Investment Committee
Board of Trustees
Carleton College
Northfield, MN 55057

Dear Investment Committee:

The Carleton Responsible Investment Committee (CRIC) would like to take this opportunity to thank you once again for providing us the opportunity to meet with you during the winter term Board Meeting. Your willingness to consider the recommendations we made about Carleton’s proxy votes was particularly generous given the economic uncertainty your committee and the Board were (and are) addressing.

As a follow-up to that meeting you will find attached three items:

1. An update on the current state of the resolutions that we addressed in the February meeting.
2. A brief analysis of the sustainability resolution offered by shareholders of the Mirant Corporation.
3. A brief analysis of the impact of the Health Care Reform Principles Resolutions that were put forward by shareholders from a number of companies, including two that are part of Carleton’s holdings. While this resolution did not come to a vote at either Home Depot or AMEX’s shareholder meetings, we believe this issue is likely to come up in the future.

None of these items requires any action at this time. We simply wanted to keep you apprised of the proxy outcomes and our work this term. We look forward to continuing to work with your committee on the important issues associated with Carleton’s endowment.

Sincerely,

The Carleton Responsible Investment Committee (CRIC)

Shannon Schulz    David Schlosser    Michael Hemesath
David Lefkowitz  Eilidh Higgins '11 Nora Mahlberg '09
Alexander Persaud '09  Nathaniel Rosenblum '10  Cristina Sainati '10
CRIC

Update on 2009 Recommendations to the Investment Committee

1. Sustainability Initiatives
   a. Sustainability Reporting
      i. Mirant Corporation
         Annual Shareholder Meeting 5/7/09
         Company recommends voting against the proposal because “Mirant's principal responsibility is to provide reliable and competitive electricity. In doing so, Mirant recognizes the importance of minimizing the environmental impact of our operations.”
      ii. Dover Corporation
         Annual Shareholder Meeting 5/7/09
         Company recommends voting against the proposal because “The impact of climate change on Dover's businesses and Dover's impact on the environment are matters taken seriously within Dover.”
      iii. Safeway, Inc.
         The resolution was withdrawn by the petitioner because Safeway agreed to enhance reporting.
   b. Compact Fluorescent Lightbulbs (CFLs)
      i. General Electric Company
         The resolution was withdrawn by the petitioner because of ongoing dialogue with GE regarding all issues raised in the resolution.
      ii. Home Depot, Inc.
         Annual Shareholder Meeting 5/28/09
         No shareholder resolution is included in the Proxy Statement filed with the SEC on 4/15/09.
   c. Mountain Top Removal
      i. Citigroup (no longer held in Carleton's Endowment)
         The resolution was withdrawn; Company is developing a due diligence framework for assessing loans to the coal industry and has agreed to consider including input from shareholders.

2. Health Care Reform Principles
   a. American Express Company
      The resolution was withdrawn because the company has adopted the principles.
   b. Home Depot, Inc.
      The resolution was withdrawn due to insufficient shares.

3. Right to Water
   a. Intel Corporation (not in Carleton endowment on 12/31/08)
      Annual Shareholder Meeting 5/20/09
Company recommends voting against the resolution citing that Intel already has a comprehensive water program in place and a policy specifically addressing the Human Right to Water is not needed.

b. PepsiCo, Inc.
The resolution was withdrawn as PepsiCo has adopted a policy in support of the Human Right to Water (http://www.pepsico.com/Purpose/Environment/Water.aspx)
MIRANT Corporation Resolution on Sustainability Reporting

CRIC weighed the costs and benefits of supporting a shareholder resolution in favor of further sustainability reporting by Mirant.

The report would include information on how the company addresses pressures to reduce carbon dioxide and other emissions from the company’s products and operations. A board committee of independent directors would review the report.

The company’s response was that Mirant, as a competitive company, recognizes that it must minimize the environmental impact of its products. Furthermore, Mirant currently has several initiatives to reduce emissions and has adopted certain environmental principles as company policy. Mirant reports its steps in its SEC filings and thus the company feels that a further report would be redundant and that the cost would not further benefit shareholders.

CRIC voted to support this resolution. By Mirant’s own admission, disclosure and transparency are important aspects of remaining competitive, and positive public image is always at stake. Therefore, there is no disagreement over transparency per se. CRIC felt that a further report by Mirant would collate the company’s position and initiatives. Said report would be useful to shareholders by giving them further access to the company’s information and by giving a board committee the opportunity to review the report. The costs of reporting, in this case, were seen to be less than the overall benefit to the shareholders and to the company’s ongoing sustainability reporting.
Supporting statement from CRIC on Health Care Reform Principles Resolutions

During the 2009 proxy season a large number of companies’ shareholders were asked to support a resolution endorsing health care reform principles. Two companies that were part of the Carleton endowment holdings were included in that group: AMEX and Home Depot. These resolutions basically asked company boards to adopt principles (formulated by the Institute of Medicine) that health care coverage should be universal and affordable.

As we noted in the statement we included with our recommendations in February, this resolution does not mandate any specific action on the part of companies. In fact, it is not clear whether adopting these principles would have any impact on companies’ behavior. Yet we believe that if CRIC and the Investment Committee are committing time to examine proxy statements, we should not adopt resolutions that might be considered simply window dressing because they lack binding conditions that would actually change behavior.

So the relevant issue in this case is to consider what would result if companies adopted and acted upon the principles in this resolution. We suggest there are two cases: one if the company acted alone and the second if companies acted in concert.

Case I. In the case that an individual company sought to make health care coverage universal and affordable for its employees, costs for this company would rise. Some stakeholder would need to absorb these additional costs. If employees were required to absorb the costs, their take-home pay would drop as a greater share of compensation was used to provide health care benefits. If stockholders were asked to absorb these costs, profits would drop and the returns to the company’s shareholders would fall. If customers were asked to pay for these additional health care costs, prices for the firm’s output would rise and, depending on the competitive environment for the firm, either customers would be worse off or they would shift their demand to a competitor, and shareholders and employees would soon be worse off. So in Case I, the most likely outcome would be that shareholders would be required to accept lower returns in exchange for supporting the principle of universal, affordable health care. This outcome could well lead some shareholders to seek higher returns elsewhere.

Case II. In the event that companies acted together, possibly through a government mandate, to provide all employees with health care coverage, total labor costs for each company would very likely rise. (Providing a significant number of additional individuals with comprehensive health care coverage will require more resources.) Again, the question becomes who will cover these additional costs. Workers could see lower take-home wages, for the reasons noted above. Shareholders could see lower profits, but in this case, all shareholders would see their returns fall, rather than an individual company’s returns falling. In this case, there would be no incentive for shareholders to move their assets to other domestic equity investments, though they
might well seek higher returns abroad. If the higher health care costs were passed on to customers, they would be made worse off, but companies would all stay in business to the extent that all producers were affect equally and chose to pass on the higher costs to their customers. A final possibility would be for government to subsidize these new higher health care costs, but, of course, these subsidies would come from tax revenues and ultimately lower the take-home pay of workers.

In Case I, shareholders of the single firm which adopted universal health care coverage would likely pay.

In Case II, if capital were mobile across borders, the most likely outcome would be that workers would pay for the health care, either in the form of lower take-home compensation from their employers or in the form of higher taxes. In exchange, however, they would get health care coverage they lacked previously, possibly at a lower cost than they could have purchased it on their own.

In supporting these resolutions, it is our hope that these health care principles will become common enough among organizations that adopting them will not prove to be a competitive disadvantage but rather will lead to more widespread health care coverage for many workers who are now uninsured, even as we recognize that the costs of this health insurance is likely to be borne by employees.