



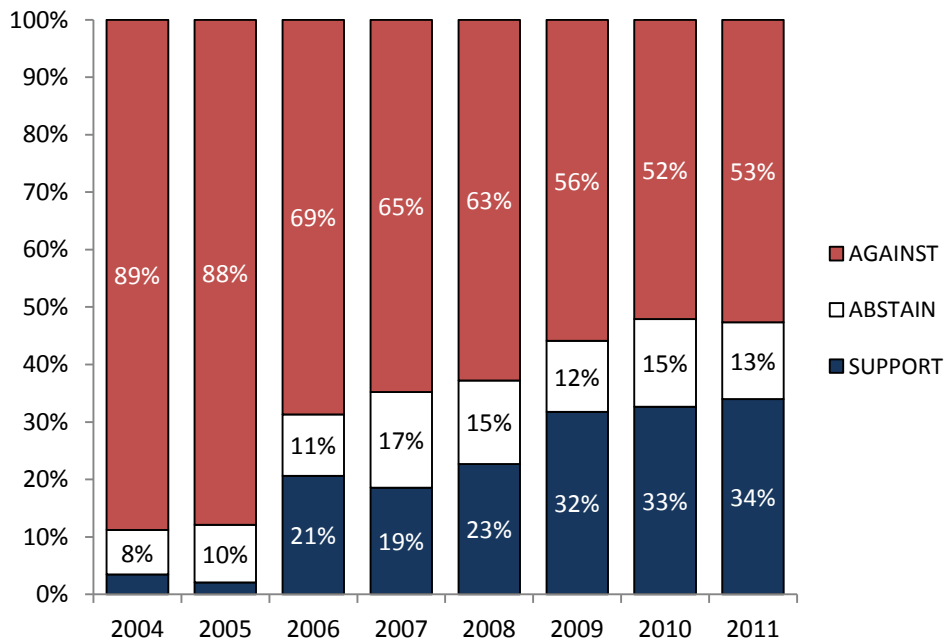
Corporate Political Spending and the Mutual Fund Vote

Mutual Fund Support Reaches a New High in 2011

Jackie Cook, Fund Votes
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Mutual funds' support for corporate political spending disclosure reached a new high in 2011. Average percent of votes cast by 40 of the largest U.S. mutual fund firms *FOR* the 32 Center for Political Accountability (CPA) model political spending resolutions moved up to 34%, compared with votes cast *AGAINST* or *ABSTAIN*. This continues an eight year trend of increasing support. Disappointingly, opposition also grew fractionally with a slight decrease in abstentions.

Figure 1: Mutual Fund Voting Trends on Political Contributions Resolutions 2004-2011



CPA considered the eight year voting records on its model resolution of 40 of the largest mutual fund families in 2011. These mutual fund families hold voting power over almost \$ 3 trillion in U.S. securitiesⁱ and have tremendous influence over how companies approach corporate governance issues.

The study considered more than 53,000 votes on shareholder-sponsored corporate political contributions resolutions cast by individual funds comprising 40 fund families. These votes were identified in the SEC filings (called Form 'N-PX') of the investment companies comprising each of the fund groups.

Two hundred and twenty-one resolutions voted on across the eight year period were considered. Vote tallies were computed for each fund family for each year by registering a unique vote against each resolution across a family of funds. Thus, votes by multiple funds in the same fund family on the same resolution are counted once. In a number of cases individual funds within a fund family may vote at odds with each other on the same resolution. In such cases, both votes are registered in the tally.

Investor Interest in Corporate Political Spending Disclosure

A number of developments over the past year contributed to accumulating evidence of the importance to investors of accountability and transparency for corporate political spending.

1. The total number of S&P 100 companies voluntarily disclosing corporate political spending approached 60 in 2011ⁱⁱ, up from just one in 2004, casting those that continue to oppose this shareholder request as outside what is becoming a mainstream corporate practice.ⁱⁱⁱ
2. A record level of shareholder support for corporate political spending resolutions was registered in 2011, reaching an average of 33% support in 2011 from just 9% support in 2004. Support exceeded 40% on eight such resolutions in 2011.
3. In August 2011 ten academics comprising the Committee on Disclosure of Corporate Political Spending submitted a petition to the U.S. Securities and Exchange Commission calling on the agency to “develop rules to require public companies to disclose to shareholders the use of corporate resources for political activities.”^{iv}
4. Institutional Shareholder Services (ISS), the largest of the proxy advisory firms, changed its voting recommendations for proposals requesting greater disclosure of corporate political contributions and trade association spending policies and activities, beginning in February 2012. Their position has gone from opposition in 2004-2005 when the resolution was first filed to a “CASE-BY-CASE” review between 2006 and 2011. The change to “Generally Vote FOR” is likely to have a noticeable impact on the average shareholder vote outcome in the 2012 proxy season.^v
5. The California Public Employees’ Retirement System (CalPERS) and California State Teachers’ Retirement System (CalSTRS), the largest and second largest pension funds in the U.S., recently incorporated board oversight as well as disclosure of corporate political activity - direct and indirect, monetary and non-monetary - into their governance policy in the interests of increased transparency and accountability.^{vi}
6. In October 2011 the Center for Political Accountability and the Zicklin Center for Business Ethics Research at The Wharton School of the University of Pennsylvania released the [CPA-Zicklin Index of Corporate Political Accountability and Disclosure](#). This Index ranked S&P 100 companies according to their performance on Policy and Practice Indicators. Its findings demonstrated that political disclosure and accountability was becoming a mainstream corporate practice.^{vii}
7. The U.S. Supreme Court’s 2010 decision in the *Citizens United* case increased the opportunities for corporations to make independent expenditures, directly or through third parties, supporting or opposing a candidate. It also heightened public and investor concern about corporate involvement in the political process. In November 2010 The Conference Board

published the [*Handbook on Corporate Political Activity*](#) which was co-authored by the Center for Political Accountability. It outlined the reputational, business and legal risks to companies from political spending with corporate funds and provided guidance on how to manage and oversee that spending.^{viii}

2011 Vote Highlights

In 2011 mutual funds were almost as likely to support shareholder resolutions on corporate political spending as those on executive compensation. Indeed, their support averaged 38%, just four percentage points higher than support for political disclosure. This suggests that mutual funds now view the use of corporate resources to influence the political process as a key governance issue requiring company accountability and transparency policies and board oversight.

However, voting patterns on political disclosure vary dramatically from fund group to fund group. This report takes a closer look at voting trends on shareholder-sponsored resolutions calling for greater disclosure of corporate political spending to provide a context for the 2011 support levels of individual fund groups.

While the 2011 improvement in mutual fund voting on political spending resolutions is modest, a closer look at the data reveals a number of encouraging points.

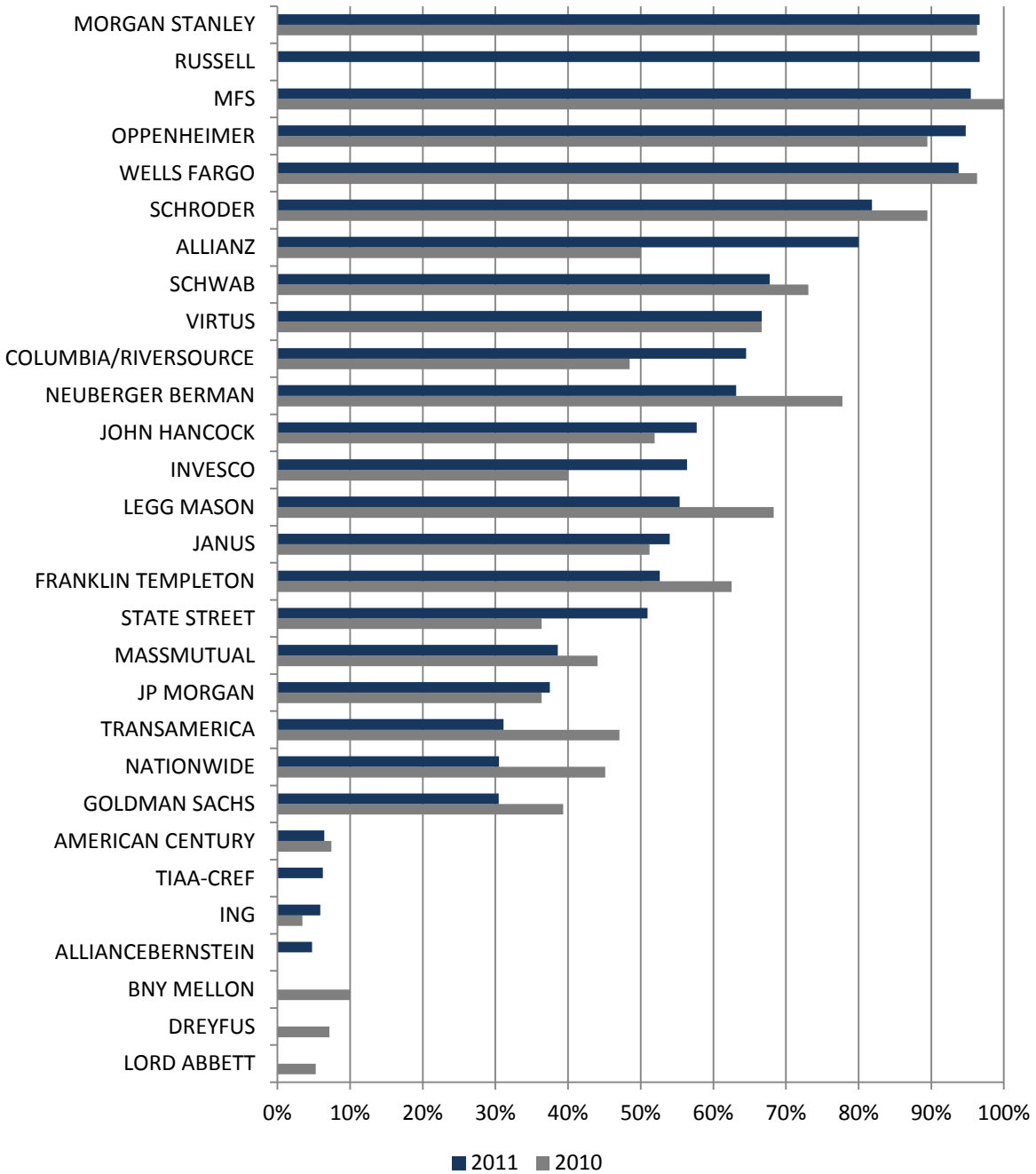
- Seventeen of 40 of the largest U.S. mutual fund families cast a majority of votes in support of resolutions calling for increased disclosure of corporate political spending in 2011.
- A substantial increase in support was registered in the votes of Russell, Allianz, Columbia, Invesco and State Street.
- Morgan Stanley, MFS, Oppenheimer, Wells Fargo and Schroder continue to support more than 80% of political spending resolutions. In 2011, these fund groups were joined by Russell and Allianz.

Russell provided the biggest surprise of the year. Having never cast a single vote in support of corporate political contributions resolutions between 2004 and 2010, this group of funds cast 95% of their votes for these resolutions in the 2011 proxy season. Their proxy voting guidelines provide no clues, as yet, to this change of position.^{ix}

Riversource Funds had not supported a single political contributions resolution up to 2010 and Columbia had supported 48% of resolutions up to that time. Now both are managed by Columbia Management Investment Advisers following their merger in 2010, and 2011 support registered by the combined Columbia/Riversource fund group went up to 63%.

Also in 2010 Van Kampen was acquired by Invesco. It had supported political contributions resolutions 92 percent of the time in 2010 and Invesco had supported 40% of resolutions in 2010. In 2011, Invesco's support reached 56%.

Figure 2: Most Mutual Fund Families Ranked by 2011 Support for Political Contributions Disclosure Resolutions



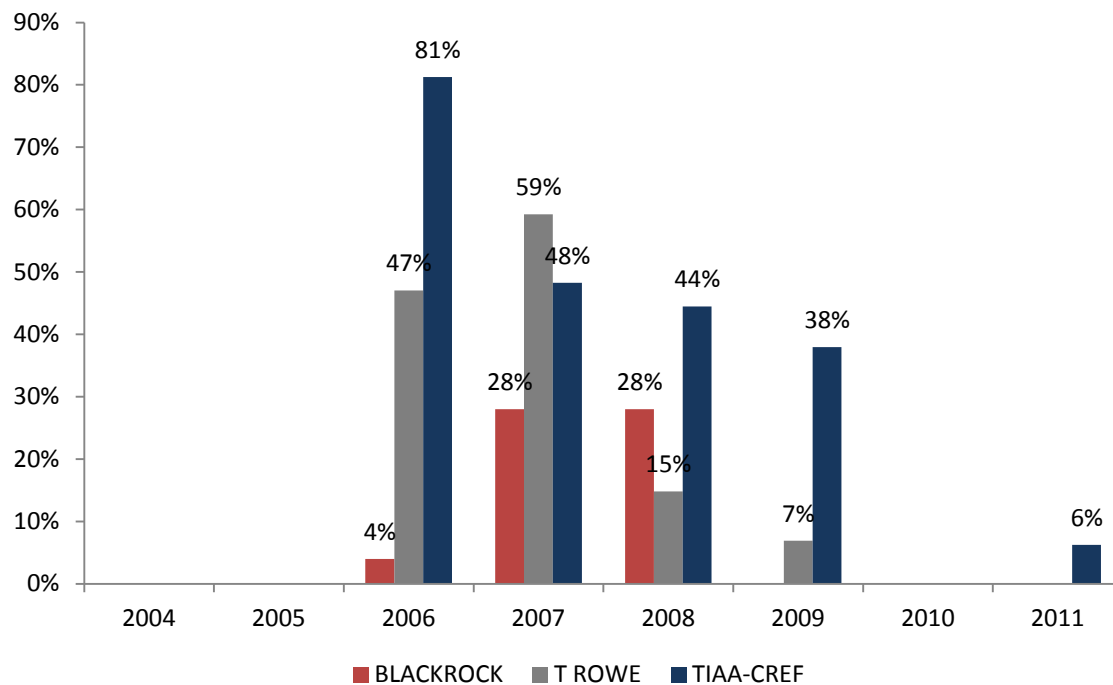
Where some are showing leadership, others lag.

- Fund groups failing to support a single political contributions resolution in 2010 and 2011 include American, Blackrock, Dodge & Cox, DWS, Federated, Fidelity, Harbor, Pioneer, Putnam, T Rowe and Vanguard. These groups are not shown in Figure 2 above.

- Fourteen fund families did not support political spending resolutions in 2011. These include the eleven listed above as well as the three listed at the bottom of the ranking shown in Figure 2.
- Of these, Dreyfus and BNY Mellon had cast their first ever votes in support in 2010 before switching to back to oppose as their default strategy in 2011.
- Three fund families continue to abstain on almost all political spending resolutions, including Fidelity, Vanguard and TIAA-CREF.
- Five fund families showed a disappointing drop in support compared to 2010 support levels, including Neuberger Berman, Legg Mason, Goldman Sachs, Massmutual and Nationwide.

Blackrock, T Rowe and TIAA-CREF had in previous years cast a significant number of votes in support of political spending resolutions, yet all three have withdrawn this support over the last two to three years. Blackrock and T Rowe both opposed every political spending resolution on which they voted in 2011, whereas TIAA-CREF joined Fidelity and Vanguard in abstaining on these resolutions.

Figure 3: Funds Once Supportive of Political Contributions Resolutions



While Fidelity and Vanguard abstain on most shareholder-sponsored resolutions not strictly directed at executive pay or corporate governance measures, TIAA-CREF’s record of abstention is more difficult to understand given its policy on political disclosure. It abstained on all but two of the 32 political spending resolutions that it voted on in 2011 – at ConocoPhillips and Valero.

TIAA-CREF’s voting pattern does not seem consistent either with growing investor opinion or with its voting guidelines, which state:

“TIAA-CREF will generally support reasonable shareholder resolutions seeking disclosure or reports relating to a company’s political expenditures, including board oversight procedures, direct political expenditures, and contributions to third parties for the purpose of influencing election results.”^x

Nationwide and Legg Mason, which supported 31% and 55% of resolutions in 2011, respectively, both base their voting guidelines on ISS guidelines, which may mean that the updated ISS proxy voting advice applicable from February 2012 will see their support for corporate political contributions resolutions increase.

Leading with Proxy Voting Guidance

Surprisingly, apart from fund families whose proxy voting guidelines are based on those of large voting advisory firms, ISS and Glass Lewis, even the most supportive of the mutual fund groups tend not to specifically mention corporate political spending in their official proxy voting guidelines, as disclosed in public SEC filings.

Recently Ceres published a set of principles and guidance for proxy voting for sustainability, developing the case that sustainability is emerging as one of the key drivers of long term performance and that the proxy voting guidelines of large institutional investors need to reflect this since proxy voting is a key stewardship function.^{xi}

Mutual funds looking to update their proxy voting guidelines with more specific guidance on corporate political contributions disclosure and oversight may draw on Appendix 2 of the Conference Board’s Handbook on Corporate Political Activity in which is provided sample institutional investor proxy voting guidance.

With growing investor interest, international pressure on institutional investors to exercise greater stewardship, and more than thirty resolutions to consider on the proxy ballots of large corporations held by most fund families for the 2012 proxy season, it seems reasonable to expect that fund groups develop guidance on how they intend to vote on this critical governance issue.

Data Source

This report was based on data provided by Fund Votes (<http://www.fundvotes.com>), an independent project started in 2004 that tracks mutual fund proxy voting in the U.S. and Canada. The database of over 30 million indexed proxy voting decisions by large financial institutions spans eight years of mutual fund proxy voting disclosure in the United States and six years in Canada. Fund Votes’ data have been used in a number of reports by shareholder advocacy organizations such as Ceres, Shareholder Association for Research and Education (SHARE), the American Federation of State, County and Municipal Employees (AFSCME), the Center for Political Accountability (CPA) and Investors’ Environmental Health Network (IEHN).

ⁱ According Morningstar® data for November 2011 (<http://www.morningstar.com>).

ⁱⁱ This includes two companies that prohibit political spending (IBM and Colgate-Palmolive)

ⁱⁱⁱ Quoted from data tabulated in Figure 1 of Committee on Disclosure of Corporate Political Spending Petition for Rulemaking, August 3, 2011, p. 6. <http://sec.gov/rules/petitions/2011/petn4-637.pdf>.

^{iv} *Ibid.*

^v See: Institutional Shareholder Services (ISS), '2012 Corporate Governance Policy Updates and Process Executive Summary', November 17, 2011: http://www.issgovernance.com/files/ISS_2012ExecutiveSummary20111117.pdf. See also, <http://blogs.law.harvard.edu/corpgov/2011/11/30/iss-issues-policy-updates-for-2012-proxy-season/> for implications of changes for corporate boards.

^{vi} See: <http://www.calpers.ca.gov/eip-docs/about/board-cal-agenda/agendas/invest/201111/item03b.pdf> See also, "PERS & STRS: report corporate political funds", November 11, 2011: <http://calpensions.com/2011/11/21/pers-strs-report-corporate-political-funds/> for more commentary on the policy changes.

^{vii} Center for Political Accountability and The Zicklin Center for Business Ethics Research. The CPA-Zicklin Index of Corporate Political Accountability and Disclosure, October 2011.

<http://www.politicalaccountability.net/index.php?ht=a/GetDocumentAction/i/5800>

^{viii} DeNicola, P., Freed, B.F., Passantino, S.C. and Sandstrom, K.J. (2011). Handbook on Corporate Political Activity: Emerging Corporate Governance Issues. Research Report for The Conference Board.

<http://www.politicalaccountability.net/index.php?ht=a/GetDocumentAction/id/4084>

^{ix} See Russell Investment Funds' Statement of Additional Information, p. 21:

http://www.sec.gov/Archives/edgar/data/824036/000119312511203161/d497.htm#saia206079_24

^x TIAA-CREF Policy Statement on Corporate Governance, 6th Edition, p. 36: http://tiaa-cref.org/ucm/groups/content/@ap_ucm_p_tcp/documents/document/tiaa01010204.pdf

^{xi} Spalding, K.S. and Cook, J. (2011). Ceres Guidance: Proxy Voting for Sustainability. Summer, 2011. <http://www.ceres.org/resources/reports/proxy-voting-for-sustainability/view>