounting scandal.
- Sprint shareholders first filed proposals and later supported a lawsuit that led Sprint to agree to independent directors comprising two-thirds of the board by 2004, redefined who is an independent member and capped the number of other boards on which directors may serve.

## Social Proxy Proposals

Socially oriented proposals surged as well in 2003 but continue to receive fewer votes than corporate governance proposals. In an unusual development, a proposal by the New York City pension funds to J.C. Penney on sexual orientation non-discrimination was actually endorsed by management and received 93% support. For the first time, social issue proposals posted vote averages in excess of 15% in four separate issue areas—board diversity (26%), sustainability reporting (25%), equal employment opportunity (29%) and climate change (17%), according to the Social Issues Service at the Investor Responsibility Research Center (See Table 2).

**Table 2: Top Vote Getting Social Proposals of 2002**

<b>Company</b>	<b>Proposal</b>	<b>Vote (%)</b>
J.C. Penney	Adopt sexual orientation anti-bias policy	93.3*
Cooper Industries	Issue sustainability report	44.3
Dover	Adopt sexual orientation anti-bias policy	42.8
Gentex	Commit to/report on board diversity	39.2
Yum Brands	Issue sustainability report	39
CenterPoint Energy	Adopt sexual orientation anti-bias policy	32
ChevronTexaco	Develop renewable energy alternatives	25.2
TriQuint Semiconductor	Report on environmental impact and plans	31.5
Delphi	Review/report on global standards	30.1
Danaher	Commit to/report on board diversity	28.7
ExxonMobil	Adopt sexual orientation anti-bias policy	27.3

\*Supported by management

Source: Investor Responsibility Research Center

Despite this progress, achieving a majority vote is still rarely a realistic goal in this category. But the higher the vote count, the more pressure is placed on management to resolve a particular issue. While a vote of 8% to 12% on a social issue may seem to be small, it is often sufficient to bring about real change. In 1999, a vote of 11% at The Home Depot asking the company to consider phasing out sales of old growth timber was sufficient, along with a separate grass roots activist campaign, to get the company to agree to a phase out. Equally as valuable as the size of a vote is the intensity of shareholder education, public discussion and media attention generated by an issue. Companies have turned around and agreed to measures that

received low vote counts because of the accompanying public pressure an issue had generated.

Here are some important changes in corporate social and environmental policies, all achieved with modest minority shareholder votes or shareholder pressure:

- Dell Computer agrees to set recycling goals
- Staples Inc. agrees to offer office paper with high levels of recycled content
- Home Depot phases out sales of old growth timber
- Citigroup curbs predatory lending at a mortgage subsidiary
- Baxter International phases out use of polyvinyl chloride in intravenous devices
- General Motors, Ford adopt CERES environmental principles
- 3M Co. stops accepting tobacco advertising on billboards
- Pepsico and oil giant Arco withdraw operations from Burma
- Heinz removes genetically engineered ingredients from its baby foods
- Coca Cola agrees to increase plastic recycling rates from 0% to 10%

Some of these issues never even made it to a vote; the proposal was withdrawn after management agreed to comply. Some of these were complemented by grass roots activism campaigns supported by foundations, highlighting the option for foundations to pressure a company both externally as a funder, and internally as a shareholder (see Appendix B, *Going Further — Opportunities Beyond Proxy Voting*).

As these changes in policies demonstrate, solutions to our social problems will not always come from the floor of Congress, a court's decision or activists marching in the streets. Active shareholders are showing that sometimes more can be gained by going directly to the boardroom.

## **New Voting Disclosure and Board Communications Rules**

The shock waves of the corporate governance scandals continue to reverberate in favor of engaged investors. The Securities and Exchange Commission (SEC) adopted proposals by Domini Social Investments and the AFL-CIO to require mutual funds and money managers to disclose their proxy voting policies and how they voted on all proxy issues effective with

the 2004 shareholder votes. This action could have enormous impact on proxy vote results. As long as voting was confidential, low votes for proponents on many issues suggested that money managers and mutual funds voted in virtual lockstep with management, paying little attention to corporate governance, social or environmental concerns. Now that all managers and funds must disclose how they vote, some shareholder activists believe that they will begin to support more shareholder proposals to demonstrate some independence from management.

Early indications are that except for socially screened funds, few managers or funds have proxy voting policies favoring social and environmental proposals. Investors holding shares through mutual funds cannot vote their proxies directly. However, such clients can still exert influence by contacting fund managers to urge them to vote in favor of social and environmental proposals. In this new spirit of disclosure, foundations may want to consider disclosing their voting records as well. (See Proxy Voting 101, page 30)

Another new SEC rule is aimed at restoring the role of corporate boards as representatives of shareholders. Before the recent scandals, inquiries sent by shareholder activists to board members asking about a specific issue were routinely forwarded on to management for a response. The new rule requires companies to explain if they have a formal communication channel between boards and investors and if not, why not. It does not require such a mechanism but seeks to use the shaming factor to encourage board to develop such mechanisms. The rule encourages boards to separately consider the governance, social and environmental issues raised by shareholders and to develop responses and engage in dialogue directly with shareholders.

Another measure of the potency of proxy proposals was an unsuccessful attempt in 1997 by the SEC to impose new rules requiring far higher levels of ownership and other new hurdles to be able to file proposals.<sup>2</sup>

## New Proxy Access Proposal

As previously noted, shareholder votes are only advisory. A company can often disregard even a majority vote. But the impact of proxy voting may be about to sharply increase with a controversial new proposal by the SEC to allow shareholders more direct access to a company's proxy ballot for the purpose of nominating outside directors.

Current board elections are anything but democratic. Management uses the company proxy materials to nominate directors; shareholders may not. The slate of board candidates consists solely of a list put forth by management and there are rarely any contested positions. Investors do have the right to put forth a "short slate," or limited number of candidates for a board election, but they must do so at their own expense by developing and publishing a separate proxy to send to every shareholder, a difficult and expensive process. In one example of foundation leadership, Rose Foundation for Communities and the Environment, As You Sow Foundation and the United Steelworkers of America spent several hundred thousand dollars running a separate slate of candidates at Maxxam Corp. in 1999 and 2000.<sup>3</sup>

Because of the costs and legal complexity of running a separate slate of board candidates, investors feel disenfranchised by the election process, and are demanding the right to strengthen the independence and responsiveness of corporate boards. In 2003, the SEC issued a proposal that would allow direct access by large shareholders to the company's proxy materials for the first time. This proposal is controversial however, because it imposes additional barriers, or "triggers," for shareholders to earn the right to nominate a director for the board.

Many shareholder activists consider the proposal, while a step forward, to be too weak and ineffective to be implemented very often. Whatever the shape of the final rule, expected to be issued in 2004, the proposal is likely to encourage corporate boards to be more responsive to shareholders by raising the possibility that a nominee may be placed on the ballot by shareholders if a company does not respond to an earlier substantial vote.

# Proxy Voting 101

Here is a quick overview to the process of proxy voting. The term proxy means “written authorization to act in place of another.” The proxy statement is the document used by companies seeking approval from shareholders of issues relating to corporate governance, recognizing that most shareholders will be voting remotely “by proxy” rather than in person at each company’s annual meeting.

- **Publicly traded companies are required by law to report to shareholders.** They do this through a variety of means, most notably by inviting shareholders to an annual meeting. Prior to the annual meeting, shareholders are sent documents known as proxy statements that include details about the annual meeting, share ownership, board structure, executive compensation and details on other issues that will be voted on at the annual meeting.
- **The annual meeting and proxy statement provide a formal communication channel between corporate management and shareholders.** At a minimum, the proxy statement asks investors to ratify issues placed on the proxy by management such as the election of directors and the auditor report. Management may also seek approval of more complex and controversial issues such as mergers and acquisitions, stock option plans or executive compensation plans.
- **U.S. Securities and Exchange Commission rules allow shareholders to file proposals with companies on corporate governance, social and environmental issues.** The requirements to file a proposal are relatively simple. Any shareholder who owns \$2,000 worth of company stock and has held it for one year prior to the annual filing deadline may file a proposal. Proponents of shareholder proposals are allowed only 500 words in the proxy statement to present their case. Management can take as much space as it would like to respond but there is no opportunity for proponents to respond in the proxy to correct misleading information.

- **The Securities and Exchange Commission has set forth a number of rules relating to issues that may not be addressed through proposals.** For instance, anything relating to personal grievances or that relates to operations that constitute less than 5% of revenue may be excluded. A company may challenge the proposal at the SEC if it thinks the proposal may be legally omitted. Many challenges relate to rules stating that issues pertaining to “ordinary business” may be excluded. But proponents can challenge the company’s logic and if the SEC sides with the shareholder proponents’ argument, the proposal must be placed on the company proxy statement and voted on at the annual meeting.
- **Proposals must receive a minimum number of votes to be allowed on the proxy the following year.** Recognizing the difficulty of mobilizing substantial support for proposals, the SEC has set a relatively low bar for a proposal to qualify for resubmission. Social proposals must obtain 3% of the total vote their first year to be resubmitted; 6% the second year and 10% its third year. If it fails to meet these minimum votes, it may not be resubmitted for 3 years.
- **There are four categories of votes: For, Against, Abstain, and Not Voted (these votes are automatically voted by management).** If an investor is unsure about an issue it is best to abstain as these votes are not cast either for, or against a vote and are not counted in the final tally.
- **Shareholders can vote their proxies via mail, internet, phone, or by attending the annual meeting in person.** Voting instructions are provided on the proxy and votes can be changed as long as they meet the stated deadlines (usually 24 hours before the meeting). Those attending the annual meeting in person can change or submit their votes up to the very last minute. Those who do not vote their proxies in advance may have their ballot automatically cast by brokers or management.
- **If you hold mutual funds, you do not hold actual company shares and cannot vote proxies directly.** However, you can contact the management of your mutual funds and ask them to vote in favor of issues you feel strongly about. Starting in 2004, all funds must publicly disclose how they vote on all proxy issues.



**ENDNOTES**

- 1 “WorldCom’s Revenge; Corporate Governance,” *The Economist*, August 30, 2003.
- 2 A coalition of members of the Social Investment Forum, the Interfaith Center on Corporate Responsibility and the AFL-CIO launched a campaign urging the SEC to change the regressive proposals and to reverse a decision involving the Cracker Barrel Co. which had resulted in many employment-related proposals being omitted by companies from proxy statements. In the face of growing pressure, SEC Chairman Arthur Levitt helped forge a compromise. In April 1998, the SEC repealed the Cracker Barrel ruling and issued a few revised rules, whose net effect balanced the interests of shareholders and management alike. This victory for shareholder proponents enabled investors to continue to press companies on social issues using the power of the proxy process.
- 3 The candidates were the late former Sen. Paul Simon of Illinois and former federal Judge Abner Mikva. In 2000, they received 11.4% of the total vote, which, when combined with another 3.8% withheld from management, equaled nearly half of the common shares outside the control of management and company insiders who held 44% of Maxxam stock.

# Chapter Three

## Visible Philanthropic Leaders in Active Proxy Voting

Several foundations have emerged as leaders in active, engaged proxy voting. Strategies vary by size and resources available. In addition to developing thoughtful proxy voting guidelines, some have turned to the wealth of information available from their own trustees or staff to help inform their proxy decisions.

The Ford Foundation, the third largest U.S. foundation, has regularly voted its proxies for the last thirty years, says Clint Stevenson, Director of Investment Administration at Ford. Each year foundation staff sends a memo with voting recommendations to the foundation's proxy committee. Ford has developed proxy guidelines for voting on a wide variety of social and corporate governance issues. On social issues, for instance, it seeks advice from its program staff located in overseas field offices on sensitive areas such as Nigeria and China. Ford supplements the staff input with research from commercial proxy research services. (Their roles and services are further explained in Chapter Four and especially Chapter Five.) It manages its entire voting process internally. The foundation has not made its guidelines public.

For the past three years, the Boston Foundation, a community foundation with about \$600 million in assets, has carefully considered governance and socially oriented proxies and voted its shares, said Jim Pitts, Senior Vice President for Administration and Finance. The foundation has voting guidelines available on their website on many governance and social issues.

Pitts also believes that the foundation's proactive stance of proxy voting will give it a competitive edge. His foundation competes for donor advised fund business and voting proxies is a service he believes no commercial provider of donor advised funds offers.

The Nathan Cummings Foundation has become a leader in a newly energized movement for conscious proxy voting in the last year by urging other foundations to develop proxy guidelines and to vote proxies, and filing shareholder proposals as well. “The real leverage for change is in acting like responsible shareholders—like owners instead of stock traders,” states Cummings President Lance Lindblom. “Utilizing the shareholder proxy and related public awareness will bring about sustainable change and thus further foundation values, missions and goals.”

Cummings unveiled its proxy voting guidelines in 2002. Its highest consideration will be to vote proxies on matters of program interest, said Cummings Chief Financial and Investment Officer Caroline Williams. “When a program interest is at stake, the foundation will vote in line with the program interest.” The foundation cast about 400 proxy votes on about 100 companies in 2003, she said. Williams personally reviews the proxies and recommends voting positions to the President. On program-related issues foundation management consults with the program directors. For corporate governance issues that are not clear, they consult with the chair of the foundation’s investment committee.

The Jennifer Altman Foundation’s voting guidelines state that the foundation believes that voting proxies of shares it holds in its portfolio is “an important tool in promoting its mission and objectives and fulfilling its fiduciary responsibilities. Recognizing that corporations play a dominant part in shaping society and the quality of individual lives, we consider it important to assert the proprietary interest of shareholders by communicating the values implicit in our mission to the managements of companies in our portfolios.”

The Needmor Fund’s investment policy states that “We take seriously fiduciary responsibility and recognize that this responsibility does not end with maximizing return and minimizing risk. We recognize that economic growth can come at considerable cost to community and environment and we believe that fiduciary responsibility demands that we combine prudent financial management practices with social, environmental, and economic practices consistent with our mission.”

The William Bingham Foundation's proxy voting on shareholder proposals is done by the chair of an Investment Ethics Committee. "This activity serves the dual purpose of alerting Trustees to issues of concern to the companies or their shareholders, and allowing the Foundation to consider and voice its opinions on these issues," according to Bingham's website. Bingham utilizes the Foundation Partnership on Corporate Responsibility to monitor shareholder proposals.

The Shefa Fund provides assistance in developing proxy voting guidelines and policies from a perspective of Jewish values. Shefa's own guidelines state "individuals and Jewish institutions are responsible for the actions of our assets as we are of our own actions."

Other foundations who make concerted efforts to consider specific issues and actively vote proxies include the Educational Foundation of America, Jessie Smith Noyes Foundation, and Rockefeller Family Fund.

# Chapter Four

## Developing Proxy Voting Guidelines

In the Council on Foundations survey cited in Chapter One, more than half of respondents said they automatically vote with management. If having a proxy voting policy is so beneficial to aligning a foundation's mission with its investments, why do so few foundations do it?

Board members and executive directors often come from a culture reinforced by traditional investment managers, in which traditional financial theories and practices have discouraged them from incorporating active proxy voting into a foundation's mission. They are just like other mainstream investors who have trusted corporate management (until now), or may still cling to Milton Friedman's view that their responsibility is to a single profit-driven bottom line.

A more likely problem is inertia. Proxy voting may be viewed as a worthy pursuit but just one more thing to worry about for staff members or trustees who already feel overburdened. That coupled with a lack of information about the process may keep foundations from taking action. However, the process need not be overly complicated or burdensome.

What follows is a step-by-step guide for moving the process of developing proxy voting guidelines and policies within a foundation. It is a two-part process. The first part is to develop guidelines; the second part is to create a process to ensure that proxies are voted in a manner consistent with the guidelines. Here are four suggested steps for getting started:

## Getting Started on Voting Guidelines

### Find a Champion



### Research

- Policies
- Issues



### Make the case

- Goal: Align mission to investment strategy
- Prepare presentation for board highlighting values, impacts and successful examples



### Propose an implementation method that suits your foundation

- Can be tailored to your budget, program interests and staff availability
- Options include proxy voting services, money managers or in-house coordination

### Step 1: Find a Champion

Assess the political and practical realities involved at your foundation and try to find someone willing and well positioned to guide the process and present the issue of proxy voting for approval to your board of directors. Likely candidates include the chief financial officer, executive director, a program officer, an interested trustee, chairman of the board's finance committee, or an outside consultant. A well-informed champion willing to lead the process can be a key factor to provide adequate momentum to approve a policy.

## Step 2: Research Policies and Issues

First be sure you do not already have a proxy voting policy that may have fallen into disuse. If you do not have a policy, or if there is a policy but it consists of voting with management, ask to have the issue addressed at a board meeting. If you are a program officer, you may receive a sympathetic response from the chief financial officer or executive director but may be asked to do some legwork and help develop a proposal.

There are several excellent and easily accessible resources to introduce you to proxy voting and common issues regarding social and corporate governance proposals. The Foundation Partnership for Corporate Responsibility (<http://www.foundationpartnership.org>) is an affiliation of foundations already engaged in proxy voting, shareholder advocacy, or alternative investment policies such as screened investing, mission related investing and community investing. The group's web site provides valuable information on the basics of proxy voting in its shareholder advocacy section.

Or you may want to start by reviewing the foundation proxy policies listed in Appendix A for Nathan Cummings Foundation, Boston Foundation and others. What questions arise after reading these? Do you still need clarification regarding goals and objectives or the criteria used for specific policies? Try contacting one of the members of the Foundation Partnership or foundations discussed in this report for further guidance.

If you prefer to start via the internet, Appendix C provides more than 50 web links to foundations and institutions with on-line proxy voting policies, guidelines, lists of how they voted, and a guide to professional proxy research and voting services. Many of these sites are discussed in the next chapter.

In short, you will find plenty of resources and people to help guide you through this process.

### Step 3: Make the Case

A key element in developing the rationale for your policy is to explain the need and benefit associated with aligning the foundation's mission and funding areas with its investment strategy. Use the arguments and materials presented in this publication to develop a memorandum or presentation for your board demonstrating the value of developing proxy voting guidelines.

Discuss how guidelines promote good governance practices. For instance, every company in which your foundation owns shares typically asks you on its proxy to approve a slate of directors and to ratify the appointment of auditors. These are two areas most directly related to recent corporate scandals. At a minimum, a policy regarding independent board members and separating auditing from consulting services is appropriate. Ensuring that a company is better managed can help improve financial return which allows the foundation to support more activities.

There are also hundreds of social and environmental proposals filed every year. As discussed earlier, many of these may be directly related to the program goals and the activities of your grantees. Use the resources listed in the next chapter and Appendix C to determine how many shareholder proposals in your core giving areas were voted on in the last year or two. Then develop a chart showing how the foundation could be boosting its impact by using its proxy votes to support proposals in core funding areas. For example:

<b>Program Area</b>	<b>Upcoming Shareholder Proposal</b>	<b>Company</b>
Environment	Report on Climate Change Strategy	ExxonMobil
Environment	Increase Beverage Container Recycling	Coca Cola
Health	Policy on Tobacco Promotion	Wal-Mart
Health	Phase Out PVC use in Medical Products	Bristol-Myers Squibb
Equality	Improve Diversity on Board of Directors	Devon Energy
Equality	Sexual Orientation Non-Discrimination Policy	Lockheed Martin

In your presentation to the board, identify other foundations that have established proxy voting policies. This guidebook provides a number of examples of foundations ranging in size, program and mission that are already active in proxy voting. This will help to reassure the board that this is an achievable and appropriate course of action.



Now determine how much work actually needs to go into developing the policy. It may be less involved than you think. There are already numerous publicly available templates to emulate which have taken thoughtful positions on key corporate governance and social issues areas. If you have a good relationship with your money manager, try asking him or her for assistance on developing your corporate governance voting policies. A list of existing policies which might be appropriate for your foundation is discussed in Appendix A. It is likely that you will be able to adopt many of your voting positions from these existing policies. Consider your board's social and political makeup. If they are progressive, use an SRI fund such as Calvert Group as a model. If they are more conservative, consider something closer to CalPERS policy. Providing these materials will reduce the time demands and anxiety level on a board that may feel stretched too thin to explore new territory. It can also encourage a board that is enthusiastic about the idea but unsure how to begin.

#### **Step 4: Propose an Implementation Method That Suits Your Foundation**

You will need to propose a method for voting proxies commensurate with your foundation's resources and level of commitment. Your options are to (1) hire a proxy voting service to provide issue research and do the voting for you, (2) ask your broker or money manager to vote as per your instructions, or (3) develop the capacity to vote proxies in-house.

A large foundation is most likely to be able to subscribe to proxy research and voting services like the Investor Responsibility Research Center (IRRC) and Institutional Shareholder Services (ISS) to manage the voting process, and to allot a portion of staff time to ensure that all proxies are voted in compliance with the guidelines.

Medium and small foundations may have to be more creative to ensure that the policies are implemented. A mid-sized foundation may still be able to afford \$7,000 to \$10,000 per year to purchase basic IRRC or ISS services to assure proxies are voted properly through a proxy voting service or to purchase additional time from your broker or financial advisor. Some may opt to have the CFO or President take on or coordinate this task. For instance, Caroline Williams of The Nathan Cummings Foundation, personally reviews and votes their proxies.

A low-cost to no-cost option for small foundations is to work with their money managers to get the managers to vote their shares using the new foundation guidelines, or the pre-packaged SRI proxy voting option described in the next chapter.

When you place your investments with a money management firm, you are given the option of having the proxy materials come directly to you as the client or having them sent to your money manager to deal with. Most clients opt for the manager to deal with proxy voting. If you decide to put this responsibility into the hands of a proxy voting service or decide to handle it in-house, you will need to contact your money manager to ask that the materials be redirected.

To demonstrate the value of the effort, a staff member or trustee should ensure that an annual report to the board is generated reporting on how proxies were voted with special attention to the results of proxy votes in key foundation funding areas. For example:

<i>Company</i>	<i>Shareholder Proposal</i>	<i>Vote / Result</i>
DuPont	Label Genetically Engineered Food	withdrawn
<i>Note: shareholders withdrew proposal in exchange for dialogue with senior management. Supports the work of following grantees: Organic Consumers Association, etc.</i>		
General Electric	Reduce Greenhouse Gas Emissions	22.6% For
<i>Note: Supports our grantees working on this issue</i>		
Home Depot	Implement Human Rights Standards	awaiting tally
<i>Note: Complements the goals of our human rights funding program</i>		
PG&E	Risks of Greenhouse Gas Emissions	9.11% For
<i>Note: Complements work of our grantees researching this issue</i>		

Or you may opt for a more basic version that reports all voting results on the company's proxy. If you use a proxy voting service, these types of reports are generated for you.

For example:

### Starbucks

Ticker: **SBUX** CUSIP: **855244109**

Rec Date: **1/27/2003** Meeting Date: **3/25/2003**

#	Proposal	Vote	Notes
1.1	Elect Director Howard P. Behar	For	
1.2	Elect Director James G. Shennan, Jr.	For	
2	Ratify Auditors	For	

### *Shareholder Proposals*

3	Label Genetically Engineered Foods	For	Against Mgmt
4	Adopt a Policy on Expensing the Cost of Stock Options	For	Against Mgmt

## Address Likely Common Objections Head On

In a presentation to a board, executive director or CFO, you are likely to run into some of the following common objections. Here are answers to commonly asked questions and concerns.

### *Is this legal? Isn't our obligation to invest for maximum profit?*

Yes, this is totally legal and appropriate. In fact it is becoming increasingly required of large investors. A new SEC rule went into effect in 2003 requiring all mutual funds and investment managers to develop a proxy voting policy and to disclose it as well as how they vote on each proxy question. As discussed in Chapter One, proxy voting has been cited as the duty of a fiduciary for private pension funds governed by ERISA. It could be considered a failure of fiduciary responsibility to not develop guidelines or vote proxies that address critical corporate governance issues that can affect your investment return. Also as suggested earlier, there is growing evidence that how companies manage the triple bottom line — quality of management, social and environmental impacts — can all impact the level of financial return.

*The investment managers wouldn't have bought the stock unless they trusted management. Why should we second-guess management?*

The recent scandals have taught us that investment managers don't always have the time or resources to research management to the point where they can determine integrity. If investment managers and analysts had been more vigilant, fewer companies would have been able to get away with abuses for so long. It's a new day in terms of monitoring corporate management. Proxy proposals send a message that shareholders are not just counting on regulators or investment analysts to protect them but that they are staying directly involved.

*The issues are too complex.*

While some of the issues are complicated, there is readily available proxy research providing ample background on issues in user friendly language. However, many of the issues in proposals are fairly straight forward, addressing basic issues of accountability and transparency.

*Our votes won't make a difference.*

Actually they will! Proposals do not need to receive a majority vote to have enormous impact. This report has cited many examples of better corporate social and environmental practices that resulted from proposals receiving only 7% to 10% of the vote. Governance proposals receive much higher votes. Also, proxy voting can have more potential impact than, say, divesting stock for social impact. If you sell shares because you disagree with a company's practices, you may sleep better at night but the company won't necessarily get the message. Those shares will be acquired by someone else. The results of proxy votes are publicly known and the company's response can be monitored.

*Does this mean we have to do screening or divest from companies?*

No. This policy is simply about voting proxies on existing investments. Some foundations have set screening policies. Others have chosen to divest in areas such as tobacco, alcohol, firearms and nuclear power where they feel so strongly about a practice that they do not wish to derive income from it. But those are separate decisions and policies.

*It's too expensive.*

As discussed in the next chapter, there are a range of options available which include modest no-cost to low cost options. In some cases it can be argued that proxy voting has a grant dollar-value as well. Both grassroots activists and shareholder activists have commented that the effectiveness of campaigns increase when companies are facing both internal (shareholder) and external (grassroots) pressure. In this sense, foundations may be promoting quicker results by voting their proxies in support of program related proposals, thus saving themselves from having to make future grants on the same issue.

**Proceed Gradually, Focus on Mission Critical Issues**

View this as a work-in-progress. It may take time to get the full support of the board or to institute a comprehensive policy. The Needmor board did not have full support for developing a proxy voting policy at first, said board member Sarah Stranahan, “We had to build consensus.” She estimates the foundation has been actively voting its proxies for 10 years. Most of the foundation’s assets are held at socially screened investment firms who routinely vote proxies in line with the foundation’s values.

The board of the Jennifer Altman Foundation embraced the establishment of a proxy voting policy yet found the easiest way to develop it was by prioritizing issues into three categories. “We were concerned with how many issues there are to deal with,” said Marni Rosen, Executive Director of Altman. “We decided to separate priority issues into three categories: mission critical, mission supportive, and general social values.” In Altman’s case the mission critical issues include environmental health, toxics, genetic engineering, tobacco, and sustainable development.

This is good advice for foundations who still find the proxy voting issue to be daunting. Start small. Aim for modest progress. Focus on issues critical to your mission. There are many sources of information to turn to. Your money manager should be the first point of contact on corporate governance issues. The resources listed in Appendix C should be able to assist you on social and environmental issues.

# Chapter Five

## Implementing Voting Policies and Procedures

Implementation of guidelines will vary by size and resources available to foundations. For large foundations, resource constraints may not be as critical as for smaller funders. For those with an available budget there are firms offering extensive proxy research and voting services. Most foundations will likely implement policies in-house or through their financial managers. In some cases it will be a combination of all three approaches. Listed below are several options ranging from full service to a no-frills implementation procedure.

### Proxy Research and Voting Services

Some of the issues raised on proposals can be complex or simply unfamiliar to shareholders. A few companies specialize in analyzing and voting proxies. The field is dominated by Institutional Shareholder Services (ISS) and the Investor Responsibility Research Center (IRRC). They generate reports providing background and objectively discuss the merits of both sides of each issue. In addition, ISS then makes a voting recommendation; IRRC can also provide recommendations upon request. IRRC also offers a Social Issues Service that provides detailed reports on social and environmental proxy proposals, and separate screening tools for clients who want to do their own social screening. Traditionally it has not made voting recommendations. However, it recently made recommendations available separately through a new arrangement with Glass Lewis and Co., an analytical research firm. ISS offers a Social Investment Research Service that caters to socially conscious investors. It provides research similar to IRRC's; the main difference is that ISS traditionally has made voting recommendations to all clients.

Both offer customized services to help clients develop their own voting guidelines and voting services. Clients can view how proxies were voted for all accounts on-line. Both firms offer special services on corporate governance issues, as well as social and environmental issues.

For a hypothetical small foundation portfolio with two or three money managers and about 100 equities, both companies begin pricing their research and voting services at about \$6,000-\$7,000 per year, depending upon a number of variables. Contact these firms directly for more details. Consult Appendix C for more information.

If a comprehensive approach is desired on the full range of corporate governance and social issues, it is important to note that even after procuring the proxy research and voting services of these firms, some staff time will likely be required to monitor voting and to consult on issues that may not be covered by voting policies.

### **Financial Managers**

If your foundation's endowment is managed by a money manager, review your proxy voting guidelines with them and ask that your views be reflected when they vote shares on your behalf. The brokers or money managers who manage your accounts are obliged to vote customer proxies as part of their management service. However, whether they will vote in accordance with your wishes needs to be worked out with them on a case-by-case basis.

Many managers already use proxy services such as ISS or IRRC to manage their proxy voting. Both firms offer a pre-packaged SRI Proxy option that generally votes in a progressive, pro-shareholder fashion on governance, social and environmentally oriented proposals. If foundations use managers who contract with ISS or IRRC, they may request that their managers specifically vote shares held in their accounts through the SRI Proxy option. Money managers sometimes incur extra fees to vote in this manner. They may seek to pass the fees on to customers in some cases. However, the fees are likely to be much lower than the costs of contracting directly with ISS or IRRC. Contact your broker or money manager for further details.

Firms that cater specifically to socially conscious investors such as Christian Brothers Investment Services, Trillium Asset Management and Walden Asset Management already have their own progressive voting guidelines that are likely to satisfy most clients. Other firms with SRI components such as Harris, Bretall Sullivan & Smith, Roxbury Capital Management, and Piper Jaffray Philanthropic and Social Investment Consulting generally make

arrangements to vote proxies for their clients with specific social concerns.

## In-house Voting

For those who vote their own proxies and want to do their own research on corporate governance, social or environmental issues, there is a substantial amount of free or low cost information on the Internet.

- The Corporate Library website is an impressive resource for corporate governance advocacy information. Much of the information is free; more extensive company profiles are available for a fee.  
([www.thecorporatelibrary.com](http://www.thecorporatelibrary.com))
- The Interfaith Center on Corporate Responsibility (ICCR) web site is a valuable resource on social and faith-based issues. ICCR, a coalition of nearly 300 religious institutional investors with combined assets of \$110 billion, pioneered social shareholder advocacy. ICCR members (foundations can be associate members) still account for the overwhelming majority of social proposals filed every year. It makes available for free the text of all proposals filed by its members and many other social investors. It posts vote results on its site shortly after the annual meetings. ICCR also publishes a quarterly newsletter available for \$50 per year covering key shareholder issues and tracking the votes on proposals ([www.iccr.org](http://www.iccr.org)).
- As noted in the last chapter, members of the Foundation Partnership for Corporate Responsibility can provide valuable assistance based on their continuing involvement in proxy voting and shareholder advocacy ([www.foundationpartnership.org](http://www.foundationpartnership.org)).
- IRRC's Corporate Social Issues Reporter provides objective coverage of a wider range of social and environmental proposals than the ICCR materials and is available separately for about \$300 per year.
- Socialfunds.com is a website catering to the socially conscious investor that also keeps a data base of proposals filed and provides daily news stories focusing on social investment issues. Anecdotal research and issue reports are occasionally made available on the websites of screened funds such as Calvert Group, Domini Social Investments, Citizens Funds and Pax World Funds.
- As You Sow ([www.asyousow.org](http://www.asyousow.org)) and Responsible Wealth ([www.responsiblewealth.org](http://www.responsiblewealth.org)) are two non-profits specializing in shareholder advocacy who also feature selected proxy-related information on their websites. As You Sow also provides detailed information on a few



selected social proxy issues on a separate site ([www.proxyinformation.com](http://www.proxyinformation.com)). The Shareholder Action Network website, a project of the Social Investment Forum, contains a wealth of information on proxy voting and shareholder advocacy ([www.shareholderaction.org](http://www.shareholderaction.org)).

Depending on the extent of your investments you may be able to keep track of your votes by reviewing the annual reports and proxies you receive in the mail, and then tracking your proxy voting on a company by company basis on a spreadsheet. Most of this activity will occur during the March — May “proxy season” when 75% of US companies hold their annual meetings. You can contact companies you hold directly to find out the final votes or subscribe to the IRRC Corporate Social Issues Reporter for a verified list of final vote tallies. Presenting your board with an annual summary of key votes will allow them to stay engaged in the process.

## **Conclusion**

We hope this publication has been a useful source of information on why proxy voting is important and a blueprint for how interested foundations can develop their own voting policies. Conscious proxy voting can boost philanthropic mission in two ways. First, it supports actions which seek to strengthen management at publicly traded companies, protecting long-term shareholder value and the value of foundation endowments. Second, it strengthens each foundation’s charitable mission by using the proxy to support stronger corporate social and environmental practices. Implementing these policy changes can be an important way to carry out a portion of many foundations’ stated social missions.

Deliberate, considered proxy voting sends a much-needed message to companies that shareholders are watching and expect honest, responsive management. At its core, proxy voting means simply paying attention to issues raised by shareholders that have corporate governance or social implications for foundations, developing a position on them, and ensuring that your votes are cast and your voice is heard.

# Appendices

## Appendix A: A Sampling of Proxy Voting Policies

Below are some examples of proxy voting policies posted by foundations on websites. A number of socially screened funds have also developed extensive proxy voting guidelines that are helpful in developing a template for a foundation. Links are cited below.

### A. Foundation Proxy Voting Policies

#### **The Nathan Cummings Foundation**

##### *Shareholder Activity Guidelines*

1. The Foundation will exercise its rights as a shareholder to vote its proxies on proposals put forth by management and shareholders as follows:

On matters of program interest — when a program interest is at stake, the Foundation will vote in line with the program interest.

On matters of corporate governance — the Foundation will vote in line with the broader programmatic objectives of accountability, transparency, incentives for appropriate institutional reforms, possibilities for more systemic solutions and ethical concerns.

2. Proxy voting will be the responsibility of the Chief Executive Officer. The process will be managed by the Chief Financial and Investment Officer.

On programmatic issues they will consult with the Program Directors.

On corporate governance issues that are not clear they will consult with the Chair of the Investment Committee.

On business matters such as mergers they will consult with the investment manager(s) who acquired the stock for the Foundation.

They may draw on the resources of groups that monitor shareholder

proposals such as the Interfaith Center on Corporate Responsibility and the Council of Institutional Investors.

3. A report on the votes cast will be given to the Board annually.
4. The Foundation may seek to further dialogues between shareholders, nonprofit groups and corporate managements through program activities, convenings and informal meetings.
5. Where a strong programmatic interest is involved the Foundation may organize, convene, and coordinate shareholder activities in support of the program interest.
6. The Foundation will encourage greater shareholder participation in matters of corporate governance and practices by facilitating dialogues about corporate accountability / proxy voting with the Foundation's investment managers and with others such as foundations, other endowed institutions, pension funds and faith-based organizations.

**Web link:** <http://www.nathancummings.org>

## **Jessie Smith Noyes Foundation**

### *Proxy Voting Guidelines*

We believe that passive holding of corporate stocks without assessment of the social and environmental, as well as the financial performance of a corporation does not fulfill our obligation as a shareholder.

The Foundation asks each of our managers, the Interfaith Center on Corporate Responsibility (ICCR) and the Council of Institutional Investors (CII) to inform us of shareholder proposals being considered with corporations in which we hold stock.

The Foundation votes its proxies as follows: The President of the Foundation, in cooperation with the Chair, the Treasurer and the Chair of the Finance Committee, reviews and votes proxies according to the following general principles: When program interests are directly involved, proxies are voted in a manner consistent with them.

When a shareholder proposal deals with a social or environmental issue that is not directly related to the Foundation's program interests, the Foundation will review each individual case and consult with our grantees, managers and others, as appropriate.

On issues of corporate governance the Foundation will consult with ICCR, CII, and others, and will vote our proxies according to the following general guidelines:

- Ratify Auditors
- Ratify Directors unless governance or a program interest issue has been raised or there is a lack of diversity on the board
- Vote against golden parachutes for executives
- Vote for proposals requiring a majority of independent directors
- Vote for proposals requiring nominating and/or compensation committees to be composed exclusively of independent directors
- Vote against incentive payments not related to financial performance
- Vote for incentive payments that are tied to social and environmental performance
- Vote for proposals recognizing the standing of stakeholders other than shareholders in governance and control.

**Web link:** <http://www.noyes.org/2000ar/investmentpol.htm>

## **The Shefa Fund**

### ***Proxy Voting Guidelines***

In keeping with the mission of The Shefa Fund to examine the relationship to money and justice in the context of Jewish values and to use resources to build community and foster justice and in recognition of the fact that being a shareholder in a corporation entails being a partial owner of that corporation, The Shefa Fund resolves to cast its proxy votes in accordance with Jewish values concerning responsible ownership. These include the following essential concepts:

- The fundamental tenet of Judaism is the covenant, the *brit*, the belief that God and humans are partners in the daily recreation of the world and in striving towards justice. An owner cannot escape responsibility for the social and communal effects of wealth. One may not be a partner to someone who assists another to do an act that is forbidden. In other words, one has a responsibility to ensure that one's assets do no harm.

- Jewish values about the responsibilities of ownership are clear and unambiguous. Individuals and Jewish institutions are as responsible for the actions of our assets as we are of our own actions. As part-owners we will cooperate with other shareholder organizations seeking to shape corporate policies by introducing proposals, engaging in proxy voting and participating in dialogue with corporate management.

We therefore resolve to vote our proxies, and to do so in a manner that is consistent with our values.

The Shefa Fund will use the following guidelines to help us determine how to vote our shares and when a corporation's policies and practices merit the initiation of a dialogue or the filing of a proposal.

- We will support proposals designed to promote and facilitate community well being and citizenship.
- We will support proposals that encourage greater corporate responsibility on issues of environmental protection.
- We will support proposals that aim to satisfy basic human needs including living wages for employees and safe working conditions.
- We will support proposals that encourage respect, diversity, pay equity, and a more just distribution of resources.

We further resolve to support governance structures and policies that keep the focus of company management on long term corporate health and sustainable financial, social, and environmental performance. Good governance structures include:

- Independent boards that represent a wide variety of interests and perspectives.
- Full disclosure of company performance on financial, environmental and social metrics.
- Charters, bylaws and procedures that allow shareholders to express their wishes and concerns.
- Compensation structures that work to align the interests and time-frames of management and owners.

In short, our proxy voting guidelines support structures that create and reinforce accountability and oppose those that do not.

A report on the votes cast will be given to the Board annually.

### **Conclusion**

The goal of an economy is not to maximize wealth for a few but rather to maximize societal well being for all. The concept that a company has responsibilities beyond mere legal compliance for the society in which it operates is still a challenge for many companies to accept. The reality is, however, that in a global economy few corporations can be profitable in the long run, in a world without social, political, and economic justice. These proxy voting guidelines aim to support sustainable governance that attends fairly to the interests of shareowners, workers, communities, and the environment. However, these guidelines cannot, and are not meant to be exhaustive, nor can they anticipate every potential voting issue on which we may be asked to vote our proxies. In general we affirm this proposal in the spirit of living in accordance with our Torah of Money values. It is the call to strive towards peace and justice which informs the guidelines set herein.

**Web link:** <http://www.shefafund.org>

### **The Boston Foundation**

The Boston Foundation has an extensive 28-page policy that can be accessed at

<http://www.bostonfoundation.org/uploadedFiles/ProxyVoteGuidelines2003.pdf>

## **B. Socially Screened Fund Voting Policies**

A number of leading screened mutual funds have extensive and well-developed policies available for review at their websites. These include:

### **Calvert Group**

[http://www.calvert.com/pdf/proxy\\_voting\\_guidelines\\_new.pdf](http://www.calvert.com/pdf/proxy_voting_guidelines_new.pdf)

### **Citizens Funds**

<http://www.citizensfunds.com/content/activism/proxyvotes.asp>

**Domini Social Investments**

<http://www.domini.com/shareholder-advocacy/Proxy-Voting/index.htm>

**Pax World Funds**

<http://www.paxfund.com/proxyvote4.htm>

**C. Pension Fund: CalPERS**

The California Public Employees Retirement System (CalPERS) is a pioneer in corporate governance accountability. Its Global Proxy Voting Principles may be accessed at

<http://www.calpers-governance.org/principles/global>.

A longer list of guidelines available on the Internet can be found in Appendix C.

## **Appendix B: Going Further: Opportunities Beyond Proxy Voting**

For foundations energized by the proxy voting process, the next logical step is the filing of shareholder proposals or participation in dialogues with companies. A number of foundations have moved beyond proxy voting to promote their mission or that of their grantees by leading dialogues and filing shareholder proposals. Probably the most active foundation in this regard is the Educational Foundation of America (EFA). “EFA uses its investments to seek improvements in corporate practices by utilizing its standing as a shareholder in various corporations to push for environmental and social change,” said Diane Allison, executive director of EFA. The foundation believes that “while it can choose to screen some of its portfolio to better meet its mission, it can also make a significant impact by becoming an active shareholder,” she said.

While a number of foundations regularly co-file proposals, EFA stands out by its willingness to devote resources to serve as primary filer of several ground-breaking dialogues and proposals and to provide the financial

support necessary to implement those initiatives. The primary filer does the heavy lifting involved in shareholder advocacy: background issue research, writing and defending proposals, meeting with corporate management, organizing shareholder coalitions, and urging shareholders to vote their proxies in support the proposals. EFA has partnered with As You Sow's Corporate Social Responsibility Program to develop sophisticated primary filing initiatives on its behalf on several issues.

These include a proposal at Home Depot which helped lead to a decision by the company in 1999 to phase out old growth timber. A proposal filed at Coca-Cola seeking the use of recycled content in plastic beverage containers helped lead to a commitment by the company to use 10% recycled content by 2005. Dialogues with Staples Inc. led to a commitment to use higher levels of recycled content in office paper. Dialogues and filings with a number of computer companies led to an agreement by Dell Computer in 2003 to set a goal for recycling of old computers at the end of their useful lives.

As You Sow is a leading proponent of shareholder advocacy, engaging numerous corporations in dialogue and filing proposals. As You Sow pioneered the solicitation of mainstream institutional shareholders on social and environmental proxy proposals, and regularly conducts issue research, writes proposals, meets with corporate management, and organizes shareholder coalitions.

As You Sow has also filed proposals at Nike, Unocal and Wal-Mart concerning human rights and labor rights issues, and Starbucks, Safeway and Hershey Foods on genetically modified organisms.

Other foundations that have engaged in shareholder dialogues or proposals include Rose Foundation for Communities and the Environment, Nathan Cummings Foundation, Jessie Smith Noyes Foundation and Needmor Fund.

Some foundations have filed proposals specifically on behalf of grantees. A proposal filed by Noyes on behalf of the SouthWest Organizing Project (SWOP) in Albuquerque, New Mexico, resulted in Intel Corp. coming to the table for discussion even though it had previously refused to meet with



SWOP, according to former Noyes executive director Steve Viederman. Intel agreed to change its Environmental, Health and Safety Policy and to share more information with communities.

In 2003, Cummings filed its first proposal at Smithfield Farms asking the largest hog producer and pork processor to examine the environmental, financial and reputational risks of managing hog production that generate millions of gallons of animal waste.

There are also opportunities to petition the SEC directly to change their policies which govern disclosure of information by companies. For instance, concerned that accounting and disclosure rules allow companies to hide the extent of their environmental liabilities Rose Foundation has petitioned the SEC to strengthen the required disclosure of material environmental liabilities.

## Appendix C: Resources

### Selected Foundations with Proxy Voting Policies

#### **The Boston Foundation**

<http://www.bostonfoundation.org/uploadedFiles/ProxyVoteGuidelines2003.pdf>

#### **Jennifer Altman Foundation**

<http://www.jaf.org>

#### **Jessie Smith Noyes Foundation**

<http://www.noyes.org/2000ar/investmentpol.htm>

#### **Nathan Cummings Foundation**

<http://www.nathancummings.org>

#### **Shefa Fund**

<http://www.shefafund.org>

### Selected Institutions with Proxy Voting Guidelines

#### **California Public Employees' Retirement System (CALPERS)**

<http://www.calpers-governance.org/principles/global/globalvoting.pdf>

#### **Calvert Group**

[http://www.calvert.com/sri\\_2733.html](http://www.calvert.com/sri_2733.html)

**Christian Brothers Investment Services**

<http://www.cbisonline.com/literature/pdf/cbisiproxy.pdf>

**Citizens Funds**

<http://www.citizensfunds.com/content/activism/proxyvotingguidelines.asp>

**Connecticut State Pension Funds**

<http://www.state.ct.us/ott/proxyvotingpolicies.htm>

**Domini Social Investments**

<http://www.domini.com/shareholder-advocacy/Proxy-Voting/index.htm#>

**Ethical Funds**

[http://www.ethicalfunds.com/pdf2/sri/proxy\\_voting\\_2003.pdf](http://www.ethicalfunds.com/pdf2/sri/proxy_voting_2003.pdf)

**Harrington Investments**

[http://www.harringtoninvestments.com/proxy\\_voting.htm](http://www.harringtoninvestments.com/proxy_voting.htm)

**Ontario Municipal Employees Retirement System (OMERS)**

[http://www.omers.com/investments/proxyvoting\\_guidelines/contents.htm](http://www.omers.com/investments/proxyvoting_guidelines/contents.htm)

**Ontario Teachers' Pension Plan**

<http://www.otpp.com/web/website.nsf/web/CGGuidelines>

**Pax World Fund Family**

<http://www.paxfunds.com/proxyvote4.htm>

**Public Sector Pension Investment Board (Canada)**

[http://www.investpsp.ca/en/4\\_3proxy\\_voting\\_en.htm](http://www.investpsp.ca/en/4_3proxy_voting_en.htm)

**Shareholder Association for Research and Education (SHARE)**

(Canada)

<http://www.share.ca/index.cfm/fuseaction/page.inside/pageID/79B871A1-B0D0-157F-F45376F0CE4EA550/index.cfm>

**State of Wisconsin Investment Board**

<http://www.swib.state.wi.us/proxyguide.asp>

**Trillium Asset Management**

[http://www.trilliuminvest.com/pages/activism/activism\\_voting.asp](http://www.trilliuminvest.com/pages/activism/activism_voting.asp)

**Walden Asset Management**

<http://www.waldenassetmgmt.com/social/proxyvoting.html>

**Institutions That Post Their Proxy Votes****California Public Employees' Retirement System**

<http://www.calpers-governance.org/alert/proxy/>

**Calvert**

[http://www.calvert.com/funds\\_decisions.html](http://www.calvert.com/funds_decisions.html)

**Christian Brothers Investment Services**

<http://www.cbisonline.com/proxy/votes.asp>

**Citizens Funds**

<http://www.citizensfunds.com/content/activism/proxyvotes.asp>

**Domini Social Investments**

<http://domini.com/shareholder-advocacy/Proxy-Voting/index.htm>

**EthicalFunds (Canada)**

[http://www.ethicalfunds.com/do\\_the\\_right\\_thing/sri/shareholder\\_action/proxy\\_voting\\_report.asp](http://www.ethicalfunds.com/do_the_right_thing/sri/shareholder_action/proxy_voting_report.asp)

**General Board of Pension and Health Benefits of The United Methodist Church**

<http://www.irrc.org/gbophb/>

**Meritas Mutual Funds**

[http://www.meritas.ca/adobe/meritas\\_proxy\\_voting\\_guidelines.pdf](http://www.meritas.ca/adobe/meritas_proxy_voting_guidelines.pdf)

**MMA Praxis**

[http://www.mmapraxis.com/corporate/proxy\\_voting\\_set.html](http://www.mmapraxis.com/corporate/proxy_voting_set.html)

**Portfolio 21**

<http://www.portfolio21.com/proxyvoting.html>

**Walden Asset Management**

<http://www.waldenassetmgmt.com/social/proxyvoting.html>

**University of Wisconsin**

<http://www.uwsa.edu/ufunds/proxyvot.htm>

**Proxy Services****Comprehensive Services****Institutional Shareholder Services (ISS)**

<http://www.issproxy.com/>

**Investor Responsibility Research Center (IRRC)**

<http://www.irrc.org>

**Other Proxy Services****Davis Global Advisors**

<http://www.davisglobal.com/>

*Specializing in information on foreign companies*

**Michael Jantzi Research Association Inc. (Canada)**

[http://www.mjra-jsi.com/products\\_services.asp?section=2&level\\_2=4&level\\_3=0](http://www.mjra-jsi.com/products_services.asp?section=2&level_2=4&level_3=0)

*Assistance with developing guidelines*

**Other resources****The Corporate Library**

<http://www.thecorporatelibrary.com>

*Excellent corporate governance materials, news and financial analysis sections.*

**Corporate Monitoring**

<http://www.corpmon.com/Vote.htm>

*Shareholder activism site focusing on selected governance proposals and proposed SEC rule changes.*

**Council of Institutional Investors**

<http://www.cii.org/dewascii/web.nsf/doc/index.cm>

*Provides general information and investment services to pension funds. They generally do not address social issues.*

**Friends of the Earth's Green Investments Program**

<http://www.foe.org>

*Features excellent online guide to shareholder activism: "Confronting Companies using Shareholder Power." Describes the basics of how to file, how to write a proposal, and strategic considerations when negotiating with companies.*

**Foundation Partnership for Corporate Responsibility**

<http://www.foundationpartnership.org>

*A group of foundations providing information and technical assistance to other foundations that want to become more active as shareholders on social and environmental issues. There is no obligation to participate in any action.*

**Interfaith Center on Corporate Responsibility**

<http://www.iccr.org>

*Lists all shareholder proposals by religious institutional investors, issue backgrounders by the leading organization doing shareholder advocacy in the U.S., covering subjects like militarism, economic justice, AIDS, energy, genetically engineered foods, sweatshops, and corporate governance.*

**Proxy Information**

<http://www.proxyinformation.com>

*Web site developed by As You Sow Foundation to provide detailed information for investors and analysts on selected shareholder proposals and issues.*

**Responsible Wealth**

<http://www.responsiblewealth.com>

*Provides information on a variety of shareholder initiatives focusing on social equity issues.*

**Shareholder Action Network**

<http://www.shareholderaction.org>

*Features shareholder news and proposals, web resources, pre-written letters to CEOs, extensive links section on corporate accountability, and in-depth information on four targeted campaigns each year. Very extensive web resources with links to many shareholder advocacy sites.*

**Social Investment Forum**

<http://www.socialinvest.org>

*Association of Socially Responsible Investment (SRI) professionals and institutions. Reports on the SRI industry and pivotal initiatives; information along on community investing, shareholder advocacy, and screening, and SRI trends and performance.*

**SocialFunds.com**

<http://www.socialfunds.com>

*Provides regular news updates and original journalism on screened investing, shareholder advocacy and community investing. Has a database of shareholder proposals, shareholder news, and info on SRI activities.*

Special thanks to Shareholder Action Network for their assistance with this section.

“Foundations are major investors in corporate America. We need to recognize and exercise the responsibilities of ownership. We can vote our values with our investment dollars, but the real leverage for change is an asset that most foundations ignore – the proxy vote.”

– *Lance Lindblom, President,  
The Nathan Cummings Foundation*

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Philanthropy  
Advisors

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