

Business ties and proxy voting by mutual funds

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Abstract

The magnitude of mutual funds' business ties with their portfolio firms is documented and is linked to funds' proxy votes at specific firms and to overall voting practices. Aggregate votes at the fund family level indicate a positive relation between business ties and the propensity to vote with management. Votes at specific firms, however, reveal that funds are no more likely to vote with management of client firms than of nonclients. Because the votes took place when funds knew their votes would be publicly scrutinized, fund families with a larger client base may have adopted voting policies that led to less frequent opposition to management at all firms.

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1. Introduction

Mutual funds can be viewed as guardians of small investors, representing their interests and protecting their rights. However, while public pension funds have spoken out on corporate governance-related issues and even revolted against poor corporate performance, mutual funds have remained relatively silent. Their silence is remarkable in light of the fact that mutual funds own a very large fraction of corporate America. The number of large stakes held by mutual funds increased substantially during the 1990s, and by 2001 Fidelity held blocks of 10% or more in several dozen of the largest 1,000 U.S. firms (Davis and Yoo, 2003). With the incentives and influence provided by these large ownership positions, why aren't mutual funds more active in the reform of corporate governance?

This paper addresses this issue by analyzing the conflicting incentives that mutual fund managers face: To the extent that good corporate governance leads to higher valuations (Durnev and Kim, 2005), fund managers have incentives to use their voting power to demand good corporate governance and accept (reject) proposals that may benefit (harm) investors. (See Gillan and Starks (2000), Parrino, Sias, and Starks (2003), and the references therein for an examination of institutional investor voting behavior.) However, such fiduciary responsibilities may be compromised if mutual fund parents manage employee benefit plans (such as 401(k) plans) for their portfolio firms at the behest of management. For example, Fidelity Management & Research Co. (FMR), parent of the Fidelity funds, derived one-quarter of its 2001 revenues from employee benefits administration.

We link data on mutual fund ownership positions with data on their business ties to portfolio firms through corporate-sponsored pension plans in order to examine the magnitude of potential conflicts of interest mutual funds face. We also link these data with newly available

information on proxy voting by mutual funds. (This information became available in August 2004 due to recent SEC regulations.) Our corporate sample consists of the publicly traded members of the 2001 Fortune 1000. Our mutual fund sample includes 21 mutual fund parents and the two largest freestanding pension funds, CREF and CalPERS. The sample encompasses the largest pure-play mutual fund families, mutual fund units of large financial services firms, as well as smaller mutual funds with small 401(k) client bases.

Section 2 discusses the pertinent issues and states our main hypotheses. Section 3 describes sample construction and data. Empirical results and robustness checks follow in Section 4. Section 5 provides a summary and implications.

2. Issues and hypotheses

When mutual fund parents receive fees for providing financial services, all of the fees accrue to the fund company. In contrast, value enhancements in portfolios benefit fund companies indirectly. If a fund management's activism increases a portfolio's value by \$100, it will increase the fund company's revenue by only \$0.50 per year if explicit and implicit management fees are 0.5% of assets under management. (See Mahoney, 2004; Huberman, 2004; and James and Karceski, 2004, for mutual fund expense and fee structures and estimates of profit margins and expense ratios for institutional funds.) Furthermore, the risk of alienating corporate clients and potentially losing their business is more salient than the foregone opportunity of increasing portfolio value through shareholder activism. Better portfolio performance tends to lead to better reputation and faster growth in fund size, which in turn increases revenues. However, fund managers have to trade off the potential benefits of activism, or even simply voting against management, with the potential costs of offending client firms' management.

We expect that mutual funds involved in managing corporate pension plans are more acquiescent to existing governance practices. The same fund may be vocal about other firms if they do not share business relationships. For instance, Fidelity is known to take an activist public stance on governance issues in Europe, but is relatively quiescent in the U.S., where it generates a substantial portion of its revenue from managing corporate pension accounts (see *Wall Street Journal*, October 28, 2003). In contrast, public pension funds such as CalPERS, which are free from conflicts of interests arising from business ties, have been more active in demanding better corporate governance practices from U.S. firms.¹

Brickley, Lease, and Smith (1988, 1994) investigate how business ties affect proxy voting by analyzing institutional investors' aggregate votes on management-initiated proposals for antitakeover provisions. Based on comparisons of the aggregate voting behavior of institutions classified "pressure-resistant," "pressure-indeterminate," and "pressure-sensitive," they conclude that ". . . mutual funds, endowments and foundations, and public pension funds are more likely to oppose management than [pressure-sensitive institutions such as] banks, insurance companies, and trusts, firms that frequently derive benefits from lines of business under management control" (1988, p.284). In their analysis, mutual funds are defined as pressure-resistant institutions.

This favorable conclusion on the integrity of mutual funds is only relative to more-conflicted institutions and does not imply that mutual funds' votes are not affected by business ties. Indeed, a number of anecdotes describe conflicts of interest among mutual funds with respect to corporate governance. Black (1990) relates an incident that occurred during the debate

¹ Actively managed mutual funds may not take stands on corporate governance issues because they have the option to sell shares of firms with poor governance practices. Pension funds, however, also have this option. Public pension funds may have different types of conflicts of interest due to political influences. Woidtke (2002) compares firm valuation impacts of public and private pension fund ownership.

over Pennsylvania's contentious 1990 law that increases the power of boards to resist takeovers of domestic companies: "Armstrong World Industries, a principal supporter of the recent Pennsylvania anti-takeover law, [switched] its \$180 million employee savings plan to Fidelity Investments from Vanguard Group, after Fidelity withdrew its opposition to the new law" (p. 602). In another account, a recent *New York Times* article notes that while several mutual funds vote in favor of options expensing, Fidelity does not, perhaps because "Fidelity is the recordkeeper for Intel's 401(k) plan, which held eight Fidelity funds worth \$1 billion at the end of 2003" (September 12, 2004).

Further accusations of conflicted voting by mutual funds arose during the 2002 comment period on the SEC's proposed regulation to require mutual funds to disclose their proxy votes. Several thousand letters were submitted to the Commission in support of the proposal, citing various instances of conflicted votes. One such letter written by John Bogle, founder and former CEO of the Vanguard Group, states: "Votes against management may jeopardize the retention of clients of 401(k) and pension accounts." Opposition to the proposal was virtually unanimous within the mutual fund industry, as demonstrated by a jointly written op-ed piece in the *Wall Street Journal* (January 14, 2003) by Messrs. Brennan and Johnson, chairman and CEO of the Vanguard Group and Fidelity, respectively, arguing against the proposed regulation. Even TIAA-CREF came out against the SEC proposal, taking the view that it would discourage "institutional shareholders from voting independently" (*Wall Street Journal*, November 7, 2002).

In spite of this opposition, on January 23, 2003, the SEC voted to adopt the amended proposed rule that requires mandatory disclosure of proxy voting policies and procedures for filings made on or after July 1, 2003. Prior to August 2002, when Vanguard and Fidelity posted

their voting policy guidelines on their websites, most mutual fund companies did not have publicly accessible voting policy guidelines.

The new regulations also require mutual funds to file no later than August 31 of each year new Form N-PX, which contains a fund's complete proxy voting record for the 12-month period ending June 30. Although analyzing these newly available data does not help us determine whether the aforementioned anecdotes on funds' conflicted votes represent isolated events or widespread practices before the adoption of the new rules, they do allow us to see how mutual funds vote when their votes are subject to public scrutiny.

In particular, we examine whether, as a Fidelity spokeswoman put it, "There is no correlation between how we vote with respect to whether someone is a 401(k) client or not" (*New York Times*, September 12, 2004). We also investigate whether there is a relation between aggregate votes at the fund family level and the amount of business a mutual fund company does with its portfolio companies. This latter investigation is motivated partly by our suspicion that when mutual fund companies know their votes will become public knowledge they may attempt to avoid the appearance of conflicted proxy voting to minimize reputational costs. Thus, rather than risk the appearance of being discriminatory, a mutual fund company may create policies that lead to less frequent opposition to management at all portfolio firms, that is, both clients and nonclients. Such incentives would be greater the more a fund company does business with its portfolio firms.

In addition, we examine the link between the size of a fund's ownership position and its business ties. A positive relation between ownership and service fees could suggest quid pro quo (i.e., hiring funds in exchange for being acquiescent), rent seeking by fund managers (i.e., using voting power to extract fees for financial services that firms may or may not need), or a

familiarity bias (i.e., the tendency to do business with someone familiar). Funds might also increase their ownership positions in client firms to avail themselves of the greater information accessible to service providers. Although it might be difficult to disentangle these possible cause and effect scenarios, a statistically positive relation between ownership and client relationship would raise the possibility of malfeasance in business practices between fund managers and their portfolio firms.

3. Sample and data

Our corporate sampling frame consists of the 2001 Fortune 1000 firms. We use 2001 as our sample year because it is the most recent year for which comprehensive corporate pension plan data are available. Data on fees paid to providers and funds under management come from Form 5500, which is filed annually with the IRS and the Department of Labor's Employee Benefits Security Administration by corporate pension plan sponsors. Sponsors are required to file Schedule C for plans with 100 or more participants in which the service provider was paid from the plan's assets and fees paid exceed \$5,000. Schedule D includes data on assets managed by investment company providers. Data on all pension plans regulated by ERISA are compiled by Judy Diamond Associates by scanning paper copies of Form 5500, which accounts for the lag between filing and data availability. The 2001 database includes 733,081 pension plans.

Among the Fortune 1000, we locate data on 914 firms' pension plans, of which 878 reported that they paid fees to providers on at least one pension plan in 2001. (Some companies, such as Apple Computer, have pension plans but do not report paying any external providers from plan assets; other companies evidently do not sponsor any pension plans subject to ERISA filing requirements.) These 878 firms sponsored (or were parent companies of firms that sponsored) 4,389 plans with 16,324 separate provider listings. Providers include actuaries, asset

managers, investment advisors, trustees, contract administrators, accountants, and others. The ten providers with the most contracts with Fortune 1000 companies in 2001 were, in order: Principal Life Insurance; Cigna; Massachusetts Mutual; Towers Perrin; Fidelity; Hewitt Associates; Northern Trust; Merrill Lynch; Ernst & Young; and PriceWaterhouseCoopers. Firms may have a number of different pension plans, sometimes broken down by type of employees (union vs. nonunion; based on separate lines of business) or as a result of inheriting plans via mergers and acquisitions (e.g., AutoNation, an auto dealer roll-up company, sponsored roughly 60 separate plans from the several dozen auto dealerships they acquired). We aggregate data on fees paid and assets under management by provider across all plans sponsored by the same ultimate corporate parent. Mutual funds generally collect fees either directly for performing administration or advisory work, or as a percentage of assets under management.

Many of the Fortune firms are privately held, co-ops, joint ventures, or acquired by the time the Fortune list was compiled; thus, proxy voting by mutual funds does not apply to them. Of the 1000 Fortune firms, 892 were both publicly traded and had institutional ownership data available for 2001, including ownership by mutual funds, pension funds, banks, insurers, or any other entity that holds very large portfolios. These 892 firms form our corporate sample.

Our institutional ownership data are obtained from 13F filings with the SEC for 2001, made available through the Spectrum database and matched with price and outstanding share information via Compact Disclosure. Institutional owners are entities beneficially owning at least \$100 million in equity assets that are required by the Williams Act to disclose quarterly their ownership positions to the SEC.

We match fees and assets under management to institutional ownership data for each of the providers. Because ownership data are aggregated for reporting purposes in Section 13F, we

use the top-level ownership amount. Thus, for Fidelity we use ownership reported by FMR, the parent of the fund; for Vanguard, we use Vanguard Group; for American Funds, we use Capital Research & Management Co.; and so on.

Our fund sample includes 21 mutual fund families and two pension funds: AIM/Invesco, Alliance Capital Management, American Century, American Funds, Ariel, Barclays, Dreyfus, CalPERS, CREF, Fidelity, Franklin, Janus, Legg Mason, Merrill Lynch, Morgan Stanley, Oppenheimer, PIMCO, Putnam, Schroder, Scudder, State Street Global, T. Rowe Price, and Vanguard. This group includes all freestanding, pure-play mutual fund families with a nontrivial 401(k) business, as well as large funds that do little or no private pension business. Twenty of the 33 largest holders of Fortune 1000 firms are represented in our sample.

Data on mutual fund voting come from Form N-PX, the voting disclosures for mutual funds required as of 2004, which are posted on EDGAR. Data on CalPERS' voting come from the fund's website. The vote of each fund within a fund family is typically reported on separate N-PX forms; Fidelity, for instance, filed forms for several dozen funds. Although fund families reported general proxy voting policies several months in advance, with Vanguard and Fidelity being the first in August 2002, we could not know whether votes would be consistent across funds within families. Thus, we collect data for up to the ten largest equity funds (with at least 25% invested in equity according to the CRSP mutual fund database) if a fund family has more than ten such funds. For the ten largest fund companies with 30 or more clients, we also add the ten smallest and ten median equity funds if there are more than 30 equity funds in the family. We then assemble the funds into a master file for each family; for instance, Fidelity's file contains 55,793 separate votes cast by 28 funds and Vanguard's file contains 175,865 votes cast by 31 funds. Some fund families aggregated multiple funds in the same N-PX filing (e.g., CREF

included 19 funds in a single filing), in which case we include all funds in the filing when we compile the data. Conversely, some funds in a family contained no equities that required proxy voting, so that our sampling scheme yielded fewer than 30 voting funds for the six large fund companies with 30 or more clients.

4. Results

4.1. The magnitude of business relationship

How much money is at stake in providing benefits management? To provide a rough answer, we first examine those funds among the ten largest U.S. mutual fund families that, according to the Form 5500 filings, had a client base of at least 30 of the publicly-held Fortune 1000 companies. Six fund companies meet these criteria namely, Fidelity, Putnam, Vanguard, AIM/Invesco, T. Rowe Price, and American Funds. (Although our data indicate that Barclays and State Street Corporation have very large client bases, neither is considered primarily a mutual fund provider.) Table 1 shows the mean and median fees paid directly and as a percent of assets managed (assuming a 0.5% annual management fee), broken down by the number of clients purchasing either or both services. (We exclude a small number of cases in which the fee paid was not reported.) These data are subject to errors during the scanning process, so we must be cautious in our interpretation. The fees reported are likely to be an underestimate because funds can generate other fees from pension management that are not reported on Form 5500. Our assumption of 0.5% management fees also is an arbitrary number that does not reflect differences across fund families or the fact that the fees are negotiable. Thus, the numbers given in the table are meant to provide only a ballpark figure for the amount of money at stake in the business ties between fund companies and their portfolio firms. Most of the subsequent statistics

and tests are performed with other measures of business ties that are not subject to such noise in the data.

Given these caveats, our rough estimate is that Fidelity's median client is worth roughly \$106,000 in revenues per year when fees are combined with 0.5% of assets under management, while at the high end American Funds' median client pays \$200,000. The means are much larger, ranging from a combined figure of \$581,000 for Vanguard down to \$253,000 for AIM. The total combined dollar amounts at stake for these six fund companies are large: Fidelity tops the list with \$87 million, followed by Vanguard with \$45 million, and AIM at the bottom with \$14 million. As indicated by the difference between the means and medians, the distribution of client size in terms of the combined fees is skewed given some very large clients. Thus, we define large clients as those with combined fees exceeding one million dollars. There are 18 such large clients for Fidelity, six for Vanguard, six for American, seven for Putnam, two for AIM, and six for T. Rowe Price.

4.2. Relation between ownership and client ties

Table 2 shows cross-tabulations of ownership and client data for each of the six funds and their links to the 892 firms in our corporate sample, where a client is any firm that reports paying fees to and/or having assets under management by a fund company on Form 5500, and a portfolio firm is any firm included in a fund family's 13F. The Yes/Yes cell in the table, the number of client firms in a mutual fund's portfolio, is in the range of 5% to 10% of the total number of firms in the portfolio (%Client) for five of the six fund families. The exception is Fidelity, which has business ties with 22.8% of the firms in its portfolio. Thus, when Fidelity votes on its portfolio firms, 22.8% of the time it is voting on its client firms. This potential for conflicts of interest is not as pervasive for the other five fund companies and is much smaller for

fund companies that are not included in this initial six-fund sample because their client base is smaller.

The fourth column in Table 2, %Client, shows the percentage of clients among both portfolio firms and nonportfolio firms for each fund company, while the fourth row, %Portfolio, shows the percentage of portfolio firms among both clients and nonclients. Comparing these percentages indicates that (1) the likelihood of having business ties is slightly higher for portfolio firms than for nonportfolio firms, and (2) the likelihood of investing in client firms is slightly higher than in nonclient firms. However, chi-squared tests show that ownership and client ties are statistically independent for all fund parents except American Funds. Furthermore, client firms tend to have larger market capitalizations and hence are more likely to be included in funds' portfolios than nonclient firms.

We also compare the *level* of percentage ownership in client and nonclient firms using *t*-tests with unequal variance (for means) and a nonparametric equality test (for medians). The evidence again is negative: the mean and median stakes held by mutual funds in clients and nonclients are statistically indistinguishable across the six fund families. The negative result is expected for index funds because they have little discretion over portfolio choice. However, our tests show no difference in any of the six most-conflicted fund families we examine, from primarily index funds (Vanguard) to families that are largely actively managed (e.g., AIM/Invesco, with about 5% in index funds, and Fidelity, with about 19% in index funds.)

In sum, the six large mutual fund companies with 30 or more Fortune 1000 clients have a substantial amount of money at stake in providing pension benefits management, which can lead to conflicts of interest in their portfolio choices and proxy voting decisions. However, we do not find statistically significant links between funds' portfolios and client relationships that would

suggest business ties are related to whether or how much a fund company invests in a client firm's shares.

4.3. Voting tendencies at the family level

To determine whether the same can be said about proxy voting decisions, we analyze funds' voting data, focusing on governance-related shareholder proposals. Because several shareholder proposals appear in essentially identical form on proxy ballots for dozens of companies, we can examine how the funds voted on similar issues across different companies. Analysis of the Investor Responsibility Research Center (IRRC) Corporate Governance Bulletin for the 2004 proxy season reveals that a large majority of shareholder proposals on the proxies of American corporations are for firms within our Fortune 1000 sample. The most prevalent proposals among our Fortune companies are to limit executive compensation and/or other awards (45 cases), report on political contributions (28 cases), require an independent board chair (i.e., separate the positions of Chairman of the Board and Chief Executive Officer, 40 cases), redeem or require a shareholder vote on the poison pill (39 cases), require annual elections of directors (i.e., eliminate a classified board, 32 cases), expense stock options (28 cases), repeal or vote on golden parachutes (22 cases), and allow for cumulative voting (19 cases).

Funds are essentially unanimous in voting against limiting executive compensation and only CalPERS favors mandatory reports on political contributions. The funds vary, however, in their voting with respect to requiring an independent board chair, voting on poison pills, expensing options, declassifying the board, voting on parachutes, and allowing cumulative voting.

Bebchuk, Cohen, and Ferrell (2004) find six entrenchment provisions that have negative valuation consequences, namely, classified boards, poison pills, golden parachutes, and three

limits on voting. Challenges to the first three are among the most common targets of shareholder proposals, whereas the three limits on voting were relatively rare targets of shareholder proposals during the 2003 to 2004 proxy voting period. Therefore, we focus on how funds voted on classified boards, poison pills, parachutes, and three other provisions that appear frequently on proxy statements: requiring an independent board chair, expensing options, and allowing cumulative voting.

Some fund families vote consistently across funds, while others let fund managers pursue different voting policies. Among the ten largest fund families, Fidelity, Vanguard, Putnam, American Funds, Morgan Stanley, and Oppenheimer follow consistent and centralized voting policies across funds, with the exception of Fidelity funds managed by Geode.² In contrast, funds in the T. Rowe Price, AIM/Invesco, Janus, and Franklin families vote differently from each other on some of the same company proposals. T. Rowe Price has a Proxy Committee that establishes guidelines but leaves it to the chair of each fund's advisory committee to choose how to vote. Janus has several sub-advisers, each with their own independent voting policy; thus, it does not follow a consistent policy across any issues. AIM/Invesco funds follow different policies (e.g., AIM funds vote against expensing options, while most Invesco funds vote for it). Franklin delegates voting oversight to an internal Proxy Group and evidently does not enforce consistent voting across portfolio managers; thus, it is also occasionally in the position of voting both ways on the same company's shareholder proposals. For a more detailed analysis of the proxy voting policies of the ten largest fund families see Rothberg and Lilien (2005).

² Geode was founded in January 2001 by Fidelity to develop and manage quantitative and investment strategies for stock funds and to provide advisory and sub-advisory services to equity index funds. It was spun off from Fidelity in August 2003 and became an independent company, Geode Capital Management. Because Geode has its own independent voting policy, we do not classify votes cast by Geode as those of Fidelity.

Table 3 shows the pattern of votes by the ten largest mutual fund families, CREF, and CalPERS across six governance proposals among Fortune 1000 firms. The percentage of votes cast in favor of the proposals is reported in parentheses. This number represents the proportion of portfolio firms in the Fortune 1000 for which the fund family voted in favor of a shareholder proposal that was opposed by management. To compute the percentages of votes in favor, we first calculate the proportion of votes in favor for each portfolio firm. For example, if eight Janus funds vote in favor of a shareholder proposal to declassify Procter & Gamble's board and two vote against, this would count as 0.8 toward the percentage of yes votes. We then sum the percent of yes votes across all portfolio firms (within the Janus family in this example). This sum is divided by the number of portfolio firms among the Fortune 1000 that have the same type of proposal (e.g., the number of portfolio firms in the Janus family that have proposals on declassifying board opposed by management). This calculation is done by family and by proposal type. To make the table reader friendly, we enter Yes, No, Split, and Abstain next to the percentage. Yes denotes cases in which the votes are overwhelmingly in favor of the proposal (85% or more in favor), No represents cases overwhelmingly against (15% or less in favor), and Split refers to those cases in which the vote is not overwhelmingly in either the Yes or the No direction.

The table indicates that funds generally oppose requiring an independent board chair, although there is some disagreement within T. Rowe Price, Franklin, and Janus funds, and CalPERS always supports it. On eliminating classified boards, there is consensus among funds in favor, with the exception of Morgan Stanley.³ Among our six most conflicted funds, AIM, T. Rowe Price, and American favor cumulative voting, Vanguard and Putnam oppose it, and

³ Fidelity voted against declassifying the board at Sears, but Sears appears in only one of the non-Geode funds we analyze and is absent from larger funds such as Magellan.

Fidelity abstains. Two funds always vote for expensing options, two always oppose it, and two are split. Thus, on four of the six issues, funds generally follow a policy either favoring or opposing proposals, regardless of the targeted company.

On poison pills and golden parachutes there is considerable variation, both within and across fund families, on how they vote. They receive neither universal opposition (as in the case of limiting executive pay) nor universal support (as in the case of declassifying boards). This is consistent with the published guidelines of Fidelity and Vanguard, which list conditions under which they will vote for or against pills and parachutes.

Although public pension funds are not subject to conflicts of interest due to client ties, other conflicts might be in play. Table 3 shows that CalPERS votes 100% in favor of all the governance-related shareholder proposals we examine except expensing options. One wonders whether this reflects the interests of the high-tech business community in California that has strongly opposed expensing options.

We also investigate whether voting policies reflect the fund's own governance practice with data from the IRRC Corporate Governance Service regarding whether the parent corporation has a poison pill, classified board, or golden parachute, and whether it allows cumulative voting. IRRC data cover only publicly held U.S. companies, limiting our sample to Dreyfus (owned by Mellon), Franklin-Templeton, Legg Mason, Merrill Lynch, Morgan Stanley, Putnam, and T. Rowe Price. Four of the seven fund parents have poison pills, yet all funds vote in favor of shareholder proposals to limit poison pills most of the time. Five of the seven fund parent companies have classified boards (all but Franklin and T. Rowe Price), yet all but Morgan Stanley vote overwhelmingly to declassify them. No fund parent allows cumulative voting, but

three funds vote in favor of cumulative voting in most of their portfolio firms. Clearly, there is little evidence that funds' voting policies reflect the governance practices of their parents.

4.4. Relation between proxy votes and client ties

Utilizing the variation in voting results on shareholder proposals concerning poison pills and golden parachutes documented above, we investigate whether mutual funds vote differently between clients and nonclients. Logistic regressions (not reported) reveal that how Fidelity and Vanguard vote on these proposals bears no statistically significant relation to whether the portfolio company is a client or to the size of the fund's stake in the company (in percentage or dollar value terms). Fidelity generally votes in favor of shareholder resolutions requiring a vote on the poison pill; the exceptions are companies that do not have a pill or are in the process of terminating it. Whole Foods is an exception: Fidelity voted against a shareholder resolution on Whole Foods' pill, but Whole Foods was not a client. Indeed, Fidelity voted in favor of such a resolution (and against management) at PG&E, a California energy company and major client with over \$1.5 billion invested with Fidelity, even though PG&E intended to remove the pill upon emerging from Chapter 11. Vanguard, in contrast, voted against the proposal, as did Putnam, though PG&E was not a client of either.

We run cross-tabulations on client ties (yes/no) and votes (in favor/opposed) on pills and parachutes for each of the 21 mutual fund families and find only two cases out of 42 in which there is a statistically significant link between being a client and voting with management. In one of the two cases, the relation is in the wrong direction, that is, the fund is more likely to vote against management in client firms than nonclients. The overall pattern of null results suggests that there is no direct relation between client ties and voting in our mutual fund sample.

We rerun these analyses using pension plan data for 2002 from FreeERISA.com, a more recent but less comprehensive source of data on Form 5500 filings, and find identical null results. We also investigate whether there is reason for concern about the currency of our 2001 data by examining rates of turnover in “recordkeeper” contracts. A pension plan recordkeeper is essentially the coordinator that determines which funds are made available to plan participants, and is thus the most-fraught kind of client tie for mutual funds. For 120 cases in which Fidelity, Vanguard, Putnam, or T. Rowe Price were the recordkeepers in 2001 and we could locate 2002 data in FreeERISA.com, we find only one clear case of turnover.

We also utilize our voting data to test the hypothesis that shareholders’ incentives for activism are shaped by the weighted value of their holdings relative to the market—that is, funds are more likely to be active in firms in which their holdings are overweighted (larger proportional to the fund’s portfolio than they are relative to a market portfolio) and are more likely to be passive in underweighted holdings (Black and Coffee, 1994). We test this argument using logistic regressions for voting on our six proposals and find no evidence to support it. Funds are no more likely to vote either for or against management in firms in which their holdings are overweighted. Rather, the most parsimonious account is that funds—faced with dozens, hundreds, and in some cases thousands of shareholder proposals—follow relatively automatic policies in determining how to vote across firms, independent of client ties or the relative size of their holdings.

In short, votes at specific portfolio firms appear to be independent of client ties among all the fund families in our sample. In this regard, mutual funds come up clean, with their votes explained by the policies of their parent companies, not directly by business ties.

4.5. Relation between aggregate voting and business volume at the family level

Our failure to detect any significant relation between proxy voting and individual client ties is perhaps unsurprising, given that the proxy voting took place during a period when mutual funds knew their votes would come under close public scrutiny. The mutual fund industry has been subject to numerous scandals involving conflicts of interest such as market timing, late trading, and questionable sales practices. Given the recent vigilance of the SEC and Elliot Spitzer, the risk of another scandal and ensuing lawsuits was perhaps sufficient to deter mutual funds from voting differently between clients and nonclients, even if that was the standard practice before the mandatory disclosure of proxy votes. A less risky strategy would be to adopt policies leading to less frequent voting against management at all firms, that is, policies that favor clients' management while appearing evenhanded. Fund companies with a large client base that want to maintain and increase their pension plan business may find such a strategy appealing. However, fund companies with a small client base may find that the benefits of voting for shareholder value-increasing proposals outweigh the risk of alienating any present or future clients.

To investigate whether aggregate votes at the family level are related to pension business ties, we estimate regressions for the 21 fund families, CREF, and CalPERS, where the dependent variable is the percentage of votes cast in favor of shareholder proposals opposed by management among portfolio firms, *Votesfor*. (Our method of calculation is provided earlier in section 4.3.) The independent variable of primary interest is the number of clients, *Clients*. We use this count variable as a proxy for the source of conflicts of interest because it provides the most direct indication of the number of potentially conflicted votes. In the robustness section we reestimate regressions using alternative measures of business ties.

Control variables include a dummy variable, *Finance parent*, that takes on a value of one if the parent is in the insurance, banking, and/or brokerage and investment banking business, and zero otherwise. This dummy variable controls for possible influences on fund companies' voting policies by parents belonging to what Brickley, Lease, and Smith (1988) define as pressure-sensitive institutions. They classify brokerage houses as pressure-indeterminate institutions but the recent scandals surrounding the IPO business and security analysts' recommendations lead us believe they are no less sensitive to business ties than banks and insurance firms. We also control for the dollar value of shares of our Fortune 1000 sample held by the parents of mutual fund companies, *Size*, which is the sum of the dollar value of holdings reported on 13F filings in 2003 by the ultimate parents of our sample funds. We control for size to avoid spurious correlation between *Votesfor* and *Clients* due to their correlations with *Size*. The correlation between *Clients* and *Size* is 0.73.

Table 4 reports Tobit regression results on the percentage of votes cast in favor of six shareholder proposals opposed by management among Fortune 1000 firms in a family's portfolio. We use Tobit models because the dependent variable is bounded by zero and 100. The regression is estimated on voting data by 329 different funds belonging to 23 families (including CalPERS) that vote on 217 proposals at 138 companies. In the first reported model, each of the fund families appears six times (once for each proposal), with dummy variables for five of the proposals. We control for proposal types because different proposals may have different effects on firm valuation. In addition, voting in favor of some shareholder proposals may alienate client firms' management more than others and the public's perception of voter integrity may vary across proposal types, both of which may impact funds' proxy voting.

The fixed effect regression shows a significant negative coefficient on *Clients*, suggesting that the number of clients has a significant and negative influence on the propensity to vote in favor of shareholder proposals. Coefficients on both the parent dummy variable and the size variable also are negative, but neither is significant. Although unreported, we also run Tobit regressions for *all* shareholder proposals for *all* portfolio firms without dummy variables for proposal types. The qualitative results are the same. The coefficient for the number of clients is significantly negative, with and without the size variable, and the coefficient on *Finance parent* and *Size* are again insignificant. (Results available from authors upon request.)

Table 4 also reports results of regressions estimated separately for each of the six proposals. They show that the coefficients for *Clients* are significant for independent chair, expensing options, and poison pills, marginally significant for cumulative voting, and not significant for declassified boards and golden parachutes. Thus, the volume of pension fund business appears to affect how fund companies vote on four of the six proposals. The insignificant result on declassified boards is expected because virtually every fund favored the proposal (1,674 yes votes out of 1,783 cases). The weak (insignificant) results for proposals on classified boards and parachutes are noteworthy because, according to Bebchuk, Cohen, and Ferrell (2004), approving those proposals would have positive valuation consequences. Perhaps mutual funds are less willing to vote against proposals that are considered to be good for shareholder value than proposals that are in a gray area.

4.6. Robustness

In this section we report robustness checks on our regression results. First, we employ three alternative measures of business ties, namely, the log of our estimate of combined fees

(calculated as direct fees paid plus 0.5% of assets under management), combined fees divided by *Size*, and the number of recordkeeper contracts. The combined fees measure captures the dollar volume of business ties, although our estimates are inexact as mentioned earlier. The combined fees are normalized by *Size* to account for the possibility that a dollar of revenue from benefits management may weigh more in a smaller fund family than a larger family. The number of recordkeeper contracts is also used because being a recordkeeper means a deeper, more involved business relationship with the client firm than merely having a fund listed on its pension plan.

Table 5 shows the regression results for each of the three alternative proxies for business ties (Model 1, 2, 3). The results are robust to the choice of proxies. In each case, our proxy for business ties shows a negative effect on the willingness of funds to vote against management. Both the normalized combined fees and the number of recordkeeper contracts have significant effects, while the log of combined fees is marginally significant.

We also consider the possibility that a fund family's intention to pursue corporate pension management business is more relevant than the number of clients or business volume it currently has. We proxy such intentions by the presence of a recordkeeper contract with *Recordkeeper dummy*, which equals one if a fund family or its parent has one or more recordkeeper contracts and zero otherwise. When *Recordkeeper dummy* is included without *Clients*, its effect is statistically significant; however, when both *Clients* and *Recordkeeper dummy* are included, only *Clients* is significant (Model 4).

It is possible that the regression results are inappropriately dominated by Fidelity and CalPERS, the two extremes in business ties. Fidelity has 2.5 times as many clients as the second-largest mutual fund service provider, whereas CalPERS has none. In terms of voting policies, Fidelity is the most management friendly and CalPERS the least (see Total in Table 3).

Estimating clustered standard errors at the fund level using ordinary least squares yields similar results with generally higher significance levels for *Clients*. We also repeat the fixed effect regressions (1) without CalPERS and CREF, (2) without Fidelity, and (3) with none of these three. These alternative regressions do not diminish the significant negative effect of the number of clients on voting against management.

We also examine whether having a public corporation as a parent or being named in a mutual fund scandal affects voting policies. Funds with public corporation parents may be more prone to accept the rationale for devices such as poison pills or golden parachutes than privately owned funds, and being subject to a scandal may indicate low integrity and ethical standards, but it may also give the fund family an extra incentive to appear clean. To capture these potential effects, we repeat the fixed effect regression in Table 4 with a dummy variable for families whose ultimate parent is a public corporation and for funds that had been cited in the *Wall Street Journal* as of January 2004 in connection with a scandal. In each case, the results do not change and the effect of either dummy variable is statistically insignificant.

Finally, previous authors (e.g., Davis and Thompson, 1994) note that index funds do not have the option to sell shares even if they are unhappy with a firm's governance structure, and hence they are more likely to vote in favor of proposals that enhance shareholder value. To account for this index fund effect, we repeat the fixed effect regression by adding a variable that measures the percent of index funds in the total market value of a fund family's equity fund portfolios, measured by the percentage of the net asset value of equity held by a given family that is held in funds classified as growth or income by CRSP. This variable is again insignificant.

5. Summary and conclusion

We examine comprehensive data on mutual fund ownership of large U.S. corporations, client ties through corporate pension plans, and proxy voting by 21 major mutual fund companies and two well-known pension funds (CalPERS and CREF). Close examination of the direct fees paid to mutual fund companies and the assets under their management shows that some well-known mutual fund companies derive substantial revenues from their involvement in corporate benefit plans.

We relate these business ties to mutual funds' ownership of their client firms for hints of quid pro quo (i.e., hiring funds in exchange for being acquiescent), rent seeking by fund managers (i.e., using voting power to extract fees for financial services that firms may or may not need), or a familiarity bias (i.e., the tendency to do business with someone familiar). We find no convincing evidence that client ties and mutual funds' ownership are related.

Our results also show that, while potential conflicts of interest exist, there is no sign that proxy voting depends on whether a firm is a client or not. Although this may be surprising, especially given the various scandals surrounding mutual funds these days, it should be noted that our data include only those votes cast during the July 2003 to June 2004 period, which are subject to the SEC's newly adopted mandatory disclosure requirement. Since mutual funds cast those votes knowing they would be closely examined by various interested parties, we suspect they attempted to avoid any appearance of favoring their client firms over nonclient firms.

One should not infer from these results that mutual funds' voting practices are not affected by business ties. A mutual fund company with heavy business ties may adopt voting policies and guidelines that lead to fewer votes against management across all portfolio firms, thereby reducing the risk of alienating the management of client firms. A fund family with fewer business ties may adopt less management-friendly voting guidelines because it may deem that

the benefits of voting in accordance with shareholder value enhancement (e.g., higher portfolio returns and enhanced reputation that may lead to greater investment inflows) outweigh the risk of offending management.

Consistent with this conjecture, we find that the more business ties a fund company has, the less likely it is to vote in favor of shareholder proposals that are opposed by management. That is, although individual votes appear evenhanded, business ties affect the overall voting practices at the fund family level. This is robust to alternative measures of the importance of client business ties, dominance of Fidelity and CalPERS (the two extremes in terms of business ties and management friendliness), whether a parent is a public corporation and/or a financial institution, having been named in a mutual fund scandal, and the relative weight of index funds in a fund family.

However, the effect of business ties seems to be weaker on shareholder proposals considered beneficial for shareholder value (e.g., repealing or requiring a vote on golden parachutes and declassifying boards) than proposals in the gray area (e.g., expensing stock options and requiring an independent chair). Interestingly, when mutual fund families vote on proposals concerning golden parachutes, classified boards, poison pills, and cumulative voting, they often demand from their portfolio firms higher standards than their parents with regard to these governance provisions. That is, they do not seem to practice what they preach.

Our findings on the effects of business ties on voting practices have an implication for shareholder activists. Specifically, they should not be too concerned with whether funds vote differently between clients and nonclients. To the extent any such discriminatory voting behavior existed, the SEC's newly adopted regulation on proxy voting disclosure took care of it. Instead,

they should focus at the fund company level on voting policies and guidelines that lead to different aggregate voting outcomes.

The current SEC disclosure requirement applies only to mutual funds and registered investment management companies. Other institutional investors such as insurance companies, banks, nonbank trusts, and pension funds are not required to disclose their proxy votes. Should the same disclosure requirement apply to these institutions? Our data provide no evidence on the extent of conflicted proxy voting before the disclosure regulation came into effect; however, the evidence linking client base and overall voting practices at the family level post-regulation makes it difficult to believe that the anecdotes of conflicted voting were isolated cases. If the new regulation has indeed induced a change in mutual funds' proxy voting strategy, it raises yet one more issue: Is it better to have conflicted, albeit nondiscriminatory, voting policies than to allow funds to vote in secret with no accountability? To the extent that the former is the lesser of the two evils, the extension of the same disclosure requirements to other potentially conflicted institutional investors is an issue worthy of public debate.

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Table 1

Fees and assets managed for Fortune 1000 clients

This table shows the mean and median dollar value of fees paid to, and 0.5% of assets managed by, six large mutual fund families by corporations in the 2001 Fortune 1000. Data are taken from IRS Form 5500 filings compiled by Judy Diamond Associates for calendar year 2001. Figures are aggregated by ultimate corporate parent such that pension plans of subsidiaries or different employee groups are summed to arrive at the final figure. "Fees" are fees paid out of plan assets to a provider by the plan sponsor, taken from Schedule C. "Assets/200" is calculated from assets invested with the fund as reported on Schedule D. "Combined" sums these two figures within corporate parent. Clients may pay fees, invest with the fund, or both; thus, "N of clients" for combined is not the sum for the two prior categories.

FUND		Mean	Median	N of clients
Fidelity	Fees	287,958	70,526	166
	Assets/200	385,316	75,109	102
	Combined	429,080	106,193	203
Vanguard	Fees	138,540	51,505	55
	Assets/200	769,601	99,092	49
	Combined	581,156	110,672	78
American Funds	Fees	612,907	239,118	43
	Assets/200	180,695	63,008	13
	Combined	541,586	200,043	53
Putnam	Fees	198,575	71,921	62
	Assets/200	348,420	89,206	52
	Combined	362,255	159,665	84
AIM/Invesco	Fees	221,921	100,000	43
	Assets/200	186,596	77,100	26
	Combined	252,528	91,407	57
T. Rowe Price	Fees	251,248	104,462	29
	Assets/200	297,608	138,356	42
	Combined	373,316	189,857	53

Table 2

Ownership and client ties between Fortune 1000 firms and six large mutual funds

This table shows cross-tabulations of whether a Fortune 1000 firm was held in the fund's portfolio in 2001 and whether it was a pension client in 2001. The sample consists of 892 firms with valid 13F filings on institutional ownership for the second quarter of 2001 (from Spectrum). "Portfolio firm" indicates whether the fund held any shares in the firm as of June 30, 2001. "Client" indicates whether the firm reported any pension business with the fund in IRS Form 5500 filings for calendar year 2001. The number of client firms tabulated differs from Table 1 because some Fortune 1000 firms report pension data but were not publicly traded at 2001 year-end (e.g., cooperatives such as Ace Hardware).

<u>Fidelity</u>					<u>Putnam</u>				
<u>Client?</u>					<u>Client?</u>				
Portfolio firm?	<u>No</u>	<u>Yes</u>	<u>Total</u>	<u>%Client</u>	Portfolio firm?	<u>No</u>	<u>Yes</u>	<u>Total</u>	<u>%Client</u>
<u>No</u>	91	22	113	19.5	<u>No</u>	176	15	191	7.9
<u>Yes</u>	601	178	779	22.8	<u>Yes</u>	632	69	701	9.8
<u>Total</u>	692	200	892	22.4	<u>Total</u>	808	84	892	9.4
% Portfolio	86.8	89.0	87.3		% Portfolio	78.2	82.1	78.6	
<u>Vanguard</u>					<u>AIM/Invesco</u>				
<u>Client?</u>					<u>Client?</u>				
Portfolio firm?	<u>No</u>	<u>Yes</u>	<u>Total</u>	<u>%Client</u>	Portfolio firm?	<u>No</u>	<u>Yes</u>	<u>Total</u>	<u>%Client</u>
<u>No</u>	28	1	29	3.4	<u>No</u>	180	9	189	4.8
<u>Yes</u>	784	79	863	9.2	<u>Yes</u>	653	50	703	7.1
<u>Total</u>	812	80	892	9.0	<u>Total</u>	833	59	892	6.6
% Portfolio	96.6	98.8	96.7		% Portfolio	78.4	84.7	78.8	
<u>American Funds</u>					<u>T. Rowe Price</u>				
<u>Client?</u>					<u>Client?</u>				
Portfolio firm?	<u>No</u>	<u>Yes</u>	<u>Total</u>	<u>%Client</u>	Portfolio firm?	<u>No</u>	<u>Yes</u>	<u>Total</u>	<u>%Client</u>
<u>No</u>	509	17	526	3.4	<u>No</u>	227	14	241	5.8
<u>Yes</u>	334	32	366	8.7	<u>Yes</u>	613	38	651	5.8
<u>Total</u>	843	49	892	5.5	<u>Total</u>	840	52	892	5.8
% Portfolio	39.6	65.3	41.0		% Portfolio	73.0	73.1	73.0	

Table 3

Fund voting policies and percentage of votes in favor of six shareholder proposals opposed by management at Fortune 1000 firms in 2003 to 2004

This table reports how the ten largest mutual fund families, CalPERS, and CREF voted on six shareholder proposals that appear on the proxy statements of their portfolio firms between July 1, 2003 and June 30, 2004 and that are opposed by the portfolio firm's board. Sampled firms are all portfolio firms among the 2001 Fortune 1000 whose proxy includes the shareholder proposal. Voting data obtained from Form N-PX filings by the fund family and are aggregated across 10 or more funds within the family; CalPERS votes obtained from its website. Votes are aggregated across funds within a family such that each portfolio firm receives one vote per family when calculating means (even though many funds within a family may hold shares in that firm and thus cast votes). "For independent board chair" includes proposals requesting a formal separation of the positions of CEO and Chairman of the Board. "Require vote on pill" concerns proposals requesting that current or future shareholder rights plans ("poison pills") be voted upon by shareholders. "Expense options" requests that stock options be costed on the firm's financial statements. "Declassify board" entails holding annual (as opposed to staggered) elections for directors. "Vote on parachute" concerns proposals requesting that executive compensation premised on a change in control ("golden parachutes") be voted upon by shareholders. "Allow cumulative voting" seeks to allow shareholders to cumulate votes in the election of directors. Entries are classified as "No" if the fund family votes against the proposal in more than 85% of portfolio firm, "Yes" if the fund family votes for the proposal in more than 85% of portfolio firms, and "Split" otherwise. The number in parentheses is the percentage of "yes" votes for the proposal among portfolio firms in the 2001 Fortune 1000. "Total" is the percentage of votes cast in favor of all six proposals combined.

FUND FAMILY	For Independent Board Chair	Require Vote on Pill	Expense Options	Declassify Board	Vote on Parachute	Allow Cumulative Voting	TOTAL
Fidelity	No (0)	Split (73)	No (0)	Yes(93)	No (8)	Abstain (0)	33
Vanguard	No (0)	Split(45)	Yes (100)	Yes (100)	Split (50)	No (0)	51
Putnam	No (0)	Yes (94)	Split (22)	Yes (92)	Split (80)	No (0)	47
AIM	No (10)	Split (80)	Split (22)	Yes (88)	Split (26)	Split (82)	54
T. Rowe	Split (54)	Split (84)	No (2)	Yes (100)	Split (82)	Split (70)	67
American	No (7)	Yes (100)	Yes (100)	Yes (100)	Split (30)	Yes (98)	70
Franklin	Split (77)	Yes (94)	Split (76)	Yes (100)	Split (41)	Yes (88)	78
Janus	Split (62)	Split (83)	Split (71)	Split (75)	Split (68)	Yes (91)	74
Morgan Stanley	No (0)	Split (82)	Yes (95)	No (7)	Split (44)	No (11)	43
Oppenheimer	No (12)	Yes (90)	Yes (86)	Yes (100)	No (0)	No (13)	53
CalPERS	Yes (100)	Yes (100)	Abstain (0)	Yes (100)	Yes (100)	Yes (100)	86
CREF	No (8)	Yes (100)	Yes (100)	Yes (100)	Split (41)	No (0)	62

Table 4

Tobit models for percent of votes cast by fund families in favor of six shareholder proposals opposed by management in Fortune 1000 companies

This table reports Tobit regressions of the percentage of votes cast in favor of six shareholder proposals opposed by management by 23 funds or fund families at Fortune 1000 firms at annual meetings between July 1, 2003 and June 20, 2004. The first model includes observations on all six proposals; thus, each of the 23 fund families contributes six observations. Fixed effects by proposal are coded by a set of five dummy variables. The remaining models include votes on each of the six separately. Votes are aggregated across funds within a family such that each portfolio firm receives one vote per family when calculating means (even though many funds within a family may hold shares in that firm and thus cast votes). “Independent Chair” includes proposals requesting a formal separation of the positions of CEO and Chairman of the Board. “Require Vote on Pill” concerns proposals requesting that current or future shareholder rights plans (poison pills) be voted upon by shareholders. “Expense Options” requests that stock options be expensed on the firm’s financial statements. “Declassify Board” entails holding annual (as opposed to staggered) elections for directors. “Vote on Parachute” concerns proposals requesting that executive compensation premised on a change in control (golden parachutes) be voted upon by shareholders. “Allow Cumulative Voting” seeks to allow shareholders to cumulate votes in the election of directors. The sample includes AIM Invesco, Alliance Capital Management, American Century, American Funds, Ariel, Barclays (iShares), CalPERS, CREF, Dreyfus, Fidelity, Franklin-Templeton, Janus, Legg Mason, Merrill Lynch, Morgan Stanley, Oppenheimer, PIMCO, T. Rowe Price, Putnam, Schroder, Scudder, State Street Corporation, and Vanguard. T-statistics are in parentheses.

	All Six	Independent Board Chair	Allow Cumulative Voting	Declassify Board	Expense Options	Vote on Parachute	Require Vote on Pill
Clients	-0.545 (-4.28)	-1.221 (-3.07)	-0.847 (-1.76)	-0.31 (-0.84)	-1.122 (-2.26)	-0.299 (-1.39)	-0.159 (-1.99)
Size	-0.097 (-1.52)	0.1679 (1.39)	0.134 (0.67)	0.093 (0.46)	0.252 (1.03)	-0.027 (-0.24)	0.017 (0.4)
Finance parent Chair	-12.021 (-1.41)	7.2908 (0.38)	-50.016 (-1.85)	-9.889 (-0.40)	13.432 (0.45)	-9.803 (-0.64)	3.473 (0.62)
Cumulative	-66.838 (-4.86)						
Declassify	-68.465 (-4.93)						
Expense	33.042 (2.15)						
Parachute	-13.470 (-0.97)						
Constant	-33.409 (-2.49)						
	113.787 (10.23)	47.0849 (2.97)	65.721 (3.29)	135.058 (5.62)	102.875 (4.28)	80.624 (6.69)	91.921 (20.87)
LR Chi 2	80.18	10.93	7.98	1.08	6.42	5.45	5.87

n=138 in first model; 23 in all others

Table 5

Shareholder proposal Tobit regressions with alternative measures of business ties

This table reports results for Tobit regressions of the percentage of votes cast in favor of six shareholder proposals opposed by management in Fortune 1000 firms between July 1, 2003 and June 30, 2004, using alternative measures of client ties. Each model includes observations of 23 fund families votes on all six proposals; thus, each of the 23 fund families contributes six observations. Fixed effects by proposal are coded by a set of five dummy variables. Votes are aggregated across funds within a family such that each portfolio firm received one vote per family when calculating means (even though many funds within a family may hold shares in that firm and thus cast votes). “Log(feess)” is the natural logarithm of the total dollar value of fees and 0.5 percent of assets managed via pension fund business. “Fees/size” is the total value of fees divided by the dollar value of the fund family’s holdings in Fortune 1000 firms in 2003. “# recordkeeper contracts” is the count of contracts with Fortune 1000 firms in 2001 to act as recordkeeper on the firm’s pension plan(s). “Clients” is the number of Fortune 1000 pension clients in 2001. “Recordkeeper dummy” is a dummy variable for whether the fund family or its parent has any recordkeeper contracts with Fortune 1000 firms. The sample includes AIM Invesco, Alliance Capital Management, American Century, American Funds, Ariel, Barclays (iShares), CalPERS, CREF, Dreyfus, Fidelity, Franklin-Templeton, Janus, Legg Mason, Merrill Lynch, Morgan Stanley, Oppenheimer, PIMCO, T. Rowe Price, Putnam, Schroder, Scudder, State Street Corporation, and Vanguard. T-statistics are in parentheses.

	Model 1		Model 2		Model 3		Model 4	
	Coeff.	t-stat	Coeff.	t-stat	Coeff.	t-stat	Coeff.	t-stat
Log(feess)	-2.0464	(-1.80)						
Fees/size			-0.0001	(-2.40)				
# recordkeeper contracts					-0.7141	(-3.32)		
Clients							-0.5500	(-3.26)
Recordkeeper dummy							0.5029	(0.05)
Size	-0.0797	(-1.62)	-0.1070	(-2.34)	-0.0222	(-0.43)	0.0989	(1.37)
Finance parent	-2.9781	(-0.32)	-1.598.	(-0.17)	-16.3773	(-1.81)	-12.0885	(-1.39)
Chair	-65.9967	(-4.52)	-65.6725	(-4.59)	-66.1755	(-4.70)	-66.8384	(-4.86)
Cumulative	-68.0380	(-4.62)	-67.7113	(-4.38)	-68.2499	(-4.79)	-68.4656	(-4.93)
Declassify	33.2411	(2.04)	32.7501	(2.06)	32.4822	(2.08)	33.0518	(2.15)
Expense	-13.3790	(-0.91)	-13.0658	(-0.90)	-13.1953	(-0.93)	-13.4660	(-0.97)
Parachute	-33.5329	(-2.34)	-33.3441	(-2.37)	-33.3601	(-2.42)	-33.4124	(-2.49)
Constant	134.6832	(7.23)	117.7368	(9.73)	111.8171	(9.86)	113.6550	(9.89)
Chi squared		64.81		67.17		72.80		80.20