

## Mutual Funds Disclose Proxy Votes

For all but a few socially responsible mutual funds, the world has changed. Mutual funds were required by August 31 to disclose how they cast their corporate proxy votes. Most socially responsible mutual funds have been doing this for some time. For them, it will be business as usual. For others, more than a few secrets were revealed.

Unchanged was the long-standing obligation to vote proxies in the best interests of clients, yet until now the proxy votes of the almost \$4 trillion of stock owned by mutual funds were secret, with mutual fund shareholders not knowing how their fund had voted. Think of proxy voting as absentee balloting in corporate form, conducted so that shareholders do not have to be physically present at corporate annual meetings to have their ballots represented.

Few annual meetings have been so widely attended as that of The Walt Disney Company, where Disney CEO Michael Eisner, 62, was a target accused of excessive pay, poor leadership and failure to resuscitate the company's share price. Only a slight majority of shares were voted in his favor, a level of dissent that rarely occurs for any corporation. Fidelity's mutual funds voted against him, while Vanguard voted to reelect him.

As a sidenote, shareholders when electing corporate directors are presented with two choices: for and withhold. It requires only one "for" vote to elect a director, no matter how many "withhold" votes are cast, as long as the election goes uncontested as is usually the case. This is why management's power to nominate directors is so overwhelming. Management's nominees nearly always win!

Many mutual funds outsource their proxy voting to consultant Institutional Shareholder Services and rarely, if ever, overturn these recommendations. This year, anti-takeover defenses, lavish management severance packages and poorly run corporate boards were voted against. Also typically voted down by conventional mutual funds were proposals submitted by shareholder activists, as opposed to those supported by management. Not supported, except among the ethical fund set, were social and political initiatives. For example, the Putnam Voyager fund sided with Wal-Mart's management and voted against specific sustainability and diversity reporting requirements.

The Securities and Exchange Commission is considering rules that would allow dissenting shareholders to nominate candidates if certain "triggering events" or standards are met. An example of such an event would be the 45% of votes withheld from Eisner, who as a result retained his directorship but lost his position as Disney's chairman. Last Friday, he announced his retirement effective September 2006, a wait too long for many of his critics.

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"We have no obligation to make history. We have no obligation to make art. We have no obligation to make a statement. To make money is our only objective."

-- Michael Eisner, CEO, The Walt Disney Company, wrote in a memo sent during his previous position at Paramount.

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For a long time, corporate governance watchdogs and socially responsible investors had lobbied the SEC to pass proxy voting disclosure rules. In a failed effort to forestall such changes, the chairmen of the two largest mutual fund complexes, Vanguard and Fidelity, jointly wrote a *Wall Street Journal* editorial to oppose disclosure. The two chairmen sought to avoid what they called "becoming an arbiter of political and social disputes." As a result of public disclosure, activist groups with an "ax to grind with corporate America," they feared, would pressure mutual funds and distract investment managers from the business of making money. Not fair, both chairmen complained, private institutional investors such as pension funds, insurance companies and foundations are not required to disclose their votes.

### How did your mutual fund vote?

Check out the SEC's EDGAR search tool on the web at [www.sec.gov](http://www.sec.gov). Enter the mutual fund's name and "N-PX", the title of the proxy voting disclosure form.

You use a derailleur when you shift between gears on a modern bicycle. This is achieved by leading the chain from one sprocket to another. Just look where the chain wraps around the sprockets attached to your rear wheel, and there you will find the derailleur, a device that aids in the achievement of forward progress and momentum.