



NORTHSTAR ASSET MANAGEMENT INC

SOCIALLY
RESPONSIBLE
PORTFOLIO
MANAGEMENT

Institutional Shareholder Services Inc.
ISS Global Policy Board
Via email: policy@issgovernance.com

October 31, 2011

RE: 2012 Draft Policies Comment (Environmental and Social)

To Whom It May Concern:

I write to you today regarding the "Political Contribution Proposals (U.S.)" proposed policy change. While I applaud ISS for recommending votes FOR disclosure of political gifts, we would like you to consider a more thorough analysis of the need for **shareholder oversight** of political contributions. It is essential that ISS interpret "greater...oversight of political contributions" to include shareholder oversight. It is the shareholders, those who have the greatest risk and least direct control, who need advisory oversight of political contributions.

Since first writing a position paper July 2011 on political contributions¹, a number of new developments have made it clear to us that further commentary is necessary to advance the discussion on corporate spending for political activities:

- Shareholders have had the opportunity to seek an advisory vote on corporate political spending and corporate Political Action Committee (PAC) contributions in shareholder resolutions brought by NorthStar at two firms, Home Depot (June 2, 2011) and Procter & Gamble (October 11, 2011);
- Investors and activists have brought petitions to the Securities and Exchange Commission (SEC) seeking a ruling on corporate political spending;²
- Congressional leaders re-introduced the Shareholder Protection Act on July 13, 2011, a bill that would allow shareholders of public companies to vote annually on political spending³;

¹ Find the position paper here: http://northstarasset.com/wp-content/uploads/NorthStarPositionPaperonCorporatePoliticalSpending_Aug2011.pdf

² Letter from Committee on Disclosure of Corporate Political Spending to Elizabeth Murphy, Secretary of the SEC. Aug 3, 2011. <<http://www.sec.gov/rules/petitions/2011/petn4-637.pdf>>

³ Bebchuk, Lucian and Robert Jackson Jr. "The Re-Introduction of the Shareholder Protection Act" <<http://blogs.law.harvard.edu/corpgov/2011/07/14/the-re-introduction-of-the-shareholder-protection-act/>>

- "In light of the 2010 Citizens United decision by the U.S. Supreme Court, ISS [Institutional Shareholder Services] proposed to shift its current policy on corporate political contribution disclosure proposals from analyzing such proposals on a case-by-case basis to generally recommending that shareholders vote FOR proposals requesting *greater disclosure of a company's policies and oversight of political contributions*" (October 18, 2011)⁴;
- Common Cause Minnesota kicked off a grassroots campaign to pressure corporations to refrain from political spending (October 2011)⁵;

Currently, the burden of making appropriate political contribution decisions from both the general company treasury (state, local and PAC giving) and the company PAC (state, local, federal and PAC) are at the discretion of management despite the fact that poorly used funds ultimately impact shareholder value. Corporations are permitted to contribute to federal elections only via PAC contributions.

Many of our colleagues believe that seeking *disclosure* of political contributions is enough.^{6,7} Given that 88 companies in the Fortune 500 disclose their electioneering contributions⁸ and that all Fortune 500 companies disclose their PAC contributions as required by law, but that careful examination of contributions (on a company by company basis) indicates serious violations of their (same company's own) corporate policies, we contend that *disclosure* has proven to be insufficient to safeguard shareholder value.

The singular focus of past shareholder resolutions on *disclosure* has led to a phenomenon in which companies believe that disclosure is the most stringent requirement by which they must abide. It appears that corporations believe that if management or company political action committees (PACs) simply *disclose in arrears* the extent of their political giving, then this is sufficient for shareholder and consumer satisfaction. Our firm's engagement with corporations and correspondence with the Securities and Exchange Commission indicates that the misconception that we are simply requesting disclosure prevails.⁹

Greater oversight of political contributions by corporations is necessary. This year, NorthStar Asset Management, created a resolution asking companies to allow shareholders to weigh in on both past and future political contributions made from both company treasury and PAC funds. After careful examination of underlying values as self described by corporations in public media

⁴ *Corporate and Financial Weekly Digest*. "ISS Publishes Proposed Changes to Proxy Voting Policies." 21 October 2011.

⁵ "Corporations Have No Business In Politics." <www.commoncause.org/NoBusinessInPolitics>

⁶ Evidenced by Trillium Asset Management abstaining from a vote on the Procter & Gamble and Home Depot shareholder resolutions submitted by NorthStar Asset Management in 2011. Please review MoxyVote.com/ballot/7724 and MoxyVote.com/ballot/9494.

⁷ Further evidenced by communications between CalPERS (California Public Employees' Retirement System) and NorthStar Asset Management in the summer of 2011.

⁸ www.politicalaccountability.net

⁹ No-action letter: <http://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2011/northstarasset072111-14a8.pdf>

and employee policies and of their political contributions through both treasury (where available) and PAC funds, we found glaring inconsistencies in corporate values and the values expressed by support of various candidates for political office. This was true not only in corporations who disclose their treasury contributions, but even in those companies who denounce treasury contributions in favor of PAC contributions.¹⁰ In each case, while well meaning management teams supported candidates who were deemed to be working in the best interest of the company, corporate values relating to employment non-discrimination policies, environmental standards, and immigrant rights were consistently violated when contributions were made. Management apparently lacked the skills to evaluate candidates based on support or opposition of the comprehensive goals and values of their own contributing business.

Increasingly, shareholders are asking for more accountability and even evidence of value received for corporate political expenditures. When contributions are made to candidates via corporate treasury funds or through PAC funds that violate the very same corporation's policies and values, shareholder value is put at risk. Greater oversight requires that shareholders and their fiduciaries be allowed an opportunity to weigh in on all of the company's political contributions before incongruent contributions occur.

Shareholders determine whether or not to invest in a company based on disclosed data. Shareholders weigh in on executive compensation, board selection, financial oversight and often a variety of other issues at the annual meeting of shareholders and management within the jurisdiction of SEC oversight. All of the issues on which shareholders are allowed to vote are vetted by the SEC to determine whether it is indeed an issue on which shareholders have the right to provide input. On January 25, 2011, an advisory vote on corporate electioneering contributions by shareholders of Home Depot was approved by the SEC.¹¹ The SEC's response to each of Home Depot's objections to NorthStar's proposal was the same: "We are unable to concur in your view that Home Depot may exclude the proposal...Accordingly, we do not believe that Home Depot may omit the proposal from its proxy materials..." The SEC ruling thus affirmed that shareholders do, in fact, have the right to provide oversight on corporate political spending.

As you know, there are currently two resolutions on political contributions that are being presented by shareholders. One, supported by the Center for Political Accountability, asks for companies to disclose their political contributions, and the other asks for an advisory vote by shareholders on electioneering contributions in light of stated corporate values and policies. Unfortunately, there has been a blurring between the need for disclosure and the importance of aligning political giving with corporate values. While we believe that disclosure is important, we believe that disclosure without scrutiny does not protect shareholder value because the

¹⁰ In particular, here we are referring to our engagement with Procter & Gamble, who does not make treasury contributions, preferring to rely upon a PAC.

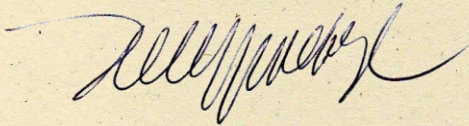
¹¹ No-action letter: <http://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2011/northstarasset032511-14a8.pdf>

root of the problem in the realm of political giving is not disclosure, but rather a lack of consideration of how company values are reflected in a corporation's political giving.

I applaud ISS for deciding to take a leadership position in assuring shareholders' rights to full access to disclosure of corporate political contributions. In light of the *Citizens United* Supreme Court decision and the ways in which corporate political contributions could be and have been severely detrimental to shareholder value, I am grateful to see that ISS has planned to support all disclosure-related shareholder proposals. In light of the risk to shareholders of incongruent political spending greater oversight for shareholders can be achieved through an advisory vote on corporate political contributions.

Thank you for the opportunity to comment on this proposed policy change. Please feel free to contact me should you have further questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Julie Goodridge', written in a cursive style.

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