

## Does CEO Hank Paulson run Goldman Sachs for himself or shareholders?

March 21, 2006

Dear Goldman Sachs Shareowner:

The purpose of this letter is to seek your support for a special Shareowner Proposal to be voted on at the annual meeting of The Goldman Sachs Group, Inc. on March 31, 2006. The Proposal concerns a potential conflict of interest by CEO Henry Paulson that may be barred by Goldman's *Code of Business Conduct and Ethics*<sup>1</sup> and *Business Principles*.<sup>2</sup>

Action Fund Management, LLC is the investment adviser to the [Free Enterprise Action Fund](#), an institutional shareowner in Goldman. We support the Shareowner Proposal ([mentioned on Page 42 of Goldman's 2006 Proxy Statement under the heading "Other Business"](#)).

### Potential Conflict of Interest #1: Nature Conservancy Chairmanship

Mr. Paulson is not only the Chairman and CEO of Goldman Sachs, but he is also the Chairman of the Board of the Nature Conservancy<sup>3</sup>, an environmental activist group. Mr. Paulson's wife is a former board member of the Nature Conservancy. Mr. Paulson once considered leaving Goldman to become the CEO of the Nature Conservancy and "says his commitment to the environment is largely self-interest: 'It isn't like I'm trying to do good. This is really fun for me.'"<sup>4</sup>

In November 2005, Goldman adopted an "Environmental Policy"<sup>5</sup> that is similar to key aspects of the Nature Conservancy's activist agenda, including:

1. **Global warming:** Both assert that manmade emissions of greenhouse gases (GHG) adversely impact global climate and that such emissions should be reduced.<sup>6</sup>
2. **Indigenous peoples:** Both provide that indigenous peoples approve local development projects.<sup>7</sup>
3. **Logging:** Both assert that logging be limited by criteria supported by environmental activists.<sup>8</sup>

Goldman has not justified its Environmental Policy as either promoting shareholder value or, at least, not harming shareholder value.

Greenhouse gas regulation, for example, is widely anticipated to significantly raise energy prices and, thereby, adversely impact economic development and growth.<sup>9</sup> Goldman acknowledges in its 2005 Annual Report that increased reliance on oil and natural gas poses a "clear risk" to the global economy. But greenhouse gas regulation may only further increase reliance on oil and natural gas as coal becomes a disfavored fuel. Moreover, and as acknowledged by proponents of greenhouse gas regulation, it's not at all clear that greenhouse gas regulation will benefit the environment, much less Goldman shareholders.<sup>10</sup>

The “indigenous peoples” policy, we believe, is used by anti-development environmental activists to foment local opposition to energy, natural resource and land-use projects.<sup>11</sup> Goldman has not explained how blocking development will help poverty stricken nations or increase shareholder value.

We believe logging criteria promoted by environmental activists tends to discourage or prevent logging regardless of its merits.<sup>12</sup> Goldman has not explained how such policies will benefit Goldman’s shareholders.

“Clients don't come to us because we have an environmental policy,” a Goldman executive acknowledged to the media.<sup>13</sup>

On November 30, 2005, we asked Goldman’s management to review its Environmental Policy to determine whether it was in the best interests of shareholders.<sup>14</sup> To date, Goldman has not responded.

### **Potential Conflict of Interest #2: Chilean Land Deal**

Inside the U.S., Paulson’s Nature Conservancy uses land acquisition to advance its agenda.<sup>15</sup> Outside the U.S., it works with other groups, such as the Wildlife Conservation Society (WCS), to acquire land.<sup>16</sup> Paulson’s daughter, Merritt Paulson, is on WCS’ Board of Advisors.<sup>17</sup>

In September 2004, Goldman donated 680,000 acres in Chile to the WCS. Goldman had previously acquired the land through a loan default, that is with corporate assets.<sup>18</sup> Goldman has acknowledged that the donation was not business-related or intended to create shareholder value.<sup>19</sup>

On January 5, 2006, we asked Goldman’s management to review the Chilean land donation to determine whether it was in the best interests of shareholders.<sup>20</sup> Again, Goldman has not responded to date in any substantive manner.

### **Problems at the Nature Conservancy**

As reported in a May 2003 series of articles at the *Washington Post*, the Nature Conservancy has come under criticism and congressional investigation<sup>21</sup> for the following practices:<sup>22</sup>

- Acquiring raw land, attaching development restrictions, and then reselling the properties to supporters at greatly reduced prices;
- Selling ecologically sensitive land at reduced prices to the organization’s trustees for use as home sites;
- Conducting land deals that coincide with charitable contributions to the Conservancy from the buyers, who then benefit from significant tax breaks;
- Buying land from corporations whose executives sat on the nonprofit’s governing board; and
- Accepting cash payments for roughly the amount of a discount that is then written off the buyers’ federal income taxes.

If Mr. Paulson is going to continue as chairman of both Goldman Sachs and the Nature Conservancy, shareowners should know that the controversy involving the Nature Conservancy won’t adversely impact shareowner value.

## Shareowner Proposal

While the Environmental Policy and Chilean land donation are consistent with, and may promote the agendas of the Nature Conservancy and Wildlife Conservation Society, they may not be consistent with, or promote shareholder value – CEO Paulson’s primary job.

Moreover, we understand that Goldman’s company policies generally prohibit personal interests, including those involving family members, from improperly conflicting with firm business interests. Goldman’s company actions should instead rely on sound business, economic and scientific analyses, and not the personal social and political interests of executives. Such conflicts of interest may reduce shareholder value.

Filed by the National Legal and Policy Center with our assistance, the Proposal asks that the Board of Directors report to shareholders, at reasonable cost and omitting proprietary information, examining whether the Environmental Policy and Chilean land donation were consistent with company policies. The report should:

- Discuss the social and political interests of the Nature Conservancy and WCS, the business interests of Goldman and the personal interests of key Goldman executives involved with the Environmental Policy and Chilean land donation;
- Discuss the decision-making process leading to Goldman’s Environmental Policy and land donation; and
- Determine whether any violations of Goldman’s Code of Business Conduct and Ethics occurred.

The vote on the Proposal involves a special ballot available only at the Goldman meeting. Shareholders will not be able to vote on the Proposal by proxy.

Please attend Goldman’s annual meeting and vote “FOR” the Proposal. If you have questions, you may reach us by telephone 301-258-2852 or via e-mail at [steve@feafund.com](mailto:steve@feafund.com).

Sincerely,

Thomas J. Borelli, PhD. & Steven J. Milloy, MHS, JD, LLM  
Action Fund Management, LLC, Advisor to the Free Enterprise Action Fund  
[www.FreeEnterpriseActionFund.com](http://www.FreeEnterpriseActionFund.com)

---

<sup>1</sup> Section B entitled, “Personal Conflicts of Interest” reads, in part, “A “personal conflict of interest” occurs when an individual’s private interest improperly interferes with the interests of the firm. Personal conflicts of interest are prohibited as a matter of firm policy, unless they have been approved by the firm. In particular, an employee or director must never use or attempt to use his or her position at the firm to obtain any improper personal benefit for himself or herself, for his or her family members, or for any other person, including loans or guarantees of obligations, from any person or entity. Service to the firm should never be subordinated to personal gain and advantage. Conflicts of interest should, to the extent possible, be avoided.

[http://www.gs.com/our\\_firm/investor\\_relations/corporate\\_governance/articles/corporate\\_governance\\_030224195742.html](http://www.gs.com/our_firm/investor_relations/corporate_governance/articles/corporate_governance_030224195742.html)

<sup>2</sup> Section 8 reads, in part, “We have no room for those who put their personal interests ahead of the interests of the firm and its clients.”

<sup>3</sup> <http://nature.org/>

<sup>4</sup> Fortune, Hank Paulson’s Secret Life (December 29, 2003).

<sup>5</sup> [http://www.gs.com/our\\_firm/our\\_culture/corporate\\_citizenship/environmental\\_policy\\_framework/docs/EnvironmentalPolicyFramework.pdf](http://www.gs.com/our_firm/our_culture/corporate_citizenship/environmental_policy_framework/docs/EnvironmentalPolicyFramework.pdf)

- 
- <sup>6</sup> Compare Goldman's policy in the section entitled "Climate Change" at [http://www.gs.com/our\\_firm/our\\_culture/corporate\\_citizenship/environmental\\_policy\\_framework/docs/EnvironmentalPolicyFramework.pdf](http://www.gs.com/our_firm/our_culture/corporate_citizenship/environmental_policy_framework/docs/EnvironmentalPolicyFramework.pdf); and the Nature Conservancy's policy at [http://www.nature.org/magazine/summer2004/climate\\_change/](http://www.nature.org/magazine/summer2004/climate_change/).
- <sup>7</sup> Compare Goldman's policy in the section entitled, "Indigenous People" at [http://www.gs.com/our\\_firm/our\\_culture/corporate\\_citizenship/environmental\\_policy\\_framework/docs/EnvironmentalPolicyFramework.pdf](http://www.gs.com/our_firm/our_culture/corporate_citizenship/environmental_policy_framework/docs/EnvironmentalPolicyFramework.pdf); and the Nature Conservancy's policy at <http://www.nature.org/partners/partnership/art14301.html>.
- <sup>8</sup> Compare Goldman's policy in the section entitled, "Business Selection and Risk Management" at [http://www.gs.com/our\\_firm/our\\_culture/corporate\\_citizenship/environmental\\_policy\\_framework/docs/EnvironmentalPolicyFramework.pdf](http://www.gs.com/our_firm/our_culture/corporate_citizenship/environmental_policy_framework/docs/EnvironmentalPolicyFramework.pdf); and the Nature Conservancy's policy at <http://www.nature.org/success/art14956.html>.
- <sup>9</sup> See e.g., Testimony of Margo Thorning, American Council on Capital Formation to the Senate Subcommittee on International Economic Policy, Export and Trade Promotion (November 14, 2005) <http://www.accf.org/pdf/Statementfinal.pdf>
- <sup>10</sup> World Resources Institute, Climate Science 2005 (March 2006) <http://climate.wri.org/climatescience-pub-4175.html>.
- <sup>11</sup> Milloy, Steven J., Market-based environmentalism is an oxymoron, FoxNews.com <http://www.foxnews.com/story/0,2933,176649,00.html> (November 24, 2005).
- <sup>12</sup> Ibid.
- <sup>13</sup> New York Times, It's getting crowded on the environmental bandwagon (December 22, 2005).
- <sup>14</sup> Letter from Free Enterprise Action Fund to Goldman Sachs (November 29, 2005).
- <sup>15</sup> <http://www.nature.org/aboutus/howwework/conservationmethods/privatelands/>
- <sup>16</sup> Ibid.
- <sup>17</sup> [http://www.wcs.org/media/file/TRUSTEE\\_8-9.pdf](http://www.wcs.org/media/file/TRUSTEE_8-9.pdf)
- <sup>18</sup> See e.g., Wildlife Conservation Society, Goldman Sachs Announces unique Transfer of Chilean Wilderness to WCS. <http://www.wcs.org/353624/4556203t>.
- <sup>19</sup> See video statements at [http://www.gs.com/our\\_firm/our\\_culture/corporate\\_citizenship/tierradelfuego/articles/tierradelfuego\\_050113142317.html](http://www.gs.com/our_firm/our_culture/corporate_citizenship/tierradelfuego/articles/tierradelfuego_050113142317.html).
- <sup>20</sup> Letter from Free Enterprise Action Fund to Goldman Sachs (January 5, 2006).
- <sup>21</sup> Media Release from the Office of Sen. Charles Grassley, Grassley seeks answers on nature conservancy donations, deals (July 17, 2003).
- <sup>22</sup> Washington Post, Corporate ties enrich, entangle Nature Conservancy - 1.6 million home loan among president's perks (May 4, 2003); Washington Post, Inside the Nature Conservancy - Nonprofit Land Bank Amasses Billions - Charity Builds Assets on Corporate Partnerships (May 5, 2003); and Washington Post, A House in the Woods - Nonprofit Sells Scenic Acreage to Allies at a Loss - Buyers Gain Tax Breaks With Few Curbs on Land Use (May 6, 2003).

###

**An investor should consider the fund's investment objectives, risks, and charges and expenses carefully before investing or sending money. This and other important information about the Free Enterprise Action Fund can be found in the fund's prospectus. To obtain a prospectus, please call 1-800-766-3960 or visit [www.FreeEnterpriseActionFund.com](http://www.FreeEnterpriseActionFund.com). Please read the prospectus carefully before investing.**

Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed income securities. The net asset value per share of this Fund will fluctuate as the value of the securities in the portfolio changes. The Free Enterprise Action Fund is a new fund with limited investment history and there is no guarantee that it will achieve its investment objectives.

The Free Enterprise Action Fund is advised by Action Fund Management, LLC, which receives a fee for its services, and is distributed by BISYS Fund Services Limited Partnership, which is not affiliated with Action Fund Management, LLC.