

## How Do Mutual Funds Vote Their Proxies?

Introduction  
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On May 29 this year, the *Washington Post* and other newspapers carried a story about the Rockefeller family's effort, through a shareholder proposal at the ExxonMobil annual meeting, to change the policies of the company in a number of key areas, including global warming. Under applicable SEC rules, companies are required to include such proposals in their proxy materials. In this case, the press interest was unusual because the Rockefellers—who still own a substantial piece of ExxonMobil—were opposing the recommendations of the company's management, the successors to their great grandfather.

The Rockefellers' proposal on global warming received only 10.4 percent of the vote—and was probably reported in the media because of its unusual connection to a famous family. However, it would not be surprising if shareholder proposals at corporate annual meetings one day become major subjects of media interest. Many of you may recall the ultimately unsuccessful campaign in the *New York Times* several years ago to open up the membership of the Augusta National Country Club to women. Leaving aside the merits of the issue, the *Times* campaign consisted of a series of 95 news stories and editorials in 2002 and 2003, and demonstrated that private organizations and individuals can easily become the subject of essentially political campaigns if a major media voice decides to take up an issue.

So what would happen if, say, the *New York Times* took up the cause of “reforming” ExxonMobil's policy on global warming? What if there were editorials regularly calling on the directors and managers of mutual funds, pension funds, and other institutional investors to vote their shares in favor of a shareholder proposal to change the policies of the company? These generally anonymous people would suddenly become the focus of a media campaign. How would they react? What standards would they use for deciding how to vote?

These are questions that I don't think are very far below the surface of today's political debates, and it seems to me that there are two basic issues at stake. First, do business corporations have obligations to society that go beyond the creation of economic value—do they have obligations beyond the pecuniary interests of their shareholders to be good “corporate citizens,” as that term is defined by various interest groups? And second, is it good policy from the standpoint of society to involve business corporations in the political controversies of the day?

The report we will study today does not have any answers to these questions, but it suggests how one very important group of institutional investors sees its own responsibilities—how mutual funds, or advisers acting their behalf, individually define their obligations to their own shareholders. The mutual fund business, which holds about \$6 trillion in voting corporate

shares, and over \$11 trillion in corporate securities overall, is regularly faced with the question of how to vote its shares. Under SEC rules, mutual funds must vote their shares and must report how they vote, so there is no way to avoid the controversies that inevitably arise when shareholder proposals raise issues that are generally of interest to the press and public.

The report shows that mutual funds and advisers generally vote in accordance with what one would regard as the economic interests of mutual fund shareholders. That is, mutual funds generally vote with management when that is in the economic interests of mutual fund shareholders, and against management on the same grounds—for example, when the shareholder proposal is the elimination of an anti-takeover device. This falls squarely within the fiduciary obligations of directors to attend principally to the interests of the fund and its shareholders when deciding on a course of action.

The real test will come, for mutual funds and other institutional investors, when the *Times* or some other media outlet decides to pick up a shareholder proposal at an annual meeting—such as a company’s approach to global warming—and turn it into a major public issue. Meanwhile, the report we will hear about today should give us an important baseline for understanding how institutional investors currently understand their voting responsibilities as shareholders.