

NEW CERES STUDY: MUTUAL FUNDS GIVE CLIMATE CHANGE PROXY RESOLUTIONS A COLD SHOULDER, EVEN AS PENSION FUNDS WARM UP TO THEM

BOSTON, MA.//December 7, 2004//A mere 2 percent of the assets of the largest 100 mutual funds in America voted in 2004 to support shareholder resolutions calling for more corporate disclosure on the financial impacts from global warming, according to a new Ceres study authored by the Investor Responsibility Research Center (IRRC) and released today by Results for America, a project of the Civil Society Institute.

The study found that 25 of the 28 investment companies controlling these 100 funds did not heed any requests for closer examination of emerging climate risks. Instead, they abstained or opposed all shareholder proposals that came before them in 2004 seeking analysis and disclosure of the financial risks posed by global warming. By contrast, pension funds and many other investors have backed global warming resolutions in growing numbers – with voting support levels reaching a record high of 37 percent at some 2004 annual meetings.

The new Ceres study, *“Unexamined Risk: How Mutual Funds Vote on Global Warming Shareholder Resolutions,”* released today was made possible by a new U.S. Securities and Exchange Commission requirement that mutual funds publicly disclose their proxy votes and practices, beginning with the 2004 proxy season.

Mindy S. Lubber, executive director of Ceres, said: **“Mutual funds are a critical missing link in the push for better corporate disclosure about climate risk. Mutual funds are ignoring the growing evidence that global warming will have far-reaching fiscal impacts on a wide range of business sectors, whether from rising insurance claims from natural disasters or increased demand for hybrid vehicles and other ‘clean’ technologies.”**

Civil Society Institute President Pam Solo said: **“Increasingly, investors of all types are recognizing that global warming poses large financial risks and opportunities that will bear directly on the bottom lines for shareholders. Yet the vast majority of mutual funds ignore the threat to shareholder value by casting their proxy votes against global warming proposals. Given this track record, it is no surprise that these funds fought so hard to prevent disclosure to investors of how they vote on major proxy issues such as global warming.”**

Lubber said the mutual funds’ stance on global warming is in stark contrast to the growing number of other institutional investors and corporate boards pushing for closer analysis and scrutiny of climate risk from companies. Lubber said the push is a direct result of growing public acceptance that global warming is real and that the Kyoto Protocol and carbon emission controls will soon be taking effect in many parts of the world.

Investors and corporate directors now are more mindful of their fiduciary responsibilities to protect their shareholders from financial risks posed by climate change and related

forces, Lubber said. **“While mutual funds have been ignoring global warming, pension funds and other investors are winning record high support for shareholder resolutions and they’re pressuring companies to undertake climate risk studies that have never been done before,”** Lubber added.

Two such groundbreaking reports – from two of America’s largest coal-burning utilities – have been issued the past few months, after shareholders filed resolutions requesting them.

KEY STUDY FINDINGS

- Fidelity, Vanguard and American Funds, which alone manage about 70 percent of the assets held in the nation’s largest 100 mutual funds, are among the 25 investment management companies that either voted against or abstained on all global warming proposals that came before them in 2004.
- Only three of the investment management companies – American Century, Columbia Funds and the Janus Funds – voted in favor of any global warming proposals in 2004. And even those firms cast a majority of their votes as abstentions or in opposition to global warming proposals.
- Most of the nation’s largest mutual funds still adhere to the “Wall Street Rule” when it comes to voting their proxies on global warming. This tenet of portfolio management urges investors to support a company’s business strategy and proxy voting recommendations – or sell their shares. While “Enron-era” corporate governance scandals are causing many institutional investors to abandon this rule, mutual funds have not yet seen that taking a more independent stance from corporate managers on global warming proposals is in the best interests of investors and fund beneficiaries.
- None of the top 100 mutual funds have explicit proxy voting guidelines on global warming. Instead, they lump these resolutions with other stakeholder (or so-called “corporate social responsibility”) proposals. In this catch-all category funds typically apply one dismissive set of proxy voting guidelines, regardless of how individual proposals might affect shareholder value. A more discerning approach would apply the same cost-benefit tests and selective criteria that increasingly guide their voting decisions on other proxy issues.

“In the post-Enron era, corporate governance issues are facing more investor scrutiny than ever before. Global warming should be no exception,” said Douglas G. Cogan, author of the study and deputy director of IRRC’s Social Issues Service. **“Global warming will not go away as a proxy issue as long as the threat to the economy and global environment continues. Mutual funds need to consider whether their votes favor more disclosure from management on this issue and whether company**

strategies are maximizing investment returns while minimizing exposure to climate risk.”

Table. Mutual Fund Proxy Voting on Stakeholder Issues and Global Warming

Voting Policy on Stakeholder Issues in 2004	# of Fund Companies (28 in total)	# of Top Mutual Funds (100 in total)	Asset Value of Funds (in millions)	% of Asset Value of Top 100 Funds	Voting Policy on Climate Change (# of Fund Cos.)
Always Against	15 ¹	52	\$869,039	59.1%	21 ³
Usually Against	7	15	153,333	10.4%	0
Always Abstain	2 ²	25	390,200	26.8%	4 ⁴
Usually Abstain	3	4	23,610	1.6%	0
Abstain or Against	1	1	6,723	0.4%	1 ⁵
For or Against	1	3	25,469	1.7%	3 ⁶

1. Includes Fidelity active funds.
2. Includes Fidelity index funds.
3. American Express, American Funds, Calamos Investments, Clipper Fund, Davis Funds, DFA Investments, Dodge & Cox, Fidelity (active funds), Franklin Templeton, Harbor Fund, The Hartford, Legg Mason, Lord Abbett, Longleaf Partners, MFS, Morgan Stanley, Oakmark, Putnam, Selected Funds, T. Rowe Price and Van Kampen.
4. AIM Investments, Fidelity (index funds), Pioneer, Vanguard
5. Oppenheimer.
6. American Century, Columbia Funds, Janus.

Source: Investor Responsibility Research Center

For full study findings, including a chart outlining key mutual fund companies and their 2004 votes, go to <http://www.ceres.org> or <http://www.ResultsForAmerica.org>.

RECOMMENDED ACTION STEPS

To make proxy voting practices more credible, consistent and robust, the *Unexamined Risk* report recommends that mutual funds:

- **Recognize that companies’ bottom lines and the value of mutual fund investments are being affected by climate change.** Global warming has embedded financial risks for companies that make poor choices about how to respond to climate change – and embedded opportunities for businesses that plan wisely and prudently for a carbon-constrained world. Shareholder requests for added financial disclosure on climate change bolster mutual funds’ own avowed research objectives to know companies from “top to bottom” and “inside-out.”
- **Abandon the “Wall Street Rule” that urges investors to vote their proxies according to management’s wishes,** rather than challenging managers on issues

where they may disagree. Mutual funds are already doing this when it comes to voting on resolutions addressing strict corporate governance matters. They should make the similar independent judgments on other issues affecting shareholder value – including resolutions focused on the financial impacts of climate change.

- **Establish proxy voting guidelines that address climate change explicitly.** Today’s global warming shareholder resolutions support the fiduciary duty to monitor a company’s “long-term business plan” and the “financial and non-financial measures of corporate performance” – as recommended in proxy voting guidance from the U.S. Department of Labor. Consistent with this fiduciary duty, mutual funds should establish voting guidelines that favor more disclosure on the financial impacts of climate change.

Lubber pointed out that mutual fund shareholders now have a historic opportunity to influence the proxy voting policies of their funds in the lead-up to the 2005 proxy season.

“Armed with this new information, investors can contact their fund managers and ask them why – unlike so many other types of investing institutions – they continue to oppose global warming resolutions,” Lubber said. **“If fund managers are missing the link between global warming and shareholder value, they can urge proxy voting reforms or, lacking progress, place their money with more enlightened fund managers.”**

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EDITOR’S NOTE: A streaming audio feed of a related news event and full study findings may be found online at <http://www.ceres.org> or <http://www.ResultsforAmerica.org>.