**I. Earlham Proxy Voting Guidelines**

**Our Vision**

The following vision is from the Policy of Earlham College and the Earlham Foundation Concerning Socially Responsible Endowment Investments (“Policy Statement”):

*As an educational institution, Earlham should consider the impact of its financial investments upon the broader society. Because Earlham College was founded by Quaker yearly meetings, and, by design, Quakers still comprise a majority of the members of the Board of Trustees, it is fitting that Earlham’s investing principles and actions should reflect the values of the Religious Society of Friends.*

*These values include the belief that the life and dignity of every person should be respected. Growing out of this belief are the Quaker testimonies concerning peace, equality, integrity, simplicity, and goodwill between**people and between**nations.*

*Contributions toward these objectives can perhaps be accomplished either (1) by means of investing or not investing in the securities of particular corporations or governments**or (2) through action as a share- or bond-holder, again acting in concert with others, within the corporate structure.[[1]](#footnote-1) Admittedly, the majority of investments that Earlham and other buyers make in the equity[[2]](#footnote-2) and fixed income[[3]](#footnote-3) markets represent a transfer of funds between the buyer and the seller and have no direct impact – financial or otherwise – upon the corporation whose securities are being traded.*

**Expression of Beliefs Through Proxy Voting**

It is Earlham’s belief that corporations that generate long-term shareholder value adhere to sound corporate governance. They engage in practices that demonstrate overall corporate sustainability and social responsibility. These beliefs guide us in proxy voting.

The Policy Statement calls for the creation of a proxy voting procedure to address, among other items:

1. Proxy issues to be within the oversight of SRIAC and those to be within the oversight of the Foundation Board.
2. General guidelines and “rules of thumb” that can be used by the chief financial officer of the college or the investment officer of the college in deciding how to vote proxies that are the same or similar to proxy issues previously voted. Issues such as corporate transparency and independence of company officers from boards of directors would be addressed.

The Socially Responsible Investment Advisory Committee (SRIAC) has been authorized to vote the social issue shareholder resolutions (proxies) for companies that are held in separate accounts in the Earlham Endowment (not commingle funds). Proxy proposals related to general corporate governance are understood to be under the purview of the Board of Directors of the Earlham Foundation (Foundation Board).

The Foundation Board has delegated proxy voting authority to the investment managers of separately managed small and mid-sized companies since those companies rarely receive social issue shareholder resolutions.

**SRIAC Proxy Process**

The Foundation Board regularly delegates administrative functions to Earlham’s investment staff, including proxy voting unrelated to SRIAC. Similarly, SRIAC delegates proxy voting to investment staff for routine social issue shareholder resolutions in accordance with the Proxy Voting Recommendations provided in this document.

Complex social issue resolutions, or those that fall outside of the list of Proxy Voting Recommendations, are referred to SRIAC for review and direction.

Standard procedure is for the investment office to e-mail a proxy proposal website link to SRIAC members in advance of a scheduled meeting. Members may request additional information or independently research the proposal prior to meeting. At the meeting, the SRIAC members review the rationales supporting and opposing the proposal. Through the consensus process, SRIAC may recommend a proxy vote in favor or against the proposal, or choose to abstain from voting.

To meet proxy-voting schedules between meetings, SRIAC may at times provide proxy-voting direction electronically.

**Corporate Governance**

Earlham favors Board and management structures that align their interests with shareholders, including compensation schemes. Board membership should represent independence and diversity. Accountability is central to the effective functioning of a governance structure and transparency is an essential component of accountability. Auditors should be independent, providing limited non-audit consulting services. Circumstances surrounding the replacement of an auditor should be fully disclosed to shareholders.

Earlham will generally support proposals that strengthen shareholder rights, while opposing attempts to weaken them or entrench management. This includes supermajority voting, poison pills, etc.

Some proposals related to limiting director tenure, mandating management/director share ownership, etc. can be either favorable or detrimental to shareholders, depending upon the language and circumstances. These are considered on a case- by-case basis.

**Corporate Sustainability**

Earlham believes that companies that disclose their environmental policies, programs and performance are better-managed and less likely to experience problems with environmental compliance or suffer reputational damage as a result of environmental mismanagement. Companies that are industry leaders in environmental stewardship contribute to long-term shareholder value and are less likely to experience value destruction from costly environmental impacts.

We will generally support proposals requesting companies to track, report on, and manage the environmental impacts of their business. We will typically oppose a proposal if a company is already providing sufficient disclosure and actions or if the request is excessively costly or burdensome.

The landscape of corporate environmental impact is evolving, especially related to new technology and science. Until information is more fully developed and impacts are better-defined, we may abstain from voting on some proposals.

**Social Responsibility**

Earlham believes that well-managed companies are attentive to social impacts and take appropriate steps to measure, manage, and disclose policies, programs, and performance with respect to social impacts.

Positive labor relations contribute to shareholder value. Well-governed, responsible corporations treat workers fairly in all locations, and avoid exploitation of poor or marginalized people. Responsible companies adopt codes of conduct requiring that suppliers and licensees comply with international laws and labor standards.

We will support reasonable proposals requesting reports and the adoption of policies that promote workforce diversity, equal opportunity and equitable compensation.

We will oppose proposals that lack merit or relevance, are duplicitous, would risk disclosure of trade secrets or would unfairly place a company at a competitive disadvantage within its industry.

Following are a list of proxy voting recommendations for a variety of shareholder proposal requests. The list is not intended to be all-inclusive. SRIAC-related proposals are noted with an “X”. Proxy votes may occur for similar proposals that aren’t specifically on this list, with these recommendations offering guidance.

**List of Proxy Voting Recommendations**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Corporate Governance:** | **SRIAC** |  |
| a | Proposals requesting that the majority of directors be independent |  | Support |
| b | Proposals seeking to separate the positions of Chair of the board and CEO as well as resolutions asking for the Chair to be an independent director |  | Support |
| c | Proposals requesting that companies adopt policies or nominating committee charters to assure that diversity is a key attribute of every director search | X | Support |
| d | Proposals asking for reports on board diversity | X | Support |
| e | Proposals to create a board level committee on sustainability/corporate social responsibility issues | X | Support |
| f | Slates of Directors who would result in no women or minorities on the Board of Directors | X | Oppose |
| g | Proposals to elect all board members annually and to remove classified boards |  | Support |
| h | Resolutions seeking to establish a majority vote standard for election of board nominees |  | Support |
| i | Proposals calling for cumulative voting in election of directors, unless proposals are detrimental to minority shareholders |  | Support |
| j | Supermajority vote requirements |  | Oppose |
| k | Shareowner access to proxy ballot in the nomination of directors |  | Support |
| l | Proposals to allow or facilitate shareowner action by written consent |  | Support |
| m | Proposals calling for rights of shareowners to call special meetings unless threshold would encourage frivolous and costly activity. Threshold should be 15% or more of outstanding shares |  | Support |
| n | Proposals that create dual classes of stock and also restrict shareowner rights |  | Oppose |

|  |  |  |  |
| --- | --- | --- | --- |
| o | Proposals that set a reasonable mandatory rotation of the auditor (at least every five years) |  | Support |
| p | Annual election of auditors by shareowners |  | Support |
| q | Proposal to appoint new audit firm |  | Case by Case |
| r | Proposals to limit Director tenure |  | Case by Case |
| s | Proposals requiring corporate directors own shares in the company |  | Case by Case |
| t. | Evaluating nominees in a contested election of directors |  | Case by Case |
| u. | Severance or Change of Control Agreements for Management |  | Case by Case |
| **2** | **Executive Compensation** |  |  |
| a | Proposals requesting disclosure of compensation practices and policies – including salaries, option awards, bonuses, and restricted stock grants – of top management, Board of Directors, and employees | X | Support |
| b | Proposals to establish annual shareholder advisory vote on compensation |  | Support |
| c | Proposals for re-pricing of underwater options or granting of options below current market prices |  | Oppose |
| d | Proposals requesting that management provide a pay equity report | X | Support |
| e | Proposals requesting the inclusion of social performance and environmental awareness as a criteria for determining executive compensation, provided it is one of a number of components being considered and doesn’t restrict a company from looking at all aspects as a whole | X | Support |
| f | Proposals based primarily on reviewing and reporting comparisons of compensation for CEO and average employee compensation | X | Generally Support |
| **3** | **Mergers, Takeover Defenses, Divestment, etc.** |  |  |
| a | Proposals that allow the Board of Directors to consider non-financial effects of a merger proposal, such as impact on stakeholders, including employees, communities of interest, customers and business partners | X | Support |
| b | Proposals for corporate acquisition, takeover, restructuring plans that include significant new takeover defenses or that pose other potential financial, social, or environmental risks or liabilities | X | Oppose |
| c | Proposals authorizing the issuance of stock to facilitate a stock split |  | Support |
| d | Proposals authorizing issuance of large amounts of stock as a takeover defense |  | Oppose |
| e | Proposals calling for shareowner approval of poison pills or shareholder rights plans |  | Support |
| f | Shareholder proposals requesting management consider break up of the company, divestment, etc. |  | Generally Oppose |
| g | Merger and acquisition proposals will be evaluated **case by case**, but will **support** those that create shareholder value while protecting or improving company’s social, environmental, and governance performance | X | Case by Case/Support |
| **4** | **Transparency, Lobbying, etc.** |  |  |
| a | Proposals calling for disclosure of prior government service of the company’s key executives | X | Support |
| b | Proposals asking companies to publish reports on charitable and/or political contributions and disclosure of lobbying activities | X | Support |
| c | Proposals to require shareholder ratification of charitable contributions, requesting specific justification for each donation, or requiring publication other than website reporting | X | Oppose |
| d | Proposals prohibiting the use of corporate funds for any political campaign or electioneering communications and/or the establishment of a political action committee.  Such a proposal would severely impact a company’s ability to represent shareholders through advocating for public policies that support the health of the business. | X | Oppose |
| **5** | **Corporate Sustainability and Social Responsibility** |  |  |
|  | **Environment** |  |  |
| a | Proposals asking companies to prepare sustainability reports, including publishing annual reports in accordance with the Global Reporting Initiative (GRI) or other reasonable international codes of conduct or reporting models, unless the company already publishes an annual sustainability report that addresses the major issues or the proposal incurs unreasonable costs | X | Support |
| b | Proposals requesting that companies conduct social and/or environmental audits of their performance | X | Support |
| c | Proposals to reduce negative environmental impacts and a company’s overall environmental footprint, including any threats to biodiversity in ecologically sensitive areas | X | Support |
| d | Proposals asking companies to report on their environmental practices, policies and impacts, including environmental damage and health risks resulting from operations, and the impact of environmental liabilities on shareowner value | X | Support |
| e | Proposals asking companies to prepare a comprehensive report on recycling or waste management efforts, or to adopt a formal recycling policy | X | Support |
| f | Proposals to study or implement the Coalition for Environmentally Responsible Economies (CERES) Principles | X | Support |
| g | Proposals requesting that companies disclose information on greenhouse gas emissions or take specific actions, at a reasonable cost, to reduce greenhouse gas emissions and develop and use renewable or other less-polluting energy sources | X | Support |
| h | Proposals seeking preparation of a report on a company’s activities related to the development of renewable energy sources | X | Support |
| i | Proposals seeking increased investment in renewable energy sources unless the terms of the resolution are overly restrictive | X | Support |
| j | Proposals seeking preparation of a report on a company’s risks linked to water use or impacts to water | X | Support |
| k | Proposals seeking the adoption of programs and policies that enhance access an affordability to safe drinking water and sanitation | X | Support |
| l | Proposals to prepare a report on the phase-out of chlorine bleaching in paper production | X | Support |
| m | Proposals asking companies to report on whether environmental and health risks posed by their activities fall disproportionately on any one group or groups, and to take action to reduce those risks at a reasonable cost to the company | X | Support |
| n | Proposals asking companies to respect the rights of local an indigenous communities to participate in decisions affecting their local environment | X | Support |
| o | Proposals asking companies to report on the use of genetically engineered organisms in their products | X | Support |
| p | Proposals asking companies to label products that are genetically engineered to contain genetically engineered products | X | Abstain |
| q | Proposals asking companies to phase out the use of genetically engineered products | X | Abstain |
| **6** | **Workplace Issues – Labor Relations** |  |  |
| a | Proposals for companies to adopt, report on, and agree to independent monitoring of codes of conduct addressing global labor and human rights practices | X | Support |
| b | Proposals for companies to avoid exploitative labor practices, including child labor and forced labor | X | Support |
| c | Proposals for companies to commit to providing safe workplaces | X | Support |
| d | Proposals for companies to adopt codes of conduct and other vendor/supplier standards requiring that foreign suppliers and licensees comply with all applicable laws and/or international standards (such as the International Labor Organization’s core labor standards) regarding wages, benefits, working conditions, child labor, forced labor, etc. Includes proposals requesting compliance with vendor codes of conduct, compliance reporting, and third party monitoring or verification | X | Support |
| e | Proposals asking companies to report on efforts to comply with federal EEO mandates | X | Support |
| f | Proposals calling for legal and regulatory compliance and public reporting related to non-discrimination, affirmative action, workplace health and safety, and labor practices that effect long-term corporate performance | X | Support |
| g | Proposals asking companies to report on its diversity and/or affirmative action programs | X | Support |
| h | Proposals calling for action on equal employment opportunity and anti-discrimination, including in wage and compensation practices | X | Support |
| i | Proposals that seek to eliminate protection already afforded to minority groups | X | Oppose |
| j | Proposals asking companies to report on their progress in meeting recommendations of the Glass Ceiling Commission and to eliminate all vestiges of “glass ceilings” for women and minority employees | X | Support |
| k | Proposals asking companies to include language in EEO statements specifically barring discrimination on the basis of sexual orientation and to report on company initiatives to create a workplace free of discrimination on the basis of sexual orientation | X | Support |
| l | Proposals seeking more careful consideration of the use of racial, gender, or other stereotypes in advertising campaigns, including preparation of a report at reasonable cost to the company | X | Support |
| m | Proposals requesting that companies develop human rights policies and periodic reporting on operations and investments in countries with repressive regimes and/or conflict zones | X | Support |
| n | Proposals regarding a company’s operations in a specific country | X | Case by Case |
| o | Proposals requesting that companies adopt or support reasonable third-party codes of conduct or principles addressing human rights and discrimination | X | Support |
| p | Proposals requesting that companies develop policies and protocols to eliminate bribery and corruption | X | Support |
| q | Proposals calling for reports (“Code of Conduct”) on treatment of workers and protection of human rights in international operations and proposals calling for greater pay equity and fair treatment of workers, improved environmental practices, and stronger community support in offshore operations | X | Support |
| r | Proposals seeking greater disclosure on plant closing criteria, if such information hasn’t been provided by the company | X | Support |
| **7** | **Other Social Issues** | X |  |
| a | Proposals asking pharmaceutical companies to take steps to make drugs more affordable and accessible for the treatment of HIV AIDS, malaria, and other serious diseases affecting poor countries or populations | X | Support |
| b | Proposals asking companies to avoid the unauthorized use of images of racial, ethnic, or indigenous groups on the promotion of their products | X | Support |
| c | Proposals that seek to limit unnecessary animal testing where alternative testing methods are feasible or not required by law | X | Support |
| d | Proposals that ask companies to adopt and/or report on company animal rights standards | X | Support |
| e | Proposals asking companies to publish a report on their product safety policies and procedures | X | Support |
| f | Proposals calling on companies to report on, address and eliminate predatory lending practices | X | Support |
| g | Proposals calling for banks to forgive loans outright | X | Oppose |
| **8** | **Miscellaneous** |  |  |
| a | Any proposal requesting reporting that requires the disclosure of proprietary information that may damage a company’s competitive position |  | Oppose |

**II. Frequency of Updating Security Holdings**

Annually, the Director of Investments or other investment staff will report the list of securities directly owned in the separate accounts. The holdings will be as of the end of the Earlham College fiscal year, June 30th. The list of holdings will be posted to the Earlham website to Community Documents, or its equivalent.

**III. Role of the Investment Staff within the SRI Advisory Committee**

* The investment officer of the College will be an ex-officio member of the SRIAC and will be encouraged to attend all meetings.
* Maintain list of excluded companies. Publish list of excluded companies on Earlham website for Earlham community access.
* Monitor investments (including related mergers and acquisitions) and recommend changes to exclusion list per policy.
* Maintain Procedure Manual. Publish procedure manual on Earlham website for Earlham community access.
* Communicate the procedure manual and any changes to the Board of Trustees and the Foundation Board.
* Vote proxies as per policy and bring exceptions to the committee.
* Publish listing of stocks held, number of shares, and market value as of the end of each fiscal year within three months following the end of the fiscal year on Earlham website for Earlham community access (no later than September 30th, based on June 30 fiscal year end).
* Provide to SRIAC copies of the approved meeting minutes of the Earlham Foundation.
* Provide other investment-related assistance as requested by the SRIAC chair in support of the work of the Committee.

**IV. Role of the Recording Clerk within the SRI Advisory Committee**

* A non-participating recording clerk will attend all meetings and prepare draft minutes of the meetings.
* Provide copies of approved minutes to the Board of Trustees and Foundation Board.
* Publish copies of approved minutes by posting on the Earlham website for Earlham community access.
* Maintain SRI Policy Statement. Publish SRI Policy Statement and any revisions on the Earlham website.
* Assist in creation and distribution of annual summary of activities to Board of Trustees and Foundation Board.
* Provide other administrative assistance requested by the SRIAC chair in support of the work of the Committee.

1. The *Journal of Deferred Compensation* notes that certain mechanisms can bemore effective than excluding companies inproducing change: “The prerogatives of ownership [such as proxy voting, shareholder advocacy, and community development investing], rather than the tool of divestment, are most likely to raise the bar of corporate responsibility for all companies” (Gay and Klaassen, “Retirement Investment, Fiduciary Obligations, and Socially Responsible Investing” p. 36, Summer 2005). [↑](#footnote-ref-1)
2. Equities are shares of stock in publicly traded corporations. [↑](#footnote-ref-2)
3. Fixed income investments are bonds issued by corporations, governments or governmental agencies. [↑](#footnote-ref-3)