

Corporate Political Spending: Why Shareholders Must Weigh In

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INTRODUCTION

Beginning with the divestment campaigns of the 1970s, shareholder pressure on companies to disclose their impact on global communities has been broadening and increasing. Shareholder resolutions addressing toxic waste, executive compensation, the inclusion of gender identity in Equal Employment Opportunity (EEO) policies, and most recently corporate political contributions, have created consumer, stakeholder and employee awareness of the impact of corporate behavior on public perception and company value. In response to this type of stakeholder engagement, as well as media coverage of corporate impact on communities, many public companies have chosen to preempt concerns about their environment, sustainability and corporate governance (ESG) records. Rather than simply adhering to local or federal laws as standards for good behavior, these companies have hired teams of employees to develop, identify, and broadcast corporate values and “good works” to investors and consumers alike.

However, do stated company values truly act as the moral compass for company behavior? Or does marketing hype create a screen for companies to appear as good citizens, while relying on government regulation as the minimum guideline for appropriate behavior? We believe that a company takes the high road when their values are clearly defined, and their activities in the global community reflect adherence to their self-defined values. As shareholders, we invest in companies because we make a choice, based on available data, to participate in the profit from the company’s sales of goods and services. When the data we examine is misrepresented, shareholder value is put at risk. As socially responsible investors, we do not limit our scope of concern to corporate accounting scandals. We examine stated company values and the degree to which those values are reflected in company behavior. When we

identify discrepancies, we seek stakeholder engagement as a remedy. Most recently, we have focused on the nexus of company values and their political contributions.

Given the huge public policy outcry related to the Supreme Court decision in the 2010 *Citizens United v. Federal Election Commission* case, our firm, NorthStar Asset Management, Inc., examined the treasury and Political Action Committee (PAC) contributions of the companies on our firm's "buy list," as compared to the voting records of politicians who received their contributions. At each company, we examined the EEO policies related to protections in the area of sexual orientation, as well as the company's stance on environmental concerns. We found that stated company values were not reflected in the voting records of the companies' supported politicians, and in many cases the stated views of the supported politicians were in direct opposition to company values.

We believe that if corporate political contributions violate company values, then corporations are risking the good name of the company and, consequently, shareholder value. Corporate contributions that contradict company values pose a direct and immediate risk to shareholder value. Our perspective is that in order to minimize risk to shareholder value, corporate standards for political giving must include a congruency analysis between anticipated political spending and the company's values. And further, that because it is shareholders who are placed at risk through poor management decisions on political spending, the onus is on shareholders to pre-approve political spending decisions.

HISTORY

For several years, shareholder activists have engaged companies regarding their corporate political spending. Since the *Citizens United v. Federal Election Commission* ruling in 2010,¹ corporate exposure surrounding political giving has been reported on widely and in some cases has led to public scrutiny, criticism and diminished shareholder value.² Historically, shareholder resolutions have asked exclusively for disclosure of political spending.³ These resolutions are essential, but just as shareholder rights around issues of corporate executive compensation progressed from seeking simply disclosure to insisting upon shareholder advisory votes, which increased “accountability, transparency, and performance linkage of executive pay,”⁴ shareholder input regarding political contributions can provide checks and balances.

Unfortunately, it appears that the singular focus of past shareholder resolutions on disclosure has led to a phenomenon in which companies believe that disclosure is the most stringent requirement by which they must abide. Corporations seem to believe that if management or company political action committees (PACs) simply *disclose in arrears* the extent of their political giving, then this is sufficient for shareholder and consumer satisfaction. Our firm’s engagement with corporations and correspondence with the Securities and Exchange Commission indicates that the misconception that we are simply requesting disclosure prevails.⁵

¹ For more information, please see “*Citizens United v. Federal Election Commission*.” Supreme Court of the United States: <http://www.supremecourt.gov/opinions/09pdf/08-205.pdf>

² John Coates, “What Effect Will Citizens United Have on Shareholder Wealth?” Harvard Law and Economics Discussion Paper No. 684 <<http://ssrn.com/abstract=1680861>>

³ James Hyatt, “Shareholders Press for Political Spending Disclosure” Business-Ethics.com <<http://business-ethics.com/2010/06/29/1624-shareholders-press-for-political-spending-disclosure/>>

⁴ Baird and Stowasser qtd in Fabrizio Ferri and David Maber, “Say on Pay Votes and CEO Compensation: Evidence from the UK” *Review of Finance*, Forthcoming (November 24, 2011) 8 <http://web-docs.stern.nyu.edu/old_web/emplibary/Ferri_SayOnPay_June09.pdf>

⁵ This can be seen in the SEC’s response to FedEx’s no action request letter, in which the NorthStar “say on political contributions” proposal was omitted for being “duplicative” of another shareholder proposal which simply requested disclosure. Refer to the no action response letter: <http://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2011/northstarasset072111-14a8.pdf>

Currently, there is no process to hold management accountable for actual disclosed contributions to candidates working against company values. Shareholder reaction or public outcry against particularly egregious violations is happenstance. The focus of shareholder resolutions solely on disclosure has failed because it does not provide shareholders a way to voice an opinion on political contributions – hence the company (management and the board) not only assumes it can spend company resources promoting its views of what constitutes corporate “interests,” but in our experience the company may not know that these candidates uphold political policies divergent from company values. Given our concerns and fiduciary duty to protect our clients’ assets, and because of the close relationship between the company *value* and company *values*, we feel shareholders must weigh in on all corporate political activity in advance of the actual contribution.

WHO DECIDES WHERE THE MONEY GOES?

The burden of making appropriate political contribution decisions from both the general company treasury (state, local and private political committee giving) and the company PAC (state, local, federal and PAC) are at the discretion of *management* despite the fact that poorly used funds ultimately impact *shareholder* value. Corporations are permitted to contribute to federal elections only via PAC contributions. Only eighty-eight companies in the Fortune 500 disclose their company treasury electioneering contributions,⁶ and all Fortune 500 companies disclose their PAC contributions as required by law.

Unfortunately, after our examination of underlying values as self-described by corporations in their publically available media as well as employee policies, *with* their political contributions through both treasury (where available) and PAC funds, we found glaring

⁶ As stated by the Center for Political Accountability.

inconsistencies in corporate values and the values inherently expressed by support of various candidates for political office. This was true not only in corporations who disclose their treasury contributions, but even in those companies who denounce treasury contributions in favor of PAC contributions.⁷ In each case, while well-meaning management teams supported candidates who were deemed to be working in the *best interest of the company*, corporate values relating to employment non-discrimination policies, environmental standards, and immigrant rights were consistently violated when contributions were made. Management apparently lacked the skills and knowledge to evaluate candidates based on support or opposition of the *comprehensive goals and values of their own contributing business*.

Despite the fact that the corporate standard advocated by The Conference Board (TCB) in their recently published “Handbook on Corporate Political Activity” recommends corporations review their political expenditures to “examine the proposed expenditures to ensure that they are in line with the company’s values and publicly stated policies, positions, and business strategies and that they do not pose reputational, legal, or other risks to the company,”⁸ our firm has yet to find one corporation that regularly compares its values to an analysis of the politicians and political groups it supports.

We again consider the fact that perhaps the solitary focus of *disclosure* in past shareholder engagement with corporations is partially at fault as it has failed to encourage corporations to do anything more than consider disclosing these contributions. In our engagement efforts, it has been clear that the novel idea of *congruency with self-defined corporate values* had never been considered previously, despite volatile public issues such as the

⁷ In particular, here we are referring to our engagement with Procter & Gamble, who does not make treasury contributions, preferring to rely upon a PAC.

⁸ Paul DeNicola, Bruce F. Freed, Stefan C. Passantino, and Karl J. Sandstrom. “Handbook on Corporate Political Activity.” [Conference-Board.org](http://www.conference-board.org/governance/index.cfm?id=2385), 31 March 2011<<http://www.conference-board.org/governance/index.cfm?id=2385>>

2010 clash between Target Corporation's political contribution and the backlash suffered due to that donation's clearly values-incongruent nature (further described below). Because the board of directors and other upper management officials make all decisions regarding the destinations of company treasury *and* company PAC contributions, management must take into account potential discrepancies between company values and supported politicians, as well as the fact that sets of contributions risk company brand name, reputation, and shareholder value. While these officials seem to be slowly coming around to the idea of disclosing these contributions, they are failing to understand that political contributions must reflect company values.

SPECIFIC VIOLATIONS OF COMPANY VALUES

In July 2010, Target Corporation donated \$150,000 to the political group Minnesota Forward, which ignited a major national controversy with demonstrations, petitions, threatened boycotts, and substantial negative publicity.⁹ This controversy, combined with the huge public policy outcry related to the Supreme Court decision in the *Citizens United* case, caused us to carefully examine the treasury and Political Action Committee (PAC) contributions of the companies on our firm's "buy list" (those corporations with stated company values) as compared to the voting records of politicians who received their contributions. We uncovered patterns of political activity that were inconsistent with companies' policies of non-discrimination based on sexual orientation, gender identity or expression:

⁹ Martiga Lohn. "Target CEO defends Minn. GOP contributions." [MSNBC.com](http://www.msnbc.msn.com/id/38434618/ns/business-consumer_news/t/target-ceo-defends-minn-gop-contributions/) 27 July 2010.
<http://www.msnbc.msn.com/id/38434618/ns/business-consumer_news/t/target-ceo-defends-minn-gop-contributions/>

Home Depot’s Corporate Political Contributions: One particularly unfortunate donation was in support of Governor Bob McDonnell,¹⁰ whose objective was to eliminate non-discrimination protections for LGBT state workers in Virginia. McDonnell was successful in this regard. We also identified a number of other particularly egregious donations that are detailed in NorthStar’s no-action letter response published on the Security and Exchange Commission’s (SEC) website.¹¹

FedExPAC: David Vitter for U.S. Senate received \$6,500 in 2009/2010¹² from FedEx. As a sitting US Senator, David Vitter was an original co-author of and voted for the Federal Marriage Amendment that would have effectively eliminated same-sex marriage in all states where it is currently legal and have prevented any states from adopting same-sex marriage legislation in the future. This position against same-sex marriage stands in direct violation of the FedEx commitment to provide same-sex domestic partner benefits and same-sex marriage benefits (in states where it is legal) to all U.S.-based employees by January 1, 2012.¹³

Eight additional co-sponsors of the anti-LGBT “Marriage Protection Amendment” in the U.S. Senate also received contributions from the FedEx PAC including Senators

¹⁰ “Corporate Political Contributions.” Home Depot, <<http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NjAwODV8Q2hpbGRJRDR0tMXxUeXBIPtM=&t=1>>

¹¹ “The Home Depot, Inc. March 25, 2011.”

Division of Corporation Finance 2011 No-Action Letters Issued Under Exchange Act Rule 14a-8.
<<http://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2011/northstarasset032511-14a8.pdf>>

¹² Please see FEC website: <http://query.nictusa.com/cgi-bin/com_supopp/2009_C00068692>

¹³ Personal correspondence, letter from R. Molinet, Corporate Vice President, Securities & Corporate Law, FedEx Corporation to J. Goodridge, CEO of NorthStar Asset Management, Inc. on May 27, 2010.

Brownback, Chambliss, Crapo, DeMint, Enzi, Isakson, Roberts, and Thune.^{14,15}

Furthermore, candidates receiving FedExPAC contributions voted against hate crimes bills and against the repeal of the “Don’t Ask, Don’t Tell” policy that prohibits LGBT service members from serving openly.^{16,17}

P&G PAC: David Vitter received \$2,000 in 2009 and another \$3,000 in 2010.¹⁸ He not only co-authored the Federal Marriage Amendment, but in July 2007, Vitter was “identified as a client of a prostitution service”^{19,20} and continues to serve in the Senate. Chuck Grassley has been written about²¹ as having ties, as far back the 1980s, to the “C Street” radical right anti-gay group pushing the “Kill the Gays Bill” in Uganda.^{22,23} And another five senators receiving PAC money signed onto the Federal Marriage Amendment as co-sponsors including Senators Burr, Crapo, DeMint, Isakson, and Kyl. Many of the officials supported by P&G PAC contributions also voted for the Federal Marriage Amendment and voted against hate crimes bills and the repeal of the “Don’t Ask Don’t Tell” policy.^{24,25}

¹⁴ “S. J. Res. 1: Marriage Protection Amendment.” [GovTrack.US](http://www.govtrack.us/congress/bill.xpd?bill=sj109-1),

<<http://www.govtrack.us/congress/bill.xpd?bill=sj109-1>>

¹⁵ Please see: “S. J. Res. 43: Marriage Protection Amendment.” [GovTrack.us](http://www.govtrack.us).

<<http://www.govtrack.us/congress/bill.xpd?bill=sj110-43>>

¹⁶ Please see: <<http://politics.nytimes.com/congress/votes/111/senate/2/281/csv>>

¹⁷ Please see: <<http://politics.nytimes.com/congress/votes/111/house/2/638/csv>>

¹⁸ Please see: <http://query.nictusa.com/cgi-bin/cancomsrs/?_10+C00257329> and

<http://query.nictusa.com/cgi-bin/cancomsrs/?_12+C00257329>

¹⁹ “David Vitter.” <http://en.wikipedia.org/wiki/David_Vitter>

²⁰ Brianna Keilar et al. “Hustler says it revealed senator’s link to escort service.” [CNN](http://www.cnn.com/2007/POLITICS/07/10/vitter.madam/index.html). July 11, 2007

<<http://www.cnn.com/2007/POLITICS/07/10/vitter.madam/index.html>>

²¹ Jeff Sharlet. [The Family: The Secret Fundamentalism at the Heart of American Power](#). Jun 2, 2009

²² Press Release of Center for Constitutional Rights, May 11, 2011. <<http://ccrjustice.org/newsroom/press-releases/uganda’s-kill-gays-bill-back-play-and-could-be-law-end-of-week>>

²³ “Capitol Hill ‘C Street house’ connected to ‘kill the gays’ Evangelicals in Uganda [video].” [Metro Weekly](#). September 23, 2010. <http://www.metroweekly.com/news/last_word/2010/09/exposed-capitol-hill-c-street.html>

²⁴ Please see: <<http://politics.nytimes.com/congress/votes/111/senate/2/281/csv>>

A company's EEO policy, non-discrimination policy, and values statements comprise the company's set of **public values**, and hence, to abide by the "Handbook on Corporate Political Activity," all corporate political activity and contributions should reflect these values whether contributions are made to political organizations or directly to political candidates. Yet even the above examples, focusing only on EEO values, indicate that management has acted in violation of stated company values. We believe that because management and/or the company board of directors is responsible for determining the recipients of company PAC giving as well as corporate treasury political spending decisions, and yet the above types of incongruent decisions are commonplace, stakeholders must ensure that management does not blindly approve political contributions that contradict company values. Disclosure of political contributions after the fact does not repair harm created by inconsistent actions. We believe that a company's political activities become our concern when:

1. Company resources of any kind are used to make or direct political contributions for any reason.
2. A contribution to a candidate actively works against the values of the company or creates potential damage to the company and its employees, customers, or shareholder value.
3. We bring concerns about risks created by political giving to management's attention and management fails to address (or in the case of Home Depot, even notice) the brand, reputational, or legal risks to the company.
4. Investment managers with a fiduciary responsibility to address significant risks to shareholder value with management, the board of directors, and the owners rubberstamp approval on incongruent corporate expression of values.

²⁵ Please see: <<http://politics.nytimes.com/congress/votes/111/house/2/638/csv>>

5. Supreme Court opinions like those expressed by Justice Kennedy in *Citizens United* insist that we, as shareholders, correct misdoings by management, through the “procedures of corporate democracy.”

Inconsistencies shown between corporations’ publically stated values (environmental policies, health care policies, compensation, pension, and employee benefit issues) through support of specific candidates whose public policy and government regulation is in violation of company values can directly harm shareholder value.

A VOTE ON CORPORATE POLITICAL SPENDING

When NorthStar began to take a harder look at the political activities of companies in our portfolio, we took into consideration approaches pursued by the Center for Political Accountability (CPA) and other social investors, notably Walden Asset Management and Trillium Asset Management.²⁶ We concluded, as mentioned above, that disclosure of political spending alone does not sufficiently address discrepancies between corporate values and the values of endorsed candidates or political entities.²⁷ As fiduciaries, we are concerned that

²⁶ For further details, please read: “Target & Best Buy Announce New Policies on Political Spending Following Controversy about Minnesota Forward Contributions.” <<http://trilliuminvest.com/wp-content/uploads/2011/02/Target-Best-Buy-Press-Release.pdf>>

²⁷ Objections to providing a shareholder vote on political contributions have consisted of two main points: 1) that institutional investors will vote *with* management and the resolutions will therefore fail, and 2) that providing a vote will reduce discussions with management. The first point is countered directly by the experience of shareholder resolutions calling for disclosure of political contributions which first averaged under 10 percent of the vote, more recently culminating with the first such resolution to receive a majority (53.3 percent) of total shareholder votes cast for and against it at Sprint Nextel's annual meeting (2011). For reference, please see: <http://www.politicalaccountability.net/index.php?ht=a/GetDocumentAction/i/5379>. And, as to the second issue, our experience has been that shareholder resolutions calling for a shareholder vote actually provide a new opportunity for discussions with management that are absent when the company has already complied with disclosure of contributions and therefore has no basis for continued discussion around disclosure. A third point

political spending decisions by management, which are intended as beneficial to company value, may work at cross purposes. In addition, Justice Kennedy's majority opinion for the court in the *Citizens United* decision placed the onus on shareholders in a corporate democracy to keep management's political activities in check, such that we, as representatives of shareholders in the proxy process, must use our votes to uphold or dissuade management from potential conflicts. As a result of that investigation, NorthStar crafted and filed its first round of shareholder proposals at Home Depot,²⁸ FedEx,²⁹ and Procter & Gamble (P&G),³⁰ for the 2011 shareholder meetings, decrying corporate political activity incongruent with publically stated values and seeking a shareholder vote on corporate political activity. We have similarly pursued eight companies on the same issue for the 2012 shareholder meetings (Chubb, Intel, Google, Home Depot, Praxair, Ecolab, Johnson and Johnson, and Western Union).

Our perspective is that corporate standards for political giving must include an analysis of anticipated political spending for congruency with the company's values to minimize risk to shareholder value.

Support for this approach is evidenced by:

- When the 2010 Supreme Court ruling in *Citizens United v. Federal Election Commission* interpreted the First Amendment right of freedom of speech to include certain corporate

that critics have missed is that providing a shareholder vote is a better option for shareholders to preserve company value than waiting for public outrage and its attendant damage.

²⁸ This proposal was filed at Home Depot on 12/7/2010; it was challenged by the company at the SEC, however we prevailed and the proposal was put up for a shareholder vote on 6/2/2011. The proposal can be found in the 2011 Home Depot proxy booklet, available on the SEC's website:

<<http://www.sec.gov/Archives/edgar/data/354950/000119312511098642/ddef14a.htm>>

²⁹ This proposal was filed at FedEx on 4/15/2011, and was challenged at the SEC by the company. The proposal was subsequently excluded from the FedEx proxy on 7/21/2011 based on a claim that it substantially duplicated a proposal from the Comptroller of the City of New York, filed on 4/1/2011, which FedEx received first and which will be including.

³⁰ The proposal was filed at P&G on 4/28/2011, and was put up for a shareholder vote on October 11, 2011. The proposal can be found in the P&G proxy booklet, available on the SEC's website:

<<http://www.sec.gov/Archives/edgar/data/80424/000119312511233301/ddef14a.htm>>

political expenditures involving "electioneering communications," striking down elements of the previously well-established McCain-Feingold law, the decision itself required the remedy of "potential abuses" through "procedures of corporate democracy."³¹

- NorthStar's decision to seek a shareholder vote on political contributions was lauded by John C. Bogle, founder of the Vanguard Group, in making the case for a shareholder vote on political contributions in a *New York Times* Op-Ed: "In the Home Depot case, which was brought by NorthStar Asset Management, a Boston money manager, a vigilant S.E.C. [Securities and Exchange Commission] has allowed our shareholders to take that first step toward [corporate] democracy." Bogle argues that self-interested managers "exploit provisions in the law...to make lavish political contributions without disclosure... and subvert our political system," which can only be corrected by imposing a requirement for a binding "supermajority" (75%) shareholder vote on political contributions. Bogle also addresses the concern that "our nation's money managers now hold[ing] 70 percent of all shares of American corporations...have not always honored [the] responsibility to vote," pointing out that "mutual funds, our largest holders of stocks, are now required to publicly report how they voted during the year," finally giving shareholders the means to hold financial institutions accountable as well.³²
- "The standard (under Delaware corporate law) requires a unanimous shareholder vote to ratify a gift of corporate assets other than for charitable purposes."³³

³¹ "Citizens United v. Federal Election Commission." Supreme Court of the United States.
<<http://www.supremecourt.gov/opinions/09pdf/08-205.pdf>>

³² John C. Bogle. "The Supreme Court Had Its Say. Now Let Shareholders Decide." New York Times, 15 May 2011
<<http://www.nytimes.com/2011/05/15/opinion/15bogle.html>>

³³ Bogle.

- In allowing NorthStar’s resolution, the SEC agreed with NorthStar’s view that seeking an advisory vote on electioneering contributions is a shareholder right. Importantly, the SEC’s decision to allow the Home Depot resolution also established that NorthStar’s proposal was a significant social policy issue of concern to shareholders, addressed issues outside the ordinary business of the firm, was clearly defined, and that giving shareholders a vote goes beyond disclosure.³⁴
- On July 13, 2011, congressional leaders Rep. Michael Capuano, Sen. Robert Menendez and Sen. Richard Blumenthal re-introduced the Shareholder Protection Act,³⁵ a bill that would allow shareholders of public companies to vote annually on political spending. NorthStar signed a coalition letter to Congress supporting the Shareholder Protection Act. The coalition letter stated: “Responsible corporate governance requires the involvement of informed shareholders and is not a partisan issue. We believe that holding management accountable and ensuring that political spending decisions are made transparently and in pursuit of sound business is important for both the market and for democracy.”³⁶

Increasingly, shareholders are asking for more accountability and even evidence of value received for corporate political expenditures. When contributions are made to candidates via corporate treasury funds or through PAC funds that violate the same corporation’s policies and values, shareholder value is put at risk. Greater oversight requires that shareholders and their

³⁴ For reference, please see: “The Home Depot, Inc. March 25, 2011.” Division of Corporation Finance 2011 No-Action Letters Issued Under Exchange Act Rule 14a-8. <<http://www.sec.gov/divisions/corpfin/cf-noaction/14a-8/2011/northstarasset032511-14a8.pdf>>

³⁵ Please see: “Shareholder Protection Act of 2010.” GovTrack.us. <<http://www.govtrack.us/congress/billtext.xpd?bill=h111-4790>>

³⁶ “Coalition Letter in Support of the Shareholder Protection Act.” Corporate Reform Coalition. <<http://corporatereformcoalition.org/?p=282>>

fiduciaries be allowed an opportunity to weigh in on all of the company's political contributions before incongruent contributions occur.

In our experiences, company management states that compliance with election laws is the standard for directing contributions to political candidates³⁷ – even when candidates' political positions violate the company's policies and publically stated values. However, guidance provided by the CFA Institute's Code of Ethics and Standards of Professional Conduct states “in the event of conflict, Members and Candidates must comply with the more strict law, rule, or regulation.”³⁸ We believe this must include the company's own internal governing policies so as to avoid bias that reflects personal views and interests rather than those of the company as stated in company policies. As owners, we believe that the criteria for the company's political activities should be the higher of company standards or legal requirements, rather than the minimum (legal) standard referenced by management.

Furthermore, some of our colleagues have asserted that corporate PAC contributions should not be subjected to shareholder scrutiny through an advisory vote.³⁹ NorthStar maintains that PACs carry the same brand and reputational risks to shareholder value as any other corporate political activity. PACs are formed by the company, expenses are paid by the company, the name or brand of the company is used in association with the PAC, the PAC solicits both shareholders and salaried employees for contributions to the PAC, and senior management exercises discretion over the money.⁴⁰ Therefore, we maintain, shareholder scrutiny

³⁷ Personal correspondence: Letter from Kenneth Blackburn, Senior Counsel, Legal Division, Procter & Gamble to J. Goodridge, CEO of NorthStar Asset Management, Inc., dated July 27, 2011.

³⁸ CFA Institute Code of Ethics and Standards of Professional Conduct.
<<http://www.cfapubs.org/doi/pdf/10.2469/ccb.v2010.n14.1>>

³⁹ Personal correspondence between Timothy Smith, Director of ESG Shareowner Engagement of Walden Asset Management, and Julie NW Goodridge, President and CEO of NorthStar Asset Management, on 6/30/2011 and 8/16/2011.

⁴⁰ Code of Federal Regulations, Title 11: Federal Elections.

and input in advance of these PAC contributions is necessary to mitigate risk and safeguard shareholder value.

SUMMARY

We believe that there is a need to hold companies accountable for all aspects of their public actions. Incongruities in their public actions – whether or not we have had successful prior shareholder engagements; whether the source of the contribution is from a Political Action Committee (PAC) or by the company – are inherently problematic.

Shareholder value can be diminished by negative publicity associated with political giving that is incongruent with company values. Political spending decisions that are wholly dependent on the will and vision of a management without oversight to ensure that these decisions are in line with company values exposes the company to unnecessary risk. Governing policies that allow management to exercise personal views and interests rather than reflect corporate values potentially serve to harm company image and increase shareowner risk. As shareholders and fiduciaries, we believe that the criteria for the company's political activities should be based upon not solely legal requirements, but also on considerations of the company internal values as a higher standard. At this time of heightened public scrutiny of corporate political involvement, all shareholders need the opportunity to evaluate management's decisions and vote on political spending to avert potential loss of shareholder value.

The Target Corporation debacle of the summer of 2010 resoundingly demonstrated that shareholder value is at risk when contributions are made in violation of company values. As investment advisers, financial professionals, and shareholders, we must exercise our fiduciary responsibility and weigh in to provide checks and balances on corporate political activities.

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ABOUT THE AUTHORS

NorthStar Asset Management, Inc. is a socially responsible investment firm based in Boston, Massachusetts.

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