Q+A

# QUESTIONS AND ANSWERS FOR FOUNDATIONS ON PROXY VOTING

November 2006

Ceres

## 1. Why should foundations care about proxy voting?

**To align endowment with mission:** In this argument, foundations should take a more holistic view of their endowment to ensure that the principal—and not just the income it generates—supports the foundation's mission, or at least does not undercut it. Thus, a foundation may wish to vote its proxies in ways that reflect its stated values in areas such as the environment. Simply put, it is about foundations using all of their assets to support their mission, not just the 5% they commit annually.

**To reduce or counter social injury:** University and foundation endowments adopting proxy voting guidelines in the 1970s were inspired by The Ethical Investor, published in 1972. The three authors—a law professor and an ethicist at Yale and a religious studies professor at Pennsylvania State University—said that the shareholder "bears responsibility for harm resulting from corporate business practices" given the shareholder's proximity to the corporation and capability to potentially influence it.

**To enhance shareholder value:** Increasingly, investors are viewing the proxy as a tool to prod management to consider or adopt changes that will ensure or protect shareholder value over the long term. Numerous resolutions each year ask companies to institute governance changes or undertake strategic reviews to ensure that their boards and managements are better aware of, and responsive to, potential regulatory, litigation and reputation risks, such as risks related to climate change.

## 2. Are shareholder resolutions on social and environmental issues legally binding?

**No.** Shareholder proposals (including social and environmental ones) are non-binding referendums. Even if it receives majority support, management is under no legal obligation to make the proposed changes.

However, if management ignores a shareholder proposal that receives a majority of votes outstanding or majority of votes cast for two consecutive years, proxy advisory firms will likely recommend withholding votes from all directors. At companies that apply a Majority Vote standard with director resignation policies (an increasing number of companies), a proxy advisory firm recommendation to withhold votes could result in directors getting voted out if enough shareholders withhold votes.

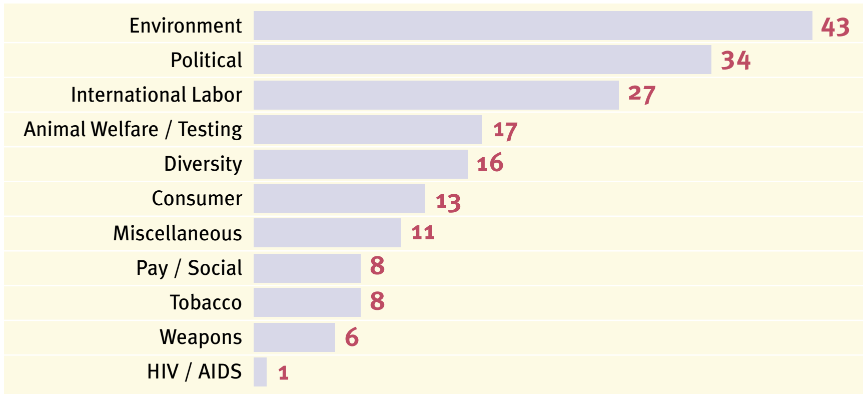
## 3. What were the highlights of the 2006 season? What environmental and social issues are shareholder proposals addressing?

**A total of 183 social and environmental proposals reached the ballot at U.S. companies this year through August 1, 2006.**

Investors are looking with increasing favor on shareholder proposals asking companies to disclose potential liabilities related to global warming, issue broad-based reports on sustainability impacts, monitor their political contributions, or report on their fair employment policies. Two social proposals this season came close to earning majority support despite management opposition: one asking Lear Corp. to ensure that fundamental labor rights are honored in its global operations, and another asking Terex to issue a report on sustainability.

**Top Vote-Getting Proposals on Social and Environmental Issues in 2006**

| Company Name | Proposal | 2006 % Support |
|---|---|---|
| **Amgen Inc.** | Report on political donations and policy | **75.5** |
| **Lear Corp.** | Implement ILO standards and monitoring | **49.8** |
| **Terex Corp.** | Issue sustainability report | **48.4** |
| **Caremark Rx, Inc.** | Report on political donations and policy | **42.1** |
| **Standard Pacific Corp.** | Report on energy efficiency plans | **39.3** |
| **Wendy's International, Inc.** | Issue sustainability report | **38.2** |
| **Home Depot Inc.** | Report on equal employment opportunity | **35.9** |
| **Exxon Mobil Corp.** | Adopt sexual orientation anti-bias policy | **34.6** |
| **Home Depot Inc.** | Report on political donations and policy | **34.0** |
| **Dean Foods Co.** | Issue sustainability report | **33.9** |
| **Expeditors International, Inc.** | Adopt sexual orientation anti-bias policy | **33.6** |
| **Marsh & McLennan** | Report on political donations and policy | **33.2** |
| **CR Bard Inc.** | Implement ILO standards and monitoring | **32.9** |
| **Gilead Sciences, Inc.** | Review pandemics' impact on business strategy | **32.3** |
| **Computer Sciences Corp.** | Commit to/report on board diversity | **31.7** |
| **Synagro Technologies, Inc.** | Report on community hazards | **31.6** |
| **E.I. Du Pont De Nemours & Co.** | Report on toxics phase-out plan | **28.9** |




**2006 Domestic Social and Environmental Proposals**

| Category | No. | % of total |
|---|---|---|
| **Sustainability / Enviro Report** | 15 | 35% |
| **Greenhouse Gas / Climate Change** | 7 | 16% |
| **Energy Efficiency** | 5 | 12% |
| **Timber** | 4 | 9% |
| **Drilling / Sensitive Areas** | 3 | 7% |
| **Miscellaneous Enviro** | 3 | 7% |
| **Nuclear** | 2 | 5% |
| **Toxic Chemicals** | 2 | 5% |
| **Water** | 2 | 5% |

**Total of 43 environmental resolutions voted**

**Environmental Proposals 2006 Voted**
*Results through 10/25/06*

Below is a snapshot of four issue areas—environment, equal employment opportunity, global labor standards, and political contributions—that produced some of the highest votes this season.

**Environment:** Of the 75 environmental proposals that were filed for meetings before June 30, 2006, 43 came to votes. The range of issues is illustrated in the chart above.

One of the highest scoring resolutions was Mercy Investment's first-year proposal asking Synagro, whose sewage-to-fertilizer operations in the Bronx have prompted calls for it to review and reduce its toxic emissions; it received 31.6 percent support. Other reporting proposals included one at Chevron Corp. requesting information on initiatives undertaken by the company to address health and environmental concerns from former oil-related operations of Texaco in Ecuador. Honeywell International, Inc. also received a proposal requesting information on the actions the company has taken to educate the public about the dangers of consuming fish and water from Onondaga Lake. For nearly one hundred years, Onondaga Lake was a dumping site for various local factories, which polluted the lake with chloride, sodium, mercury, and calcium.

In the climate change/renewable energy arena, 29 resolutions were filed. Of these, 15 were withdrawn, signifying in most cases that the corporation committed to address shareholder concerns. Seven were omitted by the SEC, and 7 came to a vote, as of October 1, 2006.

Of note is that the Nathan Cummings Foundation, the Sierra Club, and New England Friends asked four companies for reports on energy efficiency plans. They won 39.3 percent at Standard Pacific, setting a new record for support on that issue, and received 28.7 percent at Bed Bath and Beyond. The third highest vote related to climate change was the 22.6 percent achieved by Trillium Asset Management's resolution asking Dominion Resources to to report on and reduce its greenhouse gas emissions.

| Climate Change Resolution Scorecard – 2006 | |
|---|---|
| Company | Status |
| **Alliant Energy Corp.** | withdrawn |
| **Anadarko Petroleum Corp.** | withdrawn |
| **Bed Bath & Beyond Inc.** (Energy efficiency) | 28.7% |
| **Centex Corp.** (Energy efficiency) | awaiting tally |
| **D.R. Horton, Inc.** (Energy efficiency) | 6.0% |
| **Devon Energy Corp.** | withdrawn |
| **Dominion Resources, Inc.** | 22.6% |
| **Exxon Mobil Corp.** (Report on climate science) | withdrawn |
| (Kyoto compliance plan) | withdrawn |
| (Reduce GHG emissions from products & production) | omitted |
| (Report on / reduce GHG emissions) | withdrawn |
| **Ford Motor Company** (lobbying) | 7.3% |
| **General Motors** (Report on / reduce GHG emissions) | withdrawn |
| (Reduce GHG emissions from products & production) | omitted |
| **Great Plains Energy, Inc.** (Review / report on carbon tax impact) | omitted |
| (Report on / reduce GHG emissions) | withdrawn |
| **Home Depot, Inc.** (Energy efficiency) | withdrawn |
| **Liberty Property Trust** (Energy efficiency) | withdrawn |
| **Lowe's Companies, Inc.** (Energy efficiency) | withdrawn |
| **MGE Energy Inc** | withdrawn |
| **Peabody Energy Corp.** | withdrawn |
| **Sempra Energy** | omitted |
| **Simon Property Group, Inc.** (Energy efficiency) | withdrawn |
| **Standard Pacific Corp.** (Energy efficiency) | 39.3% |
| **The Ryland Group, Inc.** (Energy efficiency) | omitted |
| **Wachovia Corp.** | omitted |
| **Wells Fargo & Company** | omitted |
| **Whole Foods Market, Inc.** | 8.9% |
| **WPS Resources Corp.** | withdrawn |

*Results through 10/1/06*

| 2006 Checklist of Global Warming and Renewable Energy Proposals | | | |
|---|---|---|---|
| Resolutions Filed | Omitted by SEC | Withdrawn* | Voted |
| **29** | **7** (24%) | **15** (52%) | **7** (24%) |

| | |
|---|---|
| **Average Vote:** | **18.8%** |
| **Top Votes:** | **Standard Pacific** (39.3%)<br>**Bed, Bath & Beyond** (28.7%)<br>**Dominion Resources** (22.6%) |

* This typically means the company has agreed to take steps to address the issue/concern.
*Results through 10/1/06.*

**Equal Employment:** Five proposals came to a vote concerning non-discrimination on the basis of sexual orientation or sexual identity, all of which earned double-digit support. The resolution asking ExxonMobil to amend its non-discrimination policy to include sexual orientation received 34.6 percent support, the highest vote ever for this topic at the company. The same proposal also fared well at Expeditors International (33.6 percent support), Amsouth (28.0 percent), and Leggett & Platt (24.7 percent). In addition, the New York City pension funds asked Robert Half International to implement the Equality Principles, a 10-point set of guidelines to bar workplace discrimination on the basis of sexual orientation and sexual identity; that proposal earned 18.7 percent support in its first appearance before company investors.

Investors also supported, as they have in past years, proposals asking companies to report on their equal opportunity employment policies with regard to women and racial minorities. At Home Depot, a second-year proposal on this topic, prompted by the company's reversal of a 2001 decision to provide statistical data to shareholders on its work force by race and sex, won 35.9 percent, up nearly six percentage points from 2005. At Lockheed Martin, a similar first-time proposal from religious investors won 25.1 percent. The Equal Employment Opportunity Commission filed suit against the company in 2005 alleging race discrimination.

**Global Labor Standards:** Four of the 13 proposals that came to a vote asking companies to report on, improve, or monitor the labor standards in their global operations won double-digit support. The top vote-getter by far—winning 49.8 percent support—was the New York City pension funds' proposal to Lear. It asked the company to develop and monitor a code of conduct for its operations and suppliers based on the eight core conventions of the International Labor Organization and the U.N. Norms for Transnational Corporations. The same proposal from New York won 32.9 percent support at C.R. Bard, where the company acknowledged it did not have a labor code for its suppliers, and 25.4 percent at Bed Bath & Beyond. As You Sow's request that Time Warner report on its vendors' labor standards also won 26.5 percent.

**Political Contributions:** The broad-based shareholder campaign to get companies to provide information on political contributions continued into a third year. As in the past, most proponents, following a template developed by the Center for Political Accountability, a Washington think tank, asked for a listing of contributions made with corporate funds, the corporate policy on contributions, and the name of the decision-makers. Some of the proposals, for the first time, also asked for a reporting of dues paid to trade associations.

Twenty-nine of these proposals came to a vote through June; the primary filers were labor unions, religious investors, and SRI funds. With only four exceptions, all received support of 10 percent or more, and all but two earned enough support for resubmission. The top scorer—with 75.5 percent—was Green Century's proposal at Amgen, where management recommended a vote in favor. Other high votes came at

Amsouth, Caremark, Home Depot, JPMorgan Chase, Marsh & McLennan, Charles Schwab, St. Paul Travelers, Union Pacific, Verizon Communications, Washington Mutual, and Wyeth.

## 4. What legal issues should I consider when voting proxies? Are foundations required to vote proxies?

**Nonprofit corporations generally are governed by the "prudent investor rule,"** which requires directors to manage investments so as not to jeopardize the fund's safety or the adequacy of its return. Many jurisdictions have adopted the Uniform Management of Institutional Funds Act, which sets a "business care" standard for nonprofit corporate funds. Under the business care rule, directors may consider social and financial factors equally when making investment decisions.

With respect to proxy voting, guidance comes from the Employee Retirement Income Security Act. A 1988 interpretative bulletin from the Department of Labor states, "the fiduciary act of managing plan assets which are shares of corporate stock... includes the voting of proxies appurtenant to those shares of stock." Shareholders' voting power, in other words, is part of the value of holding the asset—and exercising that voting power is part of being a prudent fiduciary.

A 1994 interpretative bulletin went further, stating that shareholder activism itself is consistent with a fiduciary's obligations where "there is a reasonable expectation that such monitoring or communication with management... is likely to enhance the value of the plan's investment in the corporation, after taking into account the costs involved." Monitoring a "company's long-term business plan" and its "financial and non-financial measures of corporate performance" are types of shareholder activism cited that are consistent with this fiduciary obligation.

The Securities and Exchange Commission recently issued proxy voting disclosure rules for mutual funds on the basis that it would "discourage voting that is inconsistent with fund shareholders' best interests." In its 2003 rulemaking, the SEC highlighted proxy voting guidelines on "social and corporate responsibility issues" as one of four types of proposals that would be "appropriate" for guideline development and disclosure.

While none of these proxy voting rules are directed explictly at foundations, the guidance is clear: Fiduciary prudence urges the development of proxy voting guidelines and voting execution strategies on issues that may affect the fund's investment return and (under the business care standard) address its mission as well.

### Requirements for Types of Investment

**Investment Managers:** Registered investment advisors managing money for foundations are required to vote proxies according to established policies. The Securities and Exchange Commission requires "registered management investment companies to provide disclosure about how they vote proxies relating to portfolio securities they hold. These amendments require registered management investment companies to disclose the policies and procedures that they use to determine how to vote proxies relating to portfolio securities. The amendments also require registered investment management companies to file with the Commission and to make available to shareholders the specific proxy votes that they cast in shareholder meetings of issuers of portfolio securities."

*Primary Source: http://www.sec.gov/rules/final/33-8188.htm*

**Alternative or Direct Investments by Foundations:** Foundations that manage assets internally are not subject to the above SEC requirements. Hedge funds are not required to vote proxies under the above provision at this time.

**Pension Funds:** Public pension funds in the United States are not subject to SEC oversight for proxy voting. However, public pension funds (as well as foundations) function as fiduciaries and manage their responsibilities in accordance with the twin duties of "loyalty and care." The duty of loyalty requires the board and other fiduciaries to act solely in the interest of members and beneficiaries. Under the duty of care, the board and other fiduciaries must manage fund assets as a "prudent investor." Essentially, this requires the exercise of care, skill and diligence that a prudent person, familiar with the matters, would exercise.

*Primary Source: http://www.calpers-governance.org/principles/global/globalvoting.pdf*

## 5. How do most foundations address proxy voting currently? What is the trend?

By default most money managers routinely vote foundation assets in support of corporate managements and against shareholder resolutions of environmental and social import. As Ceres noted in a report released early this year, *Unexamined Risk: How Mutual Funds Vote on Climate Change Shareholder Resolutions*, the top 100 U.S. mutual funds did not support any climate change shareholder resolutions at 2005 corporate annual meetings.

Some proxy voting advisory firms have seen a significant spike recently in interest among foundations that are considering taking ownership of proxy voting for the first time. Based on information from Institutional Shareholder Services (ISS) and what we have gleaned from the market, we estimate that approximately 100 foundations are publicly or privately involved in proxy voting in some capacity, with at least ten of these foundations starting to do proxy voting in the past year.

Foundations that have publicly disclosed involvement in proxy voting include:

- Boston Foundation
- Christopher Reynolds Foundation
- Conservation Land Trust
- Educational Foundation of America
- Ford Foundation
- Funding Exchange
- Haymarket People's Fund
- Jennifer Altman Foundation
- Jessie Smith Noyes Foundation
- Lemmon Foundation
- Max and Anna Levinson Foundation
- Nathan Cummings Foundation
- Needmor Fund
- Rockefeller Brothers Fund
- Rockefeller Family Fund
- Rockefeller Foundation
- Rockefeller Philanthropic Advisors
- Shefa Fund
- Tides Foundation
- William Bingham Foundation

A chronicle of the nation's 50 wealthiest private foundations shows that 30 foundations ask their money managers to make all decisions about proxy voting. An additional nine refused to comment on their investment policies at all. (Source: "Meshing Proxy With Mission", Chronicle of Philanthropy, 5/4/06.) According to proxy voting consultants working in this arena, only one of the largest 50 foundations has publicly disclosed that they engage in proxy voting (the Ford Foundation).

## 6. What are the options for foundations to vote proxies?

**Option #1 – Manual voting:** Foundations that manage investments internally through an investment adviser will most likely receive paper ballots in the mail. Foundations can elect to vote individual ballots for no charge through www.proxyvote.com by entering the control number. This is a free service managed through Automatic Data Processing Inc. (ADP). This service does not provide any recordkeeping function nor does it provide any confirmation results.

Another approach for foundations voting ballots internally is through a subscription to ADP's web-based proxy voting platform (Proxy Edge). There is a fee charged for each ballot by ADP. This service provides recordkeeping functions but does not integrate investment research through the platform. This platform also does not facilitate proxy voting by guidelines in an automated fashion.

For any foundation with more than 100 positions / securities, option #1 is not likely to be a practical solution.

**Option #2 – Delegating voting authority to investment managers without providing guidance:** In the absence of any client guidance, and providing the vast majority of investment managers vote with management (and against environmental and social shareholder proposals)—thereby sending a signal to management that may be contrary to the foundation's grantmaking guidelines and mission.

**Option #3 – Delegating voting authority to investment managers with selective guidance:** A foundation can ask its investment manager to vote in certain ways on one or more issues around with the foundation has reached an internal consensus—asking, for example, that the foundation's account vote in support of climate change resolutions in every case. This does require additional work for investment managers. However, the voting process is likely fully automated for the investment manager and it is relatively easy to carve out exceptions to voting with management on a case by case basis. In addition, foundations may have more leverage with investment managers than they think. Public pension funds, for example, have recognized their power and influence in the market and require—most often for no additional fee—that the investment manager vote in accordance with their specific policies. Foundations can try a similar approach, though few have attempted to take advantage of this opportunity. In the case of voting for commingled accounts, split-voting is possible, but would likely require modest fees to execute on a foundation's behalf.

**Option #4 – Outsourcing proxy voting following comprehensive guidelines:** Foundations can reach internal agreement on comprehensive guidelines (potentially with the help of a consultant or proxy advisory firm) and then outsource voting to a proxy advisory firm. Guidelines can be set up for what is called "mandatory sign off," where a foundation officer would review all key votes, or a foundation could vote automatically according to the guidelines. This approach of automating the voting based on custom or standard policy guidelines is known as "implied consent," and as in option #1, the foundation retains control of proxy voting.

### Recent Enhancements – Enabling Automation, Reducing Costs

It is only a recent development that proxy advisory services can offer foundations full end-to-end outsourced solutions that can automate the proxy voting process. This was not the case 24 months ago when foundations needed to be actively involved in voting the proxies, since automation was challenging. The enhancements in technology have driven down costs considerably and enable foundations to automate the proxy voting process internally at a cost that is typically $10,000 to $25,000 per year.

## 7. How much effort and time are required for outsourcing proxy voting?

**The most time intensive process is reaching consensus on proxy voting guidelines.** Once this hurdle is cleared, about 10 to 15 hours are required for the set up process. Proxy voting firms can provide the forms necessary to steer the ballots directly from your custodian to the firm.

Clients can then elect to become as involved as they wish. Report generation, alerts, and all aspects of proxy voting can be automated based on clients' guidelines.

The onboarding/setup process generally takes between 6 and 8 weeks.

## 8. Can voting be 'split' for commingled funds?

**Yes.** Foundation clients in commingled funds can chose to split the voting for commingled accounts. The process requires more lead time than usual because of the extra effort required. Most investment managers, if asked, will find a way to accommodate this on behalf of their foundation clients.

## 9. What are the costs?

**Pricing is based on the number and types of securities held by the foundation.** According to proxy voting advisor ISS, the annual fee for a foundation ranges from $5,000 to $75,000. A mid-sized foundation can typically automate and outsource proxy voting for between $15,000 and $25,000 per year.

The costs for voting proxies is between $2 and $6 a ballot, depending on the volume and the market. Other fees include a proxy voting platform fee, a per report fee for research services, a subscription fee to research services, and a fee for custom policy development and set up. The fees are also based on the complexity of the account environment.

Clients can also elect to phase in proxy voting and split voting responsibilities internally and among external managers. Proxy voting is managed by account, so it is not necessary to vote all proxies internally immediately.

## 10. What are case studies of foundations engaged in proxy voting?

### Nathan Cummings Foundation

The Nathan Cummings Foundation (NCF) is a leader among foundations in the arena of shareholder activism. It is the first foundation to have filed shareholder resolutions related to global warming, and has filed a number of resolutions over the past several years that have influenced companies to make commitments and change policies. In 2006, NCF filed a resolution at Standard Pacific, a home construction company, requesting it to assess and report on its energy efficiency performance, that resulted in one of the highest votes ever related to climate change: 39%. Among other 2006 resolutions, NCF played leadership roles in resolutions at The Home Depot, Lowe's, and Simon Property Group, which collectively manage 500 million square feet of building space. NCF withdrew these resolutions when the companies agreed to disclose information on green/renewable power consumption, energy efficiency policies, facility operations related to energy efficiency, and company views on greenhouse gas emissions. Home Depot also agreed to discuss targets for renewable energy usage and reducing greenhouse gas emissions.

*Source: The Nathan Cummings Foundation and David Gardiner & Associates.*

### Boston Foundation

The Boston Foundation Board of Directors decided that adopting an overarching policy that spelled out and supported the foundation's values would be more effective than debating discrete issues one by one. It identified four areas in which it would actively vote its proxies: corporate governance; the environment; community well-being and citizenship; and diversity and equity.

*Source: "What Works, The Other 95 Percent: How a community foundation uses proxy voting to advance its mission." Winter 2005 issue of the* Stanford Social Innovation Review*, p.63.), http://www.ssireview.com/pdf/2005WI_Whatworks_Proxyvoting.pdf*

### Educational Foundation of America

Educational Foundation of America has been providing critical leadership, going beyond proxy voting to take the initiative to serve as a primary filer of shareholder resolutions and engaging companies in dialogue on a number of issues. The Foundation's investment policy can be found at: http://www.efaw.org/Responsible%20Investments.htm.

### Rockefeller Philanthropy Advisors

Rockefeller Philanthropy Advisors (RPA) is one of the pioneers in foundation proxy voting. RPA began as a private service for members of the Rockefeller family and has since grown into one of the largest philanthropic advisory services in the world. In 2004, RPA published a white paper on foundation proxy voting entitled *Unlocking the Power of the Proxy: How Active Foundation Proxy Voting Can Protect Endowments and Boost Philanthropic Missions*. In both 2005 and 2006, RPA also wrote a *Proxy Season Preview*, which provides a recap of the previous year's voting and concise descriptions about the shareholder resolutions that have been filed at major corporations. More information can be found at http://www.rockpa.org.

### Skoll Foundation

As a forward thinking foundation with a focus on social entrepreneurship and innovation, the Skoll Foundation is playing a leadership role in aligning assets with mission. In addition to moving into proxy voting and encouraging other foundations to consider doing the same, the foundation brings a special expertise in proactive investment in ventures that are seeking to part of the solution to sustainability challenges.

### Rockefeller Brothers Fund (RBF)

*From* Foundation News & Commentary, *November / December 2005. www.foundationnews.org, William F. McCalpin, executive vice president and chief operating officer of the New York City-based Rockefeller Brothers Fund (www.rbf.org).*

"Most foundations would probably prefer to vote shareowner proxy ballots in ways that support their values and mission statements. Despite this, few do. The limiting factor is often time, not lack of interest. In the competition with other priorities, the task of crafting policies and procedures for casting proxy votes never seems to rise to the top of the to-do list.

"…Such was the situation at the Rockefeller Brothers Fund, until late 2003, when a trustee self-assessment conversation elevated the importance of how the foundation voted its proxies. What followed was a collaborative internal process that ultimately produced guidelines and procedures for proxy voting. It involved trustees, members of the foundation's investment committee, senior management and investment personnel.

"RBF determined that it was important to have its own guidelines for casting shareowner votes for three principal reasons. First, the voting rights that attach to common stock ownership are economic assets of the foundation. Conscientious financial stewardship demands that those rights, like all other foundation economic assets, be managed in a deliberate and thoughtful manner. Guidelines that are used consistently to inform voting serve to accomplish that goal.

"Second, RBF is an institution with a social mission, namely to help build a more just, sustainable and peaceful world. The fund aspires to pursue that mission in all aspects of its operations. Shareowner voting enables the foundation to take positions that advance its mission.

"Finally, one of the foundation's core grantmaking programs—Democratic Practice—aims to strengthen the democratic governance of important institutions in society. Voting rights give shareowners the opportunity—and the responsibility—to participate in the governance of publicly owned corporations. If shareowners engage actively with that responsibility, the structures of corporate governance are likely to be strengthened, and the prospects for long-term financial performance may very well be improved.

"We also chose to express each voting preference in black-and-white, "vote for/vote against" language. We did so despite recognizing that on many issues that appear on proxy ballots, a more nuanced, case-by-case approach might be the better way to go. The desired outcome was a clear statement of preferred positions, in part because we wanted to lessen the amount of fund staff time that would need to be committed on an ongoing basis to proxy voting.

"**Implementation** We considered different options for how RBF might use its new guidelines. We could give them to the fund's domestic equity managers and instruct them to vote according to the preferred policy positions. Alternatively, we could ask the managers to direct all ballots to RBF and shift responsibility for voting inhouse. Or, we could engage a third-party service provider to cast all votes in line with the guidelines. For a variety of reasons, we chose [an outsourced solution]. We wanted to limit the amount of time that staff would be required to devote to proxy voting. We also saw numerous advantages in having just one source to look to for information and analysis about the fund's voting experience.

"We solicited proposals for voting agent services from Institutional Shareholder Services (ISS) and Glass-Lewis. Both are excellent firms. After careful consideration, we chose to work with ISS. The service that RBF purchased adds $17,000 to the annual cost of managing the fund's $750 million portfolio. We think that the extra expense of less than one basis point on the $260 million to which proxy voting applies is a reasonable price to pay for a more organized and coherent approach to exercising the fund's voting responsibilities.

**Striving for Greater Alignment** The special initiative on proxy voting has enabled Rockefeller Brothers Fund to align one aspect of its investment management operations with the foundation's mission. Reaching this satisfying outcome has sparked discussion about other areas where this same result could be achieved. The trustee-staff working group is now turning its attention to those emerging possibilities.

## **11.** What are common myths and misperceptions?

**MYTH:** *Costs are prohibitive.*

**REALITY:** Conducting proxy voting internally costs as much and takes as much time (on average) as making a typical foundation grant.

**MYTH:** *I am invested in a commingled account and can't vote proxies according to my unique positions/guidelines.*

**REALITY:** In most cases, foundations can carve out split voting instructions for commingled accounts.

**MYTH:** *It will take a full-time staff member to implement an end-to-end proxy voting solution.*

**REALITY:** It takes on average 10 to 15 hours of work for the set up process. Once the proxy voting guidelines are in place, voting can be fully automated and reports can be automatically scheduled and delivered via email. Clients do not need to review each company or ballot.

**MYTH:** *I need to decide how to vote on every contentious issue.*

**REALITY:** Foundations can elect to vote with management, or according to their investment managers guidelines on routine or corporate governance issues, and can vote according to their own guidelines on areas that the foundation has identified as priority issue areas.

**MYTH:** *My investment managers will vote according to our foundation's mission automatically.*

**REALITY:** Most investment managers vote with management on most issues.

**MYTH:** *My proxy voting decisions will be made public.*

**REALITY:** Foundations are not required to disclose their proxy voting guidelines or voting results. Many contracts with proxy advisory firms have confidentiality provisions.

**About Ceres**

Ceres is a national coalition of investment funds, environmental organizations, and other public interest groups. Founded in 1989, Ceres brings together the sustainability and corporate governance movements to improve corporate and public policies on climate change and other social, environmental and governance issues. Ceres launched the Global Reporting Initiative (GRI) with the United Nations Environment Programme and currently directs the Investor Network on Climate Risk (INCR).
INCR includes more than 50 investor members with assets of $3.7 trillion. The network was launched at the Institutional Investor Summit on Climate Risk at United Nations Headquarters in 2003. The purpose of INCR is to promote better understanding of the risks of climate change among institutional investors.

**For more information, contact:**
Chris Fox
Director of Investor Programs
Ceres, Inc.
99 Chauncy St., 6th Floor • Boston, MA 02111
fox@ceres.org
617-247-0700

**www.ceres.org**
**www.incr.com**

Ceres