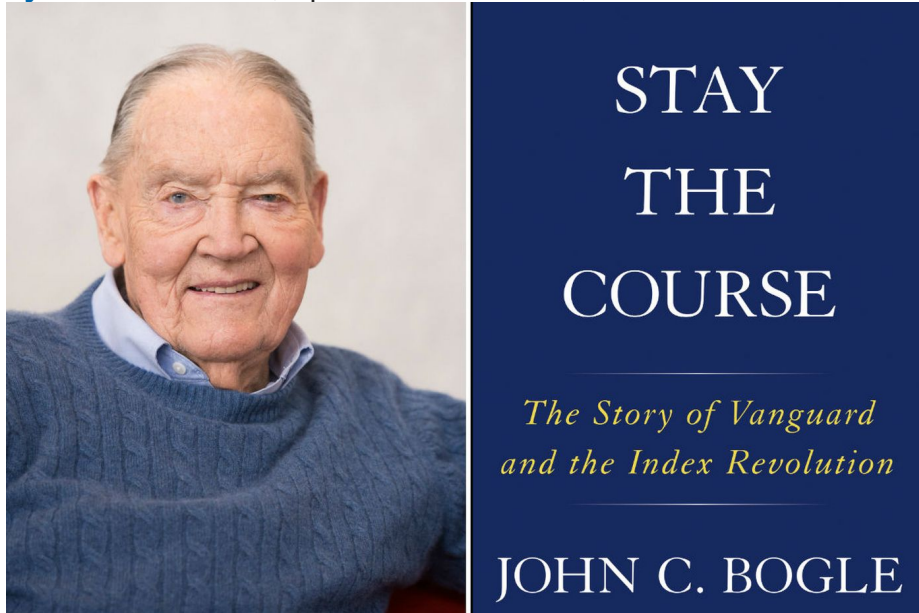


BUSINESS

Vanguard is no friend to shareholders seeking more details on firms' political spending

<http://www2.philly.com/business/vanguard-blackrock-fidelity-political-spending-donations-morningstar-votes-20181207.html>

by **Catherine Dunn**, Updated: December 7, 2018



COURTESY OF WILEY BOOKS

When shareholders of Camden, NJ-based [American Water Works](#) asked fellow investors to support a measure on corporate political spending accountability this year, Vanguard voted 'no.'

So it went for similar resolutions put forth at annual meetings for Range Resources -- one of the first companies to drill for natural gas in Pennsylvania's Marcellus Shale -- and at more than a dozen other companies, including Ford, PayPal, and Equifax.

Shareholders calling for political spending disclosure and oversight policies didn't get support from mutual fund behemoth Vanguard -- which consistently voted against those resolutions when it came time to cast its proxy.

Mutual funds that are investing money for workers and retirees hold a vast amount of the U.S. stock market, and, collectively, [that gives them a lot influence over the slate of issues that shareholders vote on every year](#) -- whether it's electing board members, or weighing in on environmental, social and governance (ESG) resolutions.

As Vanguard founder [John Bogle outlined in the Wall Street Journal](#) recently, U.S. index mutual funds now own more than 17 percent of the American stock market's value -- up from 4.5 percent in 2002.

"If historical trends continue, a handful of giant institutional investors will one day hold voting control of virtually every large U.S. corporation," Bogle wrote in the piece, adapted from his new book, *Stay the Course: The Story of Vanguard and the Index Revolution*. "Public policy cannot ignore this growing dominance, and consider its impact on the financial markets, corporate governance, and regulation."

Critics of Vanguard's proxy voting record seem to agree with the inventor of the index fund. The Center for Political Accountability writes a model shareholder resolution on political spending accountability, and published an analysis this month of how mutual funds voted on it in 2018. Among 46 large asset managers, support for the resolution rose eight points this year -- from 45 percent in 2017, to 53 percent in 2018.

But some of the biggest institutional investors on Wall Street defied that trend. "Vanguard, Fidelity and BlackRock really have had abysmal voting records on these resolutions," said Bruce Freed, the center's president. Both Vanguard and Fidelity had zero percent support for the resolution while BlackRock had 4.1 percent support.

Freed's group argues that political spending is a significant risk management issue for companies. "It's a reputational threat, it's a business threat, and it's a legal threat," he said, adding: "You have consumers and employees who are very sensitive to how companies are spending money, and they will walk if they are disturbed by that." Vanguard defended its stance, saying in an emailed statement that the company's "investment stewardship activities are not driven by any political, social, or environmental agendas."

A spokesperson said Vanguard engages on topics "that we believe could affect our clients' investments outcomes. In addition to conducting corporate governance analysis,

our investment stewardship team regularly evaluates whether and where environmental, social, or political risks could pose challenges to a company's long-term performance." Fidelity said it doesn't comment on specific companies or votes (though its written policies address ESG issues [here](#) and [here](#)).

In contrast to those three money managers, firms such as PIMCO, Morgan Stanley and Lazard showed 100 percent support when their funds voted on the political spending resolution this year.

The analysis is drawn from the Morningstar Fund Votes Database, which looked at how 115 fund groups voted this year and last. In total, 60 groups increased their support for political spending oversight in 2018, and 23 groups decreased their support for it. "There is a growing realization among the largest asset managers that social and environmental issues are material investment considerations," said Jackie Cook, who founded Fund Votes in 2007 to track the positions of mutual funds on these issues. The investment research firm Morningstar, which provides ratings on funds, [acquired the company](#) this year.

For the biggest funds, "their power is in the votes they control, plus the example they set," Cook said. "When they vote in support of a resolution, they really are signaling something about this issue."

Last year, for instance, Vanguard and BlackRock voted for the first time to support resolutions on [climate change risk at ExxonMobil](#) and Occidental Petroleum -- and both energy companies, in turn, [agreed to start disclosing](#) those types of risks.

Trillium Asset Management, a shareholder advocate on ESG issues, sponsored the political spending resolution at American Water Works this year. It got nearly 40 percent support -- a level of support that's considered a strong signal to management.

Because index funds have wide exposure across the overall market and economy, "it's in your interest as an investor to have a well-functioning political system," said Jonas Kron, Trillium's director of shareholder advocacy, "where there's a basic understanding of who is doing what spending, and who they're trying to influence."

Trillium has refiled the proposal for next year. "The capital market economy that we have now and democracy grew up together hand in hand," he said. "They don't exist in isolation."

Posted: December 7, 2018 - 4:38 PM

[Catherine Dunn](#) | [@catadunn](#) | cdunn@phillynews.com