



NORTHSTAR

ASSET MANAGEMENT

Progressive Wealth
Management Since 1990

Annual Proxy Voting & Shareholder Activism Report

| 2015 |

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I. INTRODUCTION

Every year shareholders are asked to vote on a range of issues from approving the Board of Directors slate and executive compensation packages to shaping policies that ensure fair labor practices and combat global warming. The rights of shareholders allow shareowners to bring pertinent issues to the proxy ballot for a vote. The majority of these resolutions raise social, environmental, and corporate governance concerns in an effort to encourage more responsible corporate practices.

To influence a corporation's behavior, shareholder activists employ two general tactics: negotiating directly with the company, and submitting shareholder proposals. Engagement with corporations often begins with conversations on a particular topic. If these dialogues are fruitless, activists take their engagement to the next level: asking the shareholders themselves to affirm the importance of the issue. With the intention of eliciting policy changes from company

management, activists file shareholder proposals, meeting specific Securities and Exchange Commission (SEC) guidelines, which are then voted on by shareholders at the company's annual shareholder meeting. Exercising shareholder voting power is a critical way to shape corporate decision-making.

NorthStar considers it one of our fiduciary duties to engage with the companies in which we invest to improve the company's standing on such issues as human rights, the environment, diversity, employee relations, immigration, and lesbian, gay, bisexual, and transgender (LGBT) equality. Raising awareness among corporate management with the goal of ultimately changing how companies approach their business and responsibilities is a key piece of shareholder activism.

NorthStar begins by strategizing which social problem to target and which company would be the best place to bring our perspective forward. We analyze all the data we can get our hands on and make groundbreaking connections between social, ecological, or political issues and company behavior.

SHAREHOLDERS' RIGHTS

The Securities and Exchange Commission (SEC) rules allow any shareholder who has owned \$2,000 worth of a stock for a full year the right to present a resolution to the company's shareholders. Nonprofit activist groups, pension funds, religious groups, socially responsible investment companies and individuals, by virtue of owning shares of stock in the company, can submit shareholder resolutions.

SEC rules protect the shareholders' right to bring important issues to the attention of any publicly traded company. However, the SEC also restricts what a shareholder resolution can ask a company to do. Shareholders are allowed to address corporate policy issues but are not allowed to get involved in the specifics of managements' operations of the firm ("ordinary business"). Shareholder concerns about the details of the firm's operations are disallowed by the SEC unless they can demonstrate that the behavior is an issue due to a larger social or public policy concern. This is why many resolutions appear to be relatively

inconsequential in relation to the gravity of the social issue presented. Even so, when shareholders communicate their concerns to the companies they own, they exercise ownership responsibility – one of their most important avenues of holding companies more accountable. Shareholder proposals create lasting change. Examples abound, such as the current "say on pay" advisory votes (now required by the SEC at all U.S. publically traded corporations), EEO policies that once (but no longer) omitted LGBT individuals' right to equal employment, and the many corporate officials that are finally taking steps to reverse their companies' effects on the climate. Expressing our social as well as financial goals makes the market more democratic and responsive to societal concerns.

According to SEC rules, a specific resolution must receive 3% of the vote in the first year it is filed, 6% in the second, and 10% thereafter to be included on the proxy the following year. Each vote cast helps to ensure that these issues will be brought to the attention of the management and other shareholders in future years.

SPECIAL NOTES:

A note regarding companies described in this book which are not on NorthStar's "buy list": There are times when stocks not on NorthStar's buy list are held in client accounts for reasons specific to the client.

NorthStar regularly examines each of these positions in light of the criteria that NorthStar uses to select securities for the buy list. NorthStar votes the proxies of all common stock held in clients' accounts. When possible, we engage with these companies in an attempt to bring problematic behavior to light.

Companies that fall into this category have been italicized throughout the text of this document.

Additionally, please note that sections II-VIII summarize NorthStar's proxy voting policy and votes for resolutions sponsored by NorthStar and others, including securities held by NorthStar's clients encompassing discretionary and non-discretionary equity holdings. In some instances, extracts of shareholder resolutions have been used as supporting

statements. Resolutions in their entirety can be viewed online at the SEC website sec.gov by company.

II. CREATING CHANGE

NorthStar filed ten resolutions on a range of issues for the 2015 shareholder season, including two proposals where we were co-filers with other shareholder activists. NorthStar also engaged with six corporations, primarily on the issue of board diversity, outside of the proxy process. This year, no corporations challenged our proposals at the Securities and Exchange Commission. After significant negotiation with **Home Depot** and **Whole Foods Market** we were able to withdraw our resolutions when each company agreed to comply with our request. We also had successful negotiations with **EMC Corporation, IDEX Corporation** (as a co-filer), **IDEXX Laboratories, Intel Corporation, Stryker,** and **WhiteWave Foods** that did not involve filing shareholder proposals. See the conversation on page 7 regarding board diversity for details on those successes.

At the remaining companies -- **Aqua America, Chubb** (as a co-filer), **CVS Health, Facebook, FedEx, Google**

(now known as **Alphabet**),¹ **Johnson & Johnson** and **Western Union** -- our proposal was printed in the company proxy booklet, without contention from the company, allowing shareholders to weigh in important topics.

Details on the proposals that NorthStar filed are found within each section of this booklet.

¹ In late 2015, Google formed a parent company named Alphabet. For the purposes of consistency and given that the company's legal name was Google during the time the below votes took place, this company will be referred to as "Google" for this year's proxy report and will be called "Alphabet" beginning with our 2016 report.

III. RACE AND GENDER

At NorthStar, issues of race and gender pervade our thinking on a variety of proxy voting and shareholder activism topics. As shareholder activists seeking to measurably effect change, we pursue creative solutions to real problems. From selection of the board of directors to how companies spend their political contribution dollars, race and gender proliferate these corporate governance issues.

BOARD DIVERSITY

Here are some startling statistics: though it's now the year 2016, a full 5% of the *Fortune 500* still have all-male boards, while 28% have just one female board member². Furthermore, of the *Fortune 500*: a mere 7.4% of board seats are held by black board members, while Hispanics hold only 3.3%. According to research in mid-2015, "out of 189 directors at the major tech companies, only 4 (1.6%) are black and 1 (.5%) is

² <http://fortune.com/2015/01/16/fortune-500-companies-with-all-male-boards/>

Hispanic."³ Apple made big news this past October when it *finally* added a black person to its board of directors. As of the writing of this document, Facebook and Google have zero black and zero Hispanic individuals on each firm's boards of directors.

For most of us, the details and logistics of filling the board of directors at corporations remain opaque. It turns out that the vast majority of open board seats are filled when a company or recruitment firm searches for new board candidates *using existing boards of directors as the primary candidate pool*. If only about 13% of existing board members in *Fortune 500* companies are minorities,⁴ then the likelihood of selection of a minority board member to a new pool of candidates looks slim.

For 2015, NorthStar engaged with six companies regarding board diversity – **EMC Corporation, Home Depot, IDEXX Laboratories, Intel Corporation, Stryker,**

³ <http://motherboard.vice.com/read/the-loud-fight-against-silicon-valleys-quiet-racism>

⁴ http://theabd.org/ABD_Fact_Sheet_Final.pdf

and **Whole Foods Market**. For each corporation, we successfully negotiated the addition of concrete language which commits the company to including women and minority board candidates in **each** board search. While the exact wording varies by company, the language adopted by **Whole Foods** is a prime example of this success:

The Company is committed to a policy of inclusiveness, and as such, in performing its responsibilities to review director candidates and recommend candidates to the Board for election, the Nominating and Governance Committee should:

- *Ensure that candidates with a diversity of ethnicity and gender are included in each pool of candidates from which Board nominees are chosen;*
- *Seek diverse candidates by ensuring director searches include nominees from both non-executive corporate positions and non-traditional environments; and*

- *Review periodically the composition of the Board to ensure it reflects the knowledge, experience, skills, and diversity required for the Board to fulfill its duties.*

We hope that by committing corporations to take diversity into account in their board (and high-level management as of the 2015-2016 proxy season) searches, several trickle-down effects will occur over time: management and boards of directors will begin to reflect more an appropriate level of gender and minority diversity; companies will be required to push back against the major recruitment firms which (corporations have told us) mainly provide white male candidates to corporate board searches; companies and recruitment firms will begin looking for board members in different places – not simply recommending CEOs of other companies, but also other managers who come from diverse backgrounds and offer excellent range in points of view. And, of course, we hope that expanding the visibility of minorities and women in corporate boards will help

make progress in the overall issue of poor diversity in corporate management.

VOTING FOR BOARDS OF DIRECTORS

One of the most pervasive myths in corporate America is that shareholders actually elect the Board of Directors. In fact, a committee of the sitting Board of Directors nominates the candidates for any open board seats. Nominees are generally cohorts of the current board members – other CEOs, top managers, lawyers, etc. – creating an “old boys’ network” with all the inherent problems exemplified by the likes of Enron, WorldCom, Sprint, and Tyco. As in any election, a director must win more votes than any other candidate, however directors always run unopposed; because most companies use a “plurality voting standard” (in which an unopposed director only needs to garner one “yes” vote to win a seat on the board), the candidates nominated by the existing board are essentially guaranteed their board seats.

At NorthStar, we take the responsibility of voting for

the board extremely seriously. We evaluate the board slates in many ways:

1. **Is the *entire* board slate up for election each year?** Alternately, is it an undemocratic, staggered election? If the board is undergoing a declassification process (which takes several years), we will approve a partial board slate, assuming it meets our other criteria.
2. **Are the voices of women and minorities present on the board of directors?** NorthStar will only approve an entire board slate which shows a representation of 30% women and 30% minorities. If diversity is an issue, NorthStar will vote against non-diverse board members and evaluate diverse members for individual approval.
3. **Is the company moving in a positive direction for all of its stakeholders (shareholders, employees, communities)?**

4. **Are there sufficient and appropriate “outside” board members?** Are there board members with no business or personal ties to the company or its top executives?
5. **Lastly, is the board sufficiently diverse in expertise, and what is the makeup of the board committees?** For example, are there non-CEO executives on the compensation committee? Does the board have a wide range of experts – individuals with expertise ranging from financial to marketing to industry-specific issues? Or does it appear that the board members are all serving on each others’ boards (an “old boys’ club”)?

If we can answer each of the above **bolded** questions affirmatively, we will vote for the board slate. If not, we will withhold our vote—that is, vote against the board slate. Where diversity is the issue, we will vote for the women and minority candidates if they are outside board members and if we are satisfied with their individual qualifications.

BOARD COMPOSITION AND CEO PLANNING

There were many different proposals this year that focused on issues of board composition or CEO succession planning. In addition to being governance issues, we consider board composition and CEO planning to be issues of race and gender as well due to the board’s influence over both upper management and their own board composition. One proposal we’ve seen innumerable times in the past is the request to separate the CEO and chairman of the board. The primary purpose of the board of directors is to protect shareholder interests by providing independent oversight of company management and the CEO. When the chairman of the board and the chief executive of the company are the same person, independence is impossible. The board is responsible for defining the strategic direction of the company and to address complex policy issues facing the company. A board chairman who is unencumbered by the day-to-day running of the company will better serve the company.

Several other board-related resolutions have cropped up this year. They include a request that the board chairman be an independent director (entirely unaffiliated with the company), to disallow the service on key committees of board members receiving more than 20% vote against them at the annual meeting, a desire for limitations upon directors involved in bankruptcy, requests to declassify the board (so that shareholders vote on the entire board slate each year), and a proposal for the ability to remove a director with or without cause. We supported these resolutions at ***Abbott Laboratories, Apache, Chevron, Costco, Cummins, Ecolab, EMC, Express Scripts, Exxon Mobil, FedEx, General Electric, Google, Home Depot, Intel Corporation, Johnson & Johnson, Monsanto, Omnicom, Praxair, Staples, Starbucks, United Health Group, Union Pacific Corporation, Wal-Mart, Walt Disney Company, and Wells Fargo.***

OTHER BOARD ISSUES

Because the election of the board of directors is such a vitally important issue, and because race and gender

are top priorities at NorthStar, we consider any board-related issues to be race and gender issues as well. From time to time, the company will put forward a proposal asking shareholders to allow the board to make changes to company charters, except as explicitly denied by the SEC. We believe that these actions would place undue power in the hands of boards which may be hand-picked and acting at the direction of management. We oppose the assignment of these shareholder's rights to the board or management.

Alternately, we've begun to see the fruits of shareholder activists' labor paying off in the company-sponsored proposals. At many companies, we've found proposals such as an "amendment . . . to allow stockholder action by majority written consent," "to declassify the board," (to move the board from a staggered election of different classes to a system where the entire board is reelected every year), "allow proxy access" (wherein shareholders of a certain stature can nominate board members), and "require annual election of all directors." After careful review

and consideration, to ensure that they are actually representative of what shareholders would want, we have supported these proposals. We supported proposals by management at the following companies: ***Bristol-Meyers Squibb, Cloud Peak Energy, Comcast, Costco, and Parker-Hannifin.***

CORPORATE POLITICAL CONTRIBUTIONS

In 2010, the Supreme Court made a historic decision that essentially further expanded the “personhood” of corporations by declaring that companies should also have the right to the freedom of political speech. In the crucial *Citizens United vs. Federal Election Commission* case, it was determined that the First Amendment prohibited the federal government from restricting electioneering communication expenditures by corporations and unions, which has allowed for greater breadth of corporate political spending. Federal law still restricts how much individuals and organizations may contribute to political campaigns, political parties, and other FEC-regulated

organizations, but companies are now permitted to spend unlimited company (i.e. shareholder) money on “electioneering communications,” without a requirement to disclose these expenditures.

As fiduciaries of our clients’ assets, NorthStar needs to feel confident in the manner in which companies spend their stockholders’ investments, and feel comfortable that the company has taken the time and appropriate resources to assess (and protect against) the risks of engaging in the political realm. Nearly all companies on the NorthStar buy list have nondiscrimination policies in place (and for those that don’t, we will certainly be engaging soon), protecting employees from discrimination on a wide swath of traits including gender, race, ethnicity, sexual orientation, and gender identity and expression. We firmly believe that companies should be highly aware of what their political contribution dollars are going to support: are they supporting politicians who want to undermine equal marriage, despite the company’s support of LGBT rights? Is the company inadvertently giving funds to candidates that have racist views? Will

the company alienate its customer base when a contribution to an outspoken anti-transgender activist is revealed?

To combat racial and gender issues in political contributions, NorthStar put forward a proposal at three companies, **CVS Health**, **FedEx**, and **Johnson & Johnson**, entitled “Congruency between Corporate Values and Political Contributions.” Our proposal is two pronged: first, we described for the company the ways in which the political contributions of the company and its PAC have been misaligned with the company’s policies and values (such as the company’s EEO policy and/or environmental policies). Secondly, we requested that the company evaluate and report on recipients of company and company political action committee (PAC) funds in contrast to company values and policies, with a rationale for any incongruent contributions.

NorthStar was the first firm to file a shareholder resolution putting forward the idea that a company’s political contributions should match the company’s

values. Our proposal went up for a vote at each company in 2015, receiving votes noted in parentheses: **CVS Health** (5%), **FedEx** (3%), and **Johnson & Johnson** (4.6%).

GENDER PAY GAP

The Center for American Progress reports that although women currently represent 50.8% of the American population, they are only 14.6% of executive offices, 4.6% of *Fortune 500* CEO slots, and a mere 16.9% of *Fortune 500* board seats. These sad statistics are despite the fact that women get almost half of the medical and law degrees, 60% of all master’s degrees, and 37% of MBAs. Clearly, employment and advancement barriers persist.

Several shareholder proposals were voted on this year specifically regarding women, advancement, and pay. At **Exxon Mobil**, we supported proposals regarding reporting on compensation for women, as well as a request for establishment of a quota on women on the board (currently, only 2 board members are female).

We also supported a proposal at **eBay** which requested a report that “would include the percentage pay gap between male and female employees, policies to improve performance, and quantitative reduction targets.”

IV. ECONOMIC INEQUALITY

According to a 2016 report by the Institute for Policy Studies, “America’s 20 wealthiest people . . . now own more wealth than the bottom half of the American population combined, a total of 152 million people in 57 million households” and that “the median American family has a net worth of \$81,000, [while] the Forbes 400 own more wealth than 36 million of these typical American families.”⁵ As active investors and a firm that fervently believes that we (as individuals with privilege) have a responsibility to close the inequality gap, we seek out creative ways to solve these social problems. In addition to directly addressing pay disparities through shareholder Say on Pay resolutions, NorthStar also recognizes that maintaining or increasing shareholder rights creates leverage that shareholders can use to push back against management’s promotion of systemic inequities. NorthStar also believes that addressing equality issues starts with board diversity and diversity in senior management. Finally, we work to reduce

⁵ <http://www.ips-dc.org/billionaire-bonanza/>

instances of political contributions directed to candidates holding positions at odds with corporate values of diversity and (economic) equality.

EXECUTIVE COMPENSATION PACKAGES

For many years, NorthStar and our shareholder advocate colleagues filed “Say on Pay” resolutions at corporations of all sizes and sectors. Shareholders repeatedly illustrated their support for “say on pay” by voting in favor of these resolutions time and time again. Thanks to these efforts and in response to financial irresponsibility that brought on the 2008 recession, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act in July 2010. Among its many requirements, the Dodd-Frank Act requires an official Say on Pay advisory vote at the annual shareholder meeting of each publically traded U.S. corporation. The 2011 shareholder meeting season was the first at which companies had to implement the Act by disclosing company executives’ pay, then solicit a “say” on these pay grades through an advisory vote in the annual

shareholder proxy booklet. Advisory votes are not binding for the company, but they certainly have influential value as shareholders are able to weigh in on executive management compensation packages worth millions (or even hundreds of millions) of dollars. NorthStar takes these votes very seriously, weighing company performance, CEO responsibilities, and issues involving any recent controversies among other factors when considering whether to support or vote against these pay packages.

NorthStar uses a ratio system to determine appropriate executive pay in terms of whether to vote in favor or against named executive pay packages. Inspired first by proposed California Senate Bill 1372, which sought to raise the corporate tax rate if the CEO of a publicly traded company doing business in California makes more than 100 times the pay of an average employee, NorthStar limits its approval of CEO and executive pay packages to 100x the average U.S.A. worker salary.

Relying on Bureau of Labor Statistics data and that of AFL-CIO Executive Paywatch, the maximum executive pay package that NorthStar would currently approve is \$3,613,400 annually, allowing for a nominal pay to that executive of at least \$70,000,000 over the course of a twenty year career. We feel that \$70 million throughout one's career remains an attractive and competitive pay package, allowing a corporation to attract and retain high quality talent. NorthStar looks at overall compensation (base salary, bonuses, stock options, etc. in total) for this ratio system. NorthStar prefers pay packages that are not excessive, but still encourage executives take a long term view (including stock or options as a portion of the pay package). This maximum pay package is reevaluated by NorthStar annually and adjusted as appropriate when the average worker pay increases or decreases.

Additionally, the new rule calls for a shareholder advisory vote on the frequency of the aforementioned vote on executive compensation. Across the board, we voted for a one-year frequency (an annual vote), so

that shareholders could have repeated opportunities to evaluate their companies' leadership.

COMPENSATION REFORM

In the absence of Say on Pay shareholder proposals (see the page 15 for our discussion on this change), there are still multiple shareholder proposals related to executive pay and benefits. We supported a variety of shareholder resolutions on this general topic, including proposals requesting stockholder approval of future severance agreements with senior executives, "lock-up" requirements for senior executive awards, enhanced compensation disclosure, requests to make incentive awards performance-based, requiring that executives hold equity compensation through retirement, delaying incentive payouts to new executives, and pay-disparity reporting. This wide range of proposals all work to subvert exorbitant or inappropriate executive pay by asserting that shareholders have a say in executive compensation packages. We supported these resolutions at **Aetna**, **Aqua America**, **Allstate Corporation**, **Coca-Cola**,

ConocoPhillips, **Chipotle**, **Edison International**, **FedEx**, **General Electric**, **IBM**, **Merck**, **Oracle**, **Pepsi**, **Staples**, **United Natural Foods**, **Union Pacific Corporation**, **Verizon Communications**, **Wal-Mart**, **Walt Disney Company**, **Whole Foods Market**, and **Yum Brands**.

GENDER PAY GAP

The Center for American Progress reports that although women currently represent 50.8% of the American population, they are only 14.6% of executive offices, 4.6% of *Fortune 500* CEO slots, and a mere 16.9% of *Fortune 500* board seats. These sad statistics are despite the fact that women get almost half of the medical and law degrees, 60% of all master's degrees, and 37% of MBAs. Clearly, employment and advancement barriers persist.

Several shareholder proposals were voted on this year specifically regarding women, advancement, and pay. At **Exxon Mobil**, we supported proposals regarding reporting on compensation for women, as well as a request for establishment of a quota on women on the

board (currently, only 2 board members are female). We also supported a proposal at **eBay** which requested a report that “would include the percentage pay gap between male and female employees, policies to improve performance, and quantitative reduction targets.”

EQUAL SHAREHOLDER VOTING

It is each shareholder’s responsibility to vote on the proxy for each annual and special meeting of a corporation in which they are invested. However, at several companies (especially tech firms), company governance is structured so that shareholders cannot actually have a meaningful say on any proxy item. The purpose of proxy votes is to give shareholders equal votes with management, and because management is the driving force behind pay disparity and economic inequality within the company, NorthStar views the issue of unequal shareholder voting through the lens of economic inequality.

This year, NorthStar and two co-lead filers, James McRitchie and John Chevedden, filed a shareholder proposal regarding equal voting at **Google** and **Facebook**. This proposal is particularly important at these companies as each has a class of shareholders which has *ten to fifteen votes* per share of stock, significantly limiting the power of other shareholders. Special voting classes such as these are particularly challenging for shareholder activists like NorthStar because it essentially means that few shareholder proposals will be able to garner enough votes to reach the resubmission thresholds, given that the classes with 10 or 15 votes per share (typically management insiders) control such a high percentage of the vote. Especially given the fact that the proposal simply asks for the company to negotiate with that special class of shareholders and request that they voluntarily relinquish their extra voting rights “for the common good of all shareholders,” we were happy to join our colleagues in pushing forward this governance change.

BOARD COMPOSITION AND CEO PLANNING

There were many different proposals this year that focused on issues of board composition or CEO succession planning. One proposal we've seen innumerable times in the past is the request to separate the CEO and chairman of the board. The primary purpose of the board of directors is to protect shareholder interests by providing independent oversight of company management and the CEO. When the chairman of the board and the chief executive of the company are the same person, independence is impossible. The board is responsible for defining the strategic direction of the company and to address complex policy issues facing the company. A board chairman who is unencumbered by the day-to-day running of the company will better serve the company.

Several other board-related resolutions have cropped up this year. They include a request that the board chairman be an independent director (entirely unaffiliated with the company), to disallow the service

on key committees of board members receiving more than 20% vote against them at the annual meeting, a desire for limitations upon directors involved in bankruptcy, requests to declassify the board (so that shareholders vote on the entire board slate each year), and a proposal for the ability to remove a director with or without cause. We supported these resolutions at ***Abbott Laboratories, Apache, Chevron, Costco, Cummins, Ecolab, EMC, Express Scripts, Exxon Mobil, FedEx, General Electric, Google, Home Depot, Intel Corporation, Johnson & Johnson, Monsanto, Omnicom, Praxair, Staples, Starbucks, United Health Group, Union Pacific Corporation, Wal-Mart, Walt Disney Company, and Wells Fargo.***

DISTRIBUTION OF STOCK OPTIONS

In general, we oppose changes to company stock ownership and share dilution, through outright gift, options, share repurchases and so on by the firm's management. None of these mechanisms are necessarily harmful, of themselves, however, the redistribution of ownership introduces a potential

conflict of interest between the influence management exerts over firm policies versus shareholders.

STRENGTHENING SHAREHOLDERS' RIGHTS

The rights of shareholders depend largely on provisions in each corporation's charter and by-laws. Shareholders generally enjoy voting rights on issues that affect the corporation as a whole. This year, there were a number of shareholder resolutions aimed at improving shareholder's rights, especially voting rights. For example, according to the SEC, "cumulative voting is a type of voting process that helps strengthen the ability of minority shareholders to elect a director...This method allows shareholders to cast all of their votes for a single nominee for the board of directors when the company has multiple openings on its board." Other examples include changing the rules to allow for a simple majority of shareholder votes, including simple majority voting for directors, reducing the threshold required to call special shareholder meetings down to 10%, and even requests to

reincorporate the company in North Dakota (a state with corporate law more favorable to shareholders). After careful consideration, we will vote *against* proposals (usually by management) that request the company reincorporate in Delaware, a state with corporate laws that tend to be *less* favorable to shareholders.

We supported resolutions to strengthen shareholder rights at the following companies: ***Alpha Natural Resources, Amazon, Amerisourcebergen Corporation, Apache, Apple, Arch Coal, Bristol-Meyers Squibb, Chevron, Chipotle, Cloud Peak Energy, Coca-Cola, Cognizant Technology Solutions, ConocoPhillips, Dominion Resources, eBay, Exxon Mobil, FedEx, Fleetcor Technologies, General Electric, Home Depot, IBM, Intel Corporation, Illinois Tool Works, Kellogg, Kimberly Clark, Oracle Corporation, Merck, Monsanto, Microsoft, Procter & Gamble, Time Warner, Verizon Communications, Wal-Mart, and Western Union.***

At ***Oracle***, an interesting shareholder proposal popped

up this year requesting a change in the governance documents which would “set forth a policy requiring that the independent directors of the Board engage with shareholders on matters of shareholder concern.” The proposal recounts personal experiences of the filer wherein repeated attempts to communicate directly with the Board of Directors were turned down by the company. As active shareholders, we know the importance of open communication by the Board and management, so we happily supported this proposal.

DILUTION OF SHAREHOLDER’S RIGHTS

Traditionally, management presented shareholders with the option to ratify board members, auditors and various company business required by the SEC, such as mergers or compensation. However, as shareholders have become more active in setting corporate policies, management’s response has been increasingly to introduce counterproposals aimed at diluting shareholder’s rights – and specifically, voting rights. In some instances, management even introduces a voting

option which displaces a stronger resolution to prevent shareholders from achieving more influence in setting policy. We oppose these types of resolutions by management, unless the result is a clear improvement over the current situation.

BOARD AMENDMENT RIGHTS

Allowing the board to make changes to company charters, except as explicitly denied by the SEC, places undue power in the hands of boards which may be hand-picked and acting at the direction of management. We oppose the assignment of these shareholder’s rights to the board or management.

STOCKHOLDER-INSPIRED RESOLUTIONS

Alternately, we’ve begun to see the fruits of shareholder activists’ labor paying off in the company-sponsored proposals section. At many companies, we’ve found proposals such as an “amendment . . . to allow stockholder action by majority written consent,” “to declassify the board,” (to move the board from a

staggered election of different classes to a system where the entire board is reelected every year), “allow proxy access” (wherein shareholders of a certain stature can nominate board members), and “require annual election of all directors.” After careful review and consideration, to ensure that they are actually representative of what shareholders would want, we have supported these proposals. We supported proposals by management at the following companies: ***Bristol-Meyers Squibb, Cloud Peak Energy, Comcast, Costco, and Parker-Hannifin.***

CORPORATE POLITICAL CONTRIBUTIONS

In 2010, the Supreme Court made a historic decision that essentially further expanded the “personhood” of corporations by declaring that companies should also have the right to the freedom of political speech. Specifically, in the crucial *Citizens United vs. Federal Election Commission* case, it was determined that the First Amendment prohibited the federal government from restricting electioneering communication expenditures by corporations and unions, which has

allowed for greater breadth of corporate political spending. Federal law still restricts how much individuals and organizations may contribute to political campaigns, political parties, and other FEC-regulated organizations, but companies are now permitted to spend unlimited company (i.e. shareholder) money on “electioneering communications,” without a requirement to disclose these expenditures.

Just like recent years, the proxy season of 2015 was heavily weighted in the field of corporate political contributions. According to the *ProxyPreview 2015*, an annual roundup of shareholder proposals completed by the non-profit As You Sow and the analyst group Si2, of the 433 shareholder proposals filed for the 2015 season (as of Feb 2015), 26% of those proposals were focused on political activity issues. As fiduciaries of our clients’ assets, NorthStar needs to feel confident in the manner in which companies spend their stockholders’ investments, and feel comfortable that the company has taken the time and appropriate resources to assess (and protect against) the risks of

engaging in the political realm. In response to these new developments, many of our shareholder activist colleagues decided to engage with corporations on the subject of disclosure—requesting that companies in their portfolios commit to disclosing any and all political contributions. This is an essential first step, but we at NorthStar took a different route for encouraging political accountability.

At three companies, **CVS Health**, **FedEx**, and **Johnson & Johnson**, NorthStar put forward a proposal entitled “Congruency between Corporate Values and Political Contributions.” Our proposal is two pronged: first, we described for the company the ways in which the political contributions of the company and its PAC have been misaligned with the company’s policies and values (such as the company’s EEO policy and/or environmental policies). Secondly, we requested that the company evaluate and report on recipients of company and company political action committee (PAC) funds in contrast to company values and policies, with a rationale for any incongruent contributions.

NorthStar was the first firm to file a shareholder resolution putting forward the idea that a company’s political contributions should match the company’s values. For example, a company with strong environmental policies such as statements about the importance of reduced greenhouse gas emissions or concerns about climate change could put itself in reputational risk if it was discovered that the same company was supporting politicians that have been denying climate change and working to undermine progressive legislation on the environment. The same logic holds true for companies known for their pro-LGBT policies, but then are found to support politicians that sponsored the Defense of Marriage Act, or worked against the repeal of Don’t Ask/Don’t Tell.

Our proposal went up for a vote at each company, receiving votes noted in parentheses: **CVS Health** (5%), **FedEx** (3%), and **Johnson & Johnson** (4.6%).

POLITICAL CONTRIBUTION DISCLOSURE

Since the passage of *Citizens United*, we have seen many changes to the political landscape including new (dis)regulation in who can contribute to campaigns, how much, and how (or if) these contributions must be disclosed to the public. Although some disclosure requirements for political contributions still stand, it can be difficult for shareholders to access them and they are not always complete. The Sunlight Foundation, a nonprofit organization focusing on government transparency and accountability through the use of modern technology and digitization, notes that “the current disclosure system is insufficiently ‘rapid and informative’ and does not make effective use of modern technology.” For this reason, we believe that it is each company’s responsibility to disclose directly to shareholders how corporate funds have been allocated in the political arena. Proponents of the political contributions disclosure shareholder proposals state that “our company should be using its resources to win in the marketplace through superior products and services to its customers, not because it

has superior access to political leaders.” A significant number of companies have adopted the standards in this resolution due to shareholder pressure and the attendant media attention. The resolution seeks a clear written policy to disclose political contributions to the shareholders.

We agree, and supported this resolution or lobbying disclosure resolutions at ***Aetna, Amazon, Chevron, CVS Health, Danaher Corporation, Emerson Electric, Express Scripts, Exxon Mobil, FedEx, IBM, Johnson & Johnson, Monsanto, Nike, Oracle, Pfizer, Spectra Energy Corp, Verizon Communications, Wells Fargo, and Western Union.***

Additionally, a cohort of activist shareholders has created a proposal asking major corporations to refrain from political spending entirely. This resolution cites the “risks and potential negative impact on shareholder value” brought about by corporate political contributions, including data from a Harris Poll released in October 2010 which reported that “a sizable portion (46%) of respondents indicated that if

there were option, they would shop elsewhere if they learned that a business they patronized had contributed to a candidate or a cause that they oppose.” Given these potential risks, we supported this resolution at ***Chevron***.

V. HUMAN RIGHTS

Due to the international nature of most large corporations, it is becoming increasingly important that companies not only acknowledge their potential risks in committing human rights abuses, but also become aware of how the host countries' governments and ruling bodies interact with their citizens. As reported by the Business and Human Rights Resource Center, companies are being held accountable for complicity in human rights abuses abroad, even if they are not directly responsible for violations. Not only are human rights abuse charges detrimental to the ethical claims of a corporation, but they could potentially affect the company's value. For these reasons, we supported a proposal at **Amazon** and **Facebook** regarding a human rights risk assessment.

We believe that human rights concerns and concerns regarding economic inequality are inexorably linked. In the U.S. pay disparity arising from gender, sexual orientation, gender identity and expression and racial

diversity might just as well be identified as human rights issues. Internationally, clear human rights violations exist when women and some minorities are not even allowed basic freedoms, let alone the right to work for a paycheck. Sometimes the urgency of a situation begs for a rapid response. So rather than waiting a year for the next proxy season, NorthStar writes letters to address specific situations as when we forcefully asked Costco and Whole Foods to address problems in their supply chains for imported goods produced by forced labor.

HUMAN RIGHT TO WATER

Water scarcity is a serious modern day reality. One of every six people in the world lacks access to safe drinking water. Dehydration claims the lives of nearly 2 million children every year. This is compounded by the fact that water is being turned into a profitable commodity to be bottled and sold to individuals who can afford the product. Effectively, billions of people are being left without safe water.

In 2013, the Independent Expert on the issue of human rights obligations related to access to safe drinking water and sanitation at the United Nations compiled a set of “good practices” on the topic of worldwide access to safe, sufficient water for drinking and sanitation. Among many responsibilities, it is the job of this expert to interact with public and private stakeholders to assess the content of human rights obligations, including non-discrimination obligations, in relation to access to safe drinking water and sanitation.

In light of this increased international focus on the human right to water, NorthStar has continued its work to tackle this issue from a shareholder perspective. NorthStar’s 2008 human right to water proposal was the first shareholder resolution of its kind that specifically addressed water as a human right.

For the fourth year in a row, NorthStar filed our resolution **Aqua America**, a major water utility on the east coast, asking for the company to adopt a policy in

support of the human right to water. Our proposal went to a vote at the company, where shareholders supported the resolution with a vote of 7.16%. While we can’t add **Aqua America** to our list of fully adopted human right to water policies this year, we’re proud to say that a total of seven corporations now support the human right to water thanks to our efforts and those of our nongovernmental organization (NGO) partners.

You can view the Human Right to Water Policies adopted by our Companies by following the links below to their websites:

Connecticut Water’s [Corporate Responsibility Charter](#)

PepsiCo’s [Guidelines on the Human Right to Water](#)

Intel’s [Water Policy](#)

Procter & Gamble’s [Policy on the Human Right to Water](#)

Keurig Green Mountain’s [Human Right to Water Policy](#)

Johnson & Johnson’s [Statement on the Human Right to Water](#)

Mead Johnson Nutrition’s [Water Policy](#)

ADD SEXUAL ORIENTATION AND GENDER IDENTITY TO NON-DISCRIMINATION POLICY

Though it is 2016 (and marriage equality has *finally* passed), it is still legal in twenty-eight states to fire employees simply because they are gay or lesbian; in thirty-two states (64% of the nation), it is legal to fire someone simply because he or she is transgender. State and local laws remain inconsistent with respect to employment discrimination of gay and lesbian employees. In an effort to end workplace discrimination, resolutions on this topic seek to add the words “sexual orientation and gender identity or expression” to the company’s nondiscrimination policies. According to the HRC’s 2016 Corporate Equality Index, 93% of *Fortune 500* companies have adopted policies including non-discrimination based upon sexual orientation and 75% also protect their employees against discrimination based upon gender identity, but only 64% offer domestic partner benefits and a lackluster percentage (40%) offer transgender-inclusive benefits. Federal and state protections are

spotty at best, so corporations and their employees are best served by company-wide policies protecting their employees from discriminatory treatment.

Past readers of this booklet will be interested to know that longtime holdout **Exxon Mobil** made the step forward to add (or, rather, *add back*) “sexual orientation and gender identity” to its non-discrimination provisions. Prior to the merger of Exxon and Mobil in 1999, Mobil had a comprehensive non-discrimination policy; however Exxon Mobil removed that policy following the merger. New York State Comptroller Thomas P. DiNapoli, who had fought Exxon for years on this issue through the shareholder activism process, explained it well: "All of us who have fought to have Exxon adopt comprehensive equal rights owe thanks to President Obama, whose executive order motivated Exxon's change of heart. We commend Exxon for joining its many *Fortune 500* peers and investors in the 21st Century where LGBT rights are synonymous with civil rights."

CORPORATE POLITICAL CONTRIBUTIONS

In 2010, the Supreme Court made a historic decision that essentially further expanded the “personhood” of corporations by declaring that companies should also have the right to the freedom of political speech. In the crucial *Citizens United vs. Federal Election Commission* case, it was determined that the First Amendment prohibited the federal government from restricting electioneering communication expenditures by corporations and unions, which has allowed for greater breadth of corporate political spending. Federal law still restricts how much individuals and organizations may contribute to political campaigns, political parties, and other FEC-regulated organizations, but companies are now permitted to spend unlimited company (i.e. shareholder) money on “electioneering communications,” without a requirement to disclose these expenditures.

As fiduciaries of our clients’ assets, NorthStar needs to feel confident in the manner in which companies spend their stockholders’ investments, and feel

comfortable that the company has taken the time and appropriate resources to assess (and protect against) the risks of engaging in the political realm. Nearly all companies on the NorthStar buy list have nondiscrimination policies in place (and for those that don’t, we will certainly be engaging soon), protecting employees from discrimination on a wide swath of traits including gender, race, ethnicity, sexual orientation, and gender identity and expression. We firmly believe that companies should be highly aware of what their political contribution dollars are going to support: are they supporting politicians who want to undermine equal marriage, despite the company’s support of LGBT rights? Is the company inadvertently giving funds to candidates that have racist views? Will the company alienate its customer base when a contribution to an outspoken anti-transgender activist is revealed?

To combat human rights and LGBT rights issues in political contributions, NorthStar put forward a proposal at three companies, **CVS Health**, **FedEx**, and **Johnson & Johnson**, entitled “Congruency between

Corporate Values and Political Contributions.” Our proposal is two pronged: first, we described for the company the ways in which the political contributions of the company and its PAC have been misaligned with the company’s policies and values (such as the company’s EEO policy and/or environmental policies). Secondly, we requested that the company evaluate and report on recipients of company and company political action committee (PAC) funds in contrast to company values and policies, with a rationale for any incongruent contributions.

NorthStar was the first firm to file a shareholder resolution putting forward the idea that a company’s political contributions should match the company’s values. Our proposal went up for a vote at each company in 2015, receiving votes noted in parentheses: **CVS Health** (5%), **FedEx** (3%), and **Johnson & Johnson** (4.6%).

OTHER BOARD ISSUES

Because the election of the board of directors is such a

vitaly important issue, and because human rights ranks high on the list of priorities at NorthStar, we consider any board-related issues to be human rights issues as well. From time to time, the company will put forward a proposal asking shareholders to allow the board to make changes to company charters, except as explicitly denied by the SEC. We believe that these actions would place undue power in the hands of boards which may be hand-picked and acting at the direction of management. We oppose the assignment of these shareholder’s rights to the board or management.

DISCHARGE COMPANY AND BOARD LIABILITY

The purpose of having a board of directors and corporate management is to make sure that shareholders best interests are served. Therefore, we oppose resolutions discharging company or board liability for their decisions and actions.

BOARD AMENDMENT RIGHTS

Allowing the board to make changes to company charters, except as explicitly denied by the SEC, places undue power in the hands of boards which may be hand-picked and acting at the direction of management. We oppose the assignment of these shareholder's rights to the board or management.

At **General Electric** there was a new proposal crafted this year called "Holy Land Principles." On its surface, the proposal seeks "adher[ence] to equal and fair employment practices in hiring, compensation, training, professional education, advancement and governance without discrimination based on national, racial, ethnic or religious identity," and it specifically relates to Israel and the occupied Palestinian territory. The website for the initiative explains further that "The Holy Land Principles seek to ensure that American dollars do not support discrimination, human rights abuses, or violations of international law in The Holy Land (Israel/Palestine, The West Bank, The Gaza Strip and East Jerusalem)." After much internal debate and discussions with exterior colleagues, NorthStar voted against this proposal. We agree with

the advocates at the American Friends Service Committee who wrote a report stating that "the Holy Land Principles fall short of the most basic and widely recognized standards of corporate respect for both human rights and labor rights. When corporate guidelines set a lower bar than existing non-voluntary and regulatory frameworks, they could be used to divert corporate accountability."⁶ As this proposal inevitably resurfaces, we will examine any changes and consider voting in favor in the future, should we feel that the contents of the proposal would actually improve issues surrounding human rights.

Verizon Communications saw a proposal which claimed that "a critical factor in this growth [of the company] has been the open (non-discriminatory) architecture of the Internet," and asked for a report on "responding to regulatory, competitive, legislative and public pressure to ensure that ... practices support network neutrality and an Open Internet." We supported this proposal.

⁶ <http://afsc.org/hlp>

VI. ENVIRONMENT & SAFETY

GREENHOUSE GAS EMISSIONS AND GLOBAL WARMING

Even *Exxon Mobil* no longer claims that the veracity of global warming science is “unsettled.” Instead, CEO Rex Tillerson now acknowledges “it is increasingly clear that climate change poses risks to society and ecosystems that are serious enough to warrant action—by individuals, by businesses and by governments.”

While his statements are a step forward, shareholders want Tillerson to put his words into action by establishing a task force to adopt policies for renewable energy research, development and sourcing.

We supported this proposal at *Exxon Mobil*, as well as similar proposals at *BP, Chevron, Dominion Resources, Entergy, Oracle, Time Warner*, and *Wal-Mart*.

SUSTAINABILITY

For investors, sustainability reports provide non-financial information that contributes to a long-term view of a company’s health. When companies use renewable energy and energy-efficient computers, practice fair trade and purchase organic food, enforce maintenance of workers’ rights and labor standards, the positive benefits are visible in a company’s bottom line. For companies, a commitment to sustainability reveals a long-term point of view allowing companies to study and plan for potential problems.

We supported this resolution at *Amazon, Chipotle, Chubb, Facebook*, and *Emerson Electric* this year.

At *PepsiCo* and *Starbucks* this year, we also saw a proposal requesting the company establish an entire board committee to evaluate the company’s sustainability and make appropriate recommendations. *Exxon Mobil* and *Chevron* both fielded proposals from shareholders seeking an independent director on the board with

environmental or climate expertise. We supported these proposals.

RISKS RELATED TO ENVIRONMENTAL ISSUES

Thanks to an October 2009 decision at the SEC, in which the staff made it much simpler for shareholders to file resolutions regarding financial risk and climate change, a new focus on risk has come to the group of shareholder resolutions in the environmental category. Resolutions now regularly cross our proxy voting desk that request that shareholders encourage the board to consider not only the environmental and ecological strain that their business practices may cause, but also the ways in which the company's impact on the environment may actually do harm to the company and shareholder value itself.

Over the years, these proposals have ranged from issue-specific (report on risks to the company due to its oil sands drilling and strategic planning for international reduction in fossil fuel consumption) to broad (report on financial risks due to climate change),

but all address a key concern for every investor—how will the company's actions affect the financial bottom line? At the same time, these proposals get to the essence of what shareholder activists are after—better disclosure of the companies' policies, procedures, and effects on environmental issues. We expect these proposals to be both successful in receiving shareholder votes and effective with company management due to their multi-faceted approach at shareholder activism.

We supported a resolution on financial risks due to environmental issues at ***Dominion Resources***.

STRANDED ASSETS

A shareholder proposal requesting the company institute a dividend policy whereby shareholders would receive higher dividends rather than allow the company to pursue "high cost, unconventional" projects arose at ***Chevron*** this year. The proposal stated that "in response to growing carbon constraints, a transformation of the world's energy

system is occurring in the form of energy efficiency increases, disruptive technology development, decreasing costs of renewables, and growing substitution.” After debate and consideration of the motives and effects of this proposal, NorthStar supported it.

NUCLEAR ACTIVITIES

We supported a proposal at *Dominion Resources* which asked that the company “be open and honest about the enormous costs and risks of new nuclear construction and thereby stop wasting shareholder, taxpayer, and ratepayer money by pursuing the increasingly costly, unnecessary and risky venture of a new nuclear unit.” Due to the risks associated with nuclear energy, and NorthStar’s screening policy regarding nuclear energy, we supported this proposal.

HUMAN RIGHT TO WATER

As discussed above in the human rights section (page 26), water scarcity is a serious modern day reality. Since 2007, NorthStar has been tackling the issue of poor access to healthy, safe water through the use of shareholder proposals. We firmly believe that corporations which engage in water use must be stewards of the environment, including the human right to water. One of every six people in the world lacks access to safe drinking water. Dehydration claims the lives of nearly 2 million children every year. This is compounded by the fact that water is being turned into a profitable commodity to be bottled and sold to individuals who can afford the product. Effectively, billions of people are being left without safe water.

For the fourth year in a row, NorthStar filed our resolution **Aqua America**, a major water utility on the east coast, asking for the company to adopt a policy in support of the human right to water. Our proposal went to a vote at the company, where shareholders supported the resolution with a vote of 7.16%.

Through our continued efforts, NorthStar has succeeded in negotiating comprehensive human right to water policies at 7 major companies (**Connecticut Water, PepsiCo, Intel, Procter & Gamble, Keurig Green Mountain, Johnson & Johnson, and Mead Johnson Nutrition**).

Intel has been an exemplary example of “putting this commitment into practice, by establishing a water efficiency program that conserves approximately 5.2 million gallons of water each day.”⁷ Through technological advancements such as Intel’s ability to process wastewater to drinking water standards and returning it to the underground aquifer to replenish the groundwater supply, effluent reuse programs, and internal water conservation work, Intel is working diligently to ensure that its financial bottom line does not hinder the local communities’ access to safe, sufficient, acceptable, physically accessible, and affordable water.

⁷ <http://www3.epa.gov/region9/waterinfrastructure/docs/Intel-Ocotillo-Arizona.pdf>

HYDRAULIC FRACTURING

At **Chevron**, shareholders requested a report on shale energy operations. As the proposal states, hydraulic fracturing (or “fracking”) “is a controversial public issue. Leaks, spills, explosions and community impacts have led to bans and moratoria in the US and around the globe, putting the industry’s social license to operate at risk.” The proposal cites instances such as Chevron was required to shut down its operations in a particular location because a nation banned fracking, thereby wasting resources and assets used on that fracking project (which, the proposal insinuates, became a risk for shareholders). While praising Chevron for disclosure at its Marcellus Shale site, the proposal requests that Chevron continue its openness by reporting in similar ways elsewhere. “By not reporting to the same extent elsewhere, Chevron leaves investors in the dark about reputational, legal, and other risks lurking in other plays.”

NorthStar does not support fracking, but we wholeheartedly support disclosure should a company

in a client's account participate in fracking in any way. As engaged shareholders, we can use disclosed information to start conversations (and historically have done so) with corporations regarding their relationships with fracking, fracking companies, and utilities that serve fracking sites.

RENEWABLE ENERGY

Innumerable sources agree that renewable energy is at the core of a healthy future for the earth, as well as healthy returns for corporate shareholders. The Union of Concerned Scientists tells us that "electricity production accounts for more than one-third of U.S. global warming emissions, with the majority generated by coal-fired power plants, which produce approximately 25 percent of total U.S. global warming emissions; natural gas-fired power plants produce 6 percent of total emissions . . . In contrast, most renewable energy sources produce little to no global warming emissions." By supporting an inexhaustible energy supply (versus the dwindling fossil fuel energy supply), companies are helping society move towards

improved public health and environmental quality, increased jobs, more stable energy prices, and a more reliable and resilient energy system.⁸ All of these positive effects will turn into benefits for companies as well.

At *J.M. Smucker*, shareholders asked management to issue a report "analyzing and proposing how the company can increase its renewable energy sourcing and/or production." Given our support of renewable energy and the importance of renewable energy for the common good, we supported this proposal.

ANIMALS AND THE ENVIRONMENT

Two proposals were voted on this year which intertwined the environment and animal issues. At *Tesla*, we saw a proposal which asked the company to consider eliminating animal-sourced materials in their vehicles as a method for reducing environmental impact, as well as a separate proposal asking the

⁸ http://www.ucsusa.org/clean_energy/our-energy-choices/renewable-energy/public-benefits-of-renewable.html#.VrkEL1L739o

company to become a “cruelty-free brand.” *Pepsi* shareholders brought a proposal to “minimize the impacts of neonics” – a policy on pesticide pollution to curtail pollinator decline. Neonicotinoids (“neonics”) are a new class of insecticides chemically related to nicotine, which have been brought into question recently for their potentially harmful effects on bee populations. As an article from Texas A&M⁹ tells us, “although these low level exposures do not normally kill bees directly, they may impact some bees’ ability to foraging for nectar, learn and remember where flowers are located, and possibly impair their ability to find their way home to the nest or hive.” The recent decline of bees is a serious concern to agriculture and future food sources, so we happily supported this proposal.

REPORT ON GENETICALLY MODIFIED PRODUCTS

Genetically modified food has come under stringent criticism of late as, just like this proposal at *Abbott*

Laboratories explains that “70% of rats fed GMO NK603 corn over a two year period had significantly shorter lifespans than controls due to organ failure and increased tumor growth” and that “supply chain disruption is [just] one problem of a monocrop that threatens to impact shareholders and threatens national food security.” Several states now require GMO labeling, and up to 15 other states have offered legislation to put labeling in place. This proposal at *Abbott Laboratories* requests that the Board “adopt a policy to identify and label, where feasible, all food products manufactured or sold under the company's brand names or private labels that may contain genetically engineered ingredients” and report to shareholders on that policy.

⁹ <http://citybugs.tamu.edu/factsheets/ipm/what-is-a-neonicotinoid/>

VII. CORPORATE GOVERNANCE

In our view, everything that's been listed above also falls into the category of "corporate governance," since it's all related in one way or another to the management of the company. Only a few proxy items, found below, are strictly governance-related.

VOTING FOR AUDITORS

Enron's collapse and the role that its accounting firm played in its demise focused shareholders' attention on the auditors' role and the veracity of financial information presented to shareholders, employees, and the public. Part of the problem is a dual role many accounting firms play within one company: that of auditor and that of inside accounting consultant. Auditors review a company's financial statements to ensure they truly reflect the company's financial situation. Audits, by design, are independent assessments. If an auditor is working inside the company as a consultant, its independence is already compromised, and we will oppose the confirmation of

the company's choice for auditor.

OTHER BUSINESS

We consider other business, such as the ratification of a merger proposal, on a case by case basis.

CONSERVATIVE "TROJAN HORSE" PROPOSALS

Recently, socially conservative investors have submitted shareholder resolutions imitating proposals by progressive investors. The proposals mimic the language of progressive shareholder proposals; however, the intent of the resolution is far from progressive. Proposals seeking to delete sexual orientation from company non-discrimination policies have been seen in past years, effectively wiping out workplace anti-discrimination protections, while proposals pressuring companies to abandon efforts to address global warming are becoming a mainstay of conservative tactics. Other proposals address spurious concerns about director qualifications or preemptively studying the breakup of the company. Companies

oppose these resolutions as counterproductive. Progressive shareholders band together in voting against these resolutions, resulting in some very low vote totals.

This year, a handful of proposals fall into this “Trojan Horse” category. At **Chevron**, a proposal arose which requested public disclosure of “the recipients of corporate charitable contributions or merchandise vouchers of \$5,000.” While we generally support disclosure of all kinds, the supporting statement of this proposal clued us into the motivation of the proponent (the person or group which filed the proposal):

Our corporate support of LBGT groups is a cause for concern among some Christian, Jewish and Muslim groups. Our corporate contributions to Planned Parenthood have drawn down upon our Company a boycott by the prominent group Life Decisions International.

Given NorthStar’s ardent support of LGBT rights and women’s rights, we could not in good faith support a shareholder activist seeking to undermine those rights.

Apple received a proposal requesting a “risk report” regarding so-called “risks” associated with government regulations and policies on climate change. As our activist colleague James McRitchie explains on his website CorpGov.net, “the costs of climate change related to any required government policies are so far extremely minimal, compared to the cost to lives and property from climate change.”¹⁰ We voted against this shareholder proposal, as well as the same proposal filed at **Google**.

Lastly, **Google** shareholders had to weigh in on yet another Trojan Horse. In addition to the climate change “risk” proposal noted above, the second proposal touted itself as a “report on renewable energy costs.” Upon further inspection, the proposal

¹⁰ <http://www.corpgov.net/2015/03/apple-inc-appl-proxy-score-83/>

essentially seeks to deter the company from purchasing renewable energy. For obvious reasons, NorthStar supports renewable energy purchasing and

production, so we voted against this proposal at Google.

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NOTE: Companies italicized were not purchased by NorthStar on behalf of its clients.

See page 5 for further discussion about this fact.