

Unexamined Risk:

How Mutual Funds Vote on Climate Change Shareholder Resolutions



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FOREWORD

A growing number of institutional investors and corporate directors are calling for deeper analysis, disclosure and action from companies about the financial risks and opportunities they face from global climate change. This heightened concern comes as the severity of climate change and its potential financial consequences have become clearer than ever. Consider that in 2005:

- Average global temperatures were the warmest in the 125 years since reliable records have been kept. Globally, all 10 of the warmest years on record have been since 1990, including five of the last seven years.
- The cost of natural disasters exceeded \$200 billion, up from the previous record of \$145 billion in 2004, according to reinsurance giant Munich Re. Last year's extreme weather included a record 26 tropical storms and 14 hurricanes—among those, devastating Hurricane Katrina that caused upwards of \$60 billion in insured losses.
- The European Union launched an unprecedented carbon emissions trading program that requires more than 11,000 industrial facilities across Europe to reduce their emissions of greenhouse gases. More than 230 million tons of carbon allotments were traded in the first year, with an estimated market value of over \$5 billion.
- The Kyoto Protocol, which commits Europe, Canada, Japan and other industrialized nations to cut their greenhouse gas emissions below 1990 levels by 2012, took effect. The international treaty is a market signal to companies worldwide that climate change regulations are real and will become more prevalent in the coming years.
- Investor participation in the Investor Network on Climate Risk grew exponentially to include more than 50 investors that collectively manage nearly \$3 trillion of assets. Many of these investors routinely supported climate change shareholder resolutions.
- CEOs at General Electric, Ford Motor, Duke Energy, Cinergy, Goldman Sachs and other leading U.S. businesses declared that climate change is an economic threat and that mandatory controls in the U.S. are needed so that companies can better position themselves to compete in the coming carbon-constrained global economy.

Each of these developments requires investors to pay even closer attention to the financial consequences of climate change to their portfolios. Prudence, fiduciary responsibility and legal duty compel investors to examine these emerging issues with care and, where appropriate, to act.

While investors worth trillions of dollars are taking action to reduce the risks and capture the opportunities posed by climate change, mutual funds are ignoring the issue. Their inattention calls into question the very processes by which they evaluate major shareholder risk issues on which they have a duty to vote.

This report analyzes how the nation's 100 largest mutual funds voted their shareholder proxies on climate change resolutions filed at 2005 corporate annual meetings. The shareholder resolutions asked companies to disclose the financial risks and opportunities posed by climate change and, in some cases, their strategies for controlling greenhouse gas emissions.

Mutual funds should drop their myopic approach and act on growing investor concern about climate change

In 2004, only three of the 28 investment management companies responsible for the 100 largest funds at that time cast any votes in favor of climate change resolutions. The results in 2005 were no better. Only three of the 31 companies analyzed had proxy voting guidelines allowing funds the discretion to support disclosure on environmental topics like climate change. Moreover, when actual votes were cast, none of the 100 largest mutual funds holding shares in the targeted firms supported any climate change proposals.

The vast majority of these 31 investment management companies are dismissing these resolutions because of proxy voting policies that instruct their funds to oppose or abstain on a whole set of shareholder risk issues, including climate change. Among those with these prohibitive voting policies are industry giants Fidelity, Vanguard and American Funds, which collectively manage about 70 percent of the assets held in the 100 largest U.S. equity mutual funds.

These voting practices should be abandoned because they are not serving the financial interests of mutual fund shareholders. As part of their fiduciary duty, mutual funds should:

- Recognize that climate change affects companies' bottom lines and the value of mutual fund investment
- Take a more discerning approach to proxy voting by abandoning the so-called "Wall Street Walk," an outdated portfolio management philosophy that urges investors to vote to sell their shares if they do not wish to vote their proxies according to the wishes of corporate managers
- Establish proxy voting guidelines that support climate change shareholder resolutions explicitly
- Meet with companies and investors to find mutually compatible solutions to face the climate change challenge, including new research and investment products

In considering the recommendations above, mutual funds should recognize the growing concerns that mutual fund consumers are voicing on the topic. A new survey released by the Civil Society Institute and Ceres of 842 mutual fund shareholders in the U.S. found that:

- Three out of four mutual fund investors (74 percent) want their "mutual fund to ask questions about the potential impact of global warming on the companies in which they are investing our money."
- More than seven out of 10 mutual fund investors (71 percent) said they wanted "company management to pay closer attention to global warming concerns and problems" and that they wanted their "mutual fund managers to support global warming shareholder resolutions on our behalf."

The message is clear: Mutual fund shareholders and leading institutional investors recognize the challenge and the threat that climate change poses to their portfolios. Mutual funds should be reaching the same conclusion by dropping their myopic approach in voting on climate change shareholder proposals.

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OVERVIEW

U.S. mutual funds have been required since 2004 to disclose how they vote their proxies in the companies in which they invest. Prompted by the corporate governance scandals and shareholder demands for greater transparency, these disclosure requirements are designed to show how fund managers are voting to protect shareholder interests and promote companies' long-term financial performance.

Addressing climate change is fast becoming a top priority of businesses and investors. The Kyoto Protocol and greenhouse gas emission limits are now a reality among America's key trading partners, and domestic pressure for action is building as well. Mindful of their fiduciary responsibilities, a growing number of institutional investors and corporate directors are calling for deeper analysis and disclosure from companies about the financial risks and opportunities from climate change, whether from regulatory changes, physical impacts or potential litigation.

In just the past two years, investor participation in the Investor Network on Climate Risk has grown from 10 members managing \$600 billion in assets, to 50-plus participants managing nearly \$3 trillion in assets. Many of the nation's largest pension funds now routinely support climate change shareholder resolutions. This growing investor pressure is prompting widespread improvements in climate governance practices at leading U.S. companies.

Mutual funds, however, are a critical missing link in this effort. Controlling upwards of one-quarter of the publicly traded equity in U.S. companies, mutual funds are uniquely positioned to encourage companies to evaluate and respond to climate change so that their long-term competitiveness and shareholder value are protected. But most of the nation's largest mutual fund companies have opted to ignore this responsibility. As a result, climate change remains largely hidden as an unexamined issue, with potentially enormous financial risks for their client base.

This report finds that virtually none of the top 100 U.S. equity mutual funds are addressing climate change through affirmative proxy voting policies. Despite the rising financial stakes and significant actions taken by other institutional investors, mutual funds have shown a near-universal lack of interest in supporting climate change resolutions since the proxy voting disclosure requirements went into effect two years ago.

At the 2005 corporate annual meetings, 28 of the 31 investment management companies responsible for the nation's 100 largest mutual funds maintained proxy voting policies to abstain or oppose all shareholder resolutions seeking more corporate disclosure on the financial risks and opportunities posed by climate change. This near-uniform stance stands in stark contrast to the mutual funds' own avowed research methods, which emphasize in-depth knowledge of companies' financial goals and risk-management strategies. Such voting policies also indicate a reluctance by these funds to embrace fiduciary practices, like those adopted by many other investors, to incorporate environmental, social and governance factors in evaluating companies' financial performance and future outlook.

For mutual funds that pride themselves on gaining in-depth knowledge of companies' financial goals and risk-management strategies, their resistance on climate change proposals is surprising. It runs counter to growing evidence that climate change is having far-reaching fiscal impacts on a wide range of business sectors, whether from carbon-emission regulations being adopted domestically and abroad or from rising insurance claims from natural disasters.

Despite new disclosure rules, mutual funds still give virtually no support for climate change resolutions

KEY FINDINGS

This report examines the 2005 proxy voting policies and voting records of the 100 largest U.S. equity mutual funds, which are managed by 31 investment management companies. The top 100 mutual funds had assets valued at \$1.47 trillion as of June 30, 2005, equal to nearly 10 percent of total shareholder holdings in U.S. equity markets. (See Table 1 for a listing of these companies and Table 2 for a summary of voting results.) Proxy voting information was obtained from company web sites and as reported to the Securities and Exchange Commission, using the Form NP-X. This report finds:

- None of the 31 investment management companies routinely supports shareholder proposals seeking more corporate disclosure on climate change.
- Twenty-eight of the 31 investment management companies have proxy voting policies that instruct their funds to oppose or abstain on all environmental-related resolutions, including on climate change. Among those 28 companies with such policies are mutual fund giants, Fidelity, Vanguard and American Funds, which collectively manage more than \$1 trillion of the assets held in the top 100 mutual funds (equal to 70 percent of the total).
- Only three mutual fund companies—Columbia, Franklin Templeton and Neuberger Berman—have guidelines that allowed some proxy votes to be cast in favor of climate change proposals.
- None of the 100 largest mutual funds with holdings in companies receiving climate change resolutions voted in 2005 for any of these proposals.

For most mutual funds, climate change remains an 'unexamined risk'

With mutual funds on record with their proxy votes, investors can challenge their fund managers to explain why support for added financial disclosure on climate change is not in the funds' best interests. Their scrutiny will add to the pressure coming from investment plan sponsors for these funds to reconsider their voting policies and to be more proactive in engaging companies on climate-related issues. For investment management firms that have begun to incorporate climate risk in their company valuation models, extending this line of inquiry into the proxy voting arena would seem especially timely and prudent.

Such actions also would benefit American households, fully half of which now participate in the U.S. equity markets—mainly through mutual funds. Given that investment management companies and investment advisors that manage these funds account for fully one-quarter of the \$16 trillion invested in equities, a change in their voting policies could give a dramatic boost for these shareholder resolutions, which already garner substantial support from other elements of the institutional investment community. Such a move would signal to companies to provide more information about their climate-related risks and also encourage them to adopt more climate-friendly technologies that spur new investment.

For now, however, climate change remains for most mutual funds—and the millions of customers they serve—an “unexamined risk.”

Table 1. Top 100 Mutual Fund Voting Results on 2005 Climate Change Resolutions

Mutual Fund Company	Top 100 Funds (#)	Top 100 Assets (\$Millions)	Votes on Web Site	Voting Results for Climate Change Resolutions
American Century	1	\$19,537.1	Yes	AGAINST
American Funds	11	286,657.9	Yes	AGAINST
Ameriprise Financial	1	6,709.0	Yes	AGAINST
Ariel	1	5,035.6	No	No holdings ¹
Artisan	1	5,996.8	Yes	No holdings ¹
Calamos Investments	1	11,601.1	No	AGAINST
Clipper Fund	1	6,593.7	Yes	No holdings ¹
Columbia	1	9,784.3	Yes	No holdings²
Davis Funds	3	27,822.9	Yes	AGAINST
DFA Investments	1	6,914.5	Yes	AGAINST
Dodge & Cox	1	48,073.0	Yes	No holdings ¹
Excelsior	1	5,060.3	Yes	AGAINST
Fidelity (active funds)	16	337,619.3	Yes	AGAINST
Fidelity (index funds)	2	35,131.7	Yes	ABSTAIN
Franklin Templeton	1	7,171.2	Yes	No holdings²
Harbor Fund	1	6,987.2	Yes	AGAINST
Hartford Mutual Funds	3	16,057.2	Yes	AGAINST
Janus	3	27,336.5	Yes	ABSTAIN or AGAINST
Legg Mason	2	16,911.3	Yes	AGAINST
Longleaf Partners	1	8,819.2	Yes	AGAINST
Lord Abbett	2	22,266.5	No	AGAINST
MFS	1	4,931.7	Yes	AGAINST
Neuberger Berman	1	6,361.3	Yes	No holdings²
Oakmark	2	13,055.0	Yes	No holdings ¹
Oppenheimer	2	13,459.5	No	ABSTAIN or AGAINST
Pioneer Funds	1	5,518.3	Yes	AGAINST
Putnam	2	19,820.8	Yes	AGAINST
Selected Funds	1	7,482.6	Yes	AGAINST
T Rowe Price	8	73,312.6	Yes	AGAINST
Third Avenue	1	6,011.6	Yes	No holdings ¹
Van Kampen	2	17,317.8	Yes	AGAINST
Vanguard	24	385,673.7	Yes	ABSTAIN

1. These firms held no stock in companies receiving 2005 climate change resolutions among their funds listed in the top 100 U.S. equity mutual funds.

2. These firms did vote FOR some 2005 climate change resolutions, but did not hold shares in their top 100 U.S. equity mutual funds.

Source: Investor Responsibility Research Center and *Business Week* (for assets under management)

(See Appendix for how these firms voted on specific climate change shareholder proposals in 2005, as well as their proxy voting policies on social and environmental issues.)

COMPARISON WITH 2004 RESULTS

The 2005 voting results reveal virtually no changes in proxy voting policies by leading mutual funds since the disclosure requirements went into effect in 2004. The 2004 report analyzed 28 investment management companies that at the time were responsible for the top 100 U.S. equity mutual funds. That earlier report found:

- Twenty-one of the 28 investment management companies opposed all climate change proposals that came to votes in 2004 (compared with 25 out of 31 companies in 2005).
- Five mutual fund companies abstained on some or all of the climate change proposals in 2004 (vs. four firms that abstained in 2005).
- Three mutual fund companies supported at least two global warming proposals in 2004: American Century, Columbia and Janus Fund (the same number of fund companies as in 2005).

Twenty-six of the 28 investment management companies appearing in the 2004 edition of *Unexamined Risk* also appear in this edition. Of these 26 firms, only three made any changes in their voting policies on climate change resolutions in 2005:

- **American Century**, which supported two climate change resolutions in 2004, did not support any of the 2005 proposals.
- **Franklin Templeton**, which opposed all climate change resolutions in 2004 (at least among its mutual funds listed in the top 100 funds), voted some of its shares in favor of a 2005 proposal at ExxonMobil. (Franklin allows outside managers to set their own proxy voting guidelines and procedures for some of its funds. These managers, in turn, often contract with independent proxy voting advisory services to help them with their voting decisions.)
- **Janus** adopted a new proxy voting policy in December 2004 to abstain on most social and environmental shareholder proposals. Previously, it had opposed nearly all such proposals. (Janus also has outside managers that employ their own proxy voting procedures for some Janus funds.)

Table 2. Summary of Top 100 Mutual Fund Voting Policies on Social Issues

Top 100 Mutual Funds	2005 Survey Results				2004 Survey Results		
	# of fund companies (31 in all)	# of Top 100 funds	Asset value as of 6/30/05	% of top 100 assets	# of fund companies (28 in all)	# of Top 100 funds	% of top 100 assets
Always Against	15 ¹	46	\$774,820	52.7%	15 ¹	52	59.1%
Usually Against	10	18	200,591	13.6	7	15	10.4
Always Abstain	2 ²	26	420,805	28.6	2 ²	25	26.8
Usually Abstain	2	5	40,796	2.7	3	4	1.6
Abstain or Against	1	1	11,601	0.8	1	1	0.4
For or Against	2	4	22,418	1.5	1	3	1.7

1. Includes Fidelity actively managed funds

2. Includes Fidelity index funds

2005 additions to Top 100 funds: Funds by Ariel, Artisan, Excelsior, Neuberger Berman and Third Avenue.

2005 deletions from Top 100 funds: Funds by AIM Investments and Morgan Stanley.

Source: Investor Responsibility Research Center (for voting policies) and *Business Week* (for assets under management)

GROWING SHAREHOLDER CONCERN ABOUT CLIMATE CHANGE

Climate change is one of the most prominent and persistent topics raised in the 35 years of proxy voting on social and environmental issues. At the core of this effort is an examination of the financial risks and opportunities posed by climate change and policies to address it. Shareholders are seeking to determine how companies are managing their climate-related exposure—and how this may affect shareholder value.

More than 100 climate change resolutions have been filed in the last four years alone, including a record 33 proposals in 2005. (See *Box 3 in the Appendix for a sample 2005 resolution.*) While the content of these resolutions varies, they share a common set of goals for voluntary adoption by management:

- **Disclosure**—public reporting of greenhouse gas (GHG) emissions and disclosure of climate-related risks and opportunities
- **Targets**—voluntary goals and timetables to achieve absolute reductions in GHG emissions from operations and products
- **Policy**—support for government programs that set mandatory limits on GHG emissions to bolster strategic planning and investor certainty

Given that many more of these proposals are expected in the years ahead, mutual funds would be well served in drafting proxy voting guidelines to address these proposals. To date, none of the top 100 funds have done so.

No mutual funds have developed proxy voting guidelines that explicitly address climate change

Milestones

Since 1990, the climate change shareholder effort has grown not only in terms of resolutions filed, but also in terms of backing from institutional investors.

- **First climate change resolution:** In 1990, Friends of the Earth, a leading U.S. environmental group, launched the effort by filing a single resolution with Exxon—with just 400 shares owned. The resolution called on Exxon to “reduce production of carbon dioxide emissions from its energy production plants and facilities,” and received support from 6.3 percent of shares voted (a typical vote for a new social issues proposal opposed by management). Exxon and ExxonMobil have since received more than a dozen more climate change proposals. A 2005 resolution addressing the company’s plans to reduce greenhouse gas emissions in compliance with the Kyoto Protocol received support from 28.3 percent of shares voted—a record by ExxonMobil shareholders.
- **The effort grows:** In 1994, the Interfaith Center on Corporate Responsibility (ICCR), which serves faith-based institutional investors, joined the climate change shareholder debate. In 1994, a church-sponsored resolution at Niagara Mohawk Power, an electric utility, received support from 19.4 percent of the shares voted. At the time, it was one of the highest votes ever on a social issues proposal. ICCR has since helped coordinate the filing of most climate change proposals.
- **Social investors join in:** In 1998, mutual funds that screen investments on the basis of social and environmental criteria joined the campaign. Their first resolutions focused on whether insurance companies were taking into account rising storm-related damages caused by climate change. The SEC has ruled out consideration of such proposals on grounds that they raise “ordinary business” issues to be resolved by management, not shareholders. However, rising insured losses caused

by severe storms, such as Hurricane Katrina in 2005, dramatizes the profound impact that global warming may have on property and casualty insurers. The SEC may yet change its view of these resolutions—as it did two decades ago, when it decided that nuclear power development posed risks beyond ordinary business risks facing investors.

- **Ceres and Investor Network on Climate Risk (INCR):** Ceres, a coalition of investors, environmental groups and other public interest organizations that works with companies to improve their environmental management practices, joined the shareholder effort on climate change in 2002. In 2003, Ceres organized the first-ever Institutional Investor Summit on Climate Risk at the United Nations. Among the outcomes of that historic meeting was launching INCR, with 10 institutional investors, to promote better understanding of the risks of climate change among institutional investors. Ceres held a second Institutional Investor Summit on Climate Risk in May 2005 at the U.N., which attracted more than 400 institutional investors, fund managers and other business leaders from 15 countries. INCR has grown dramatically and now includes more than 50 institutional investors with assets of nearly \$3 trillion. Ceres serves as the secretariat for INCR.

Company Engagement on Climate Change

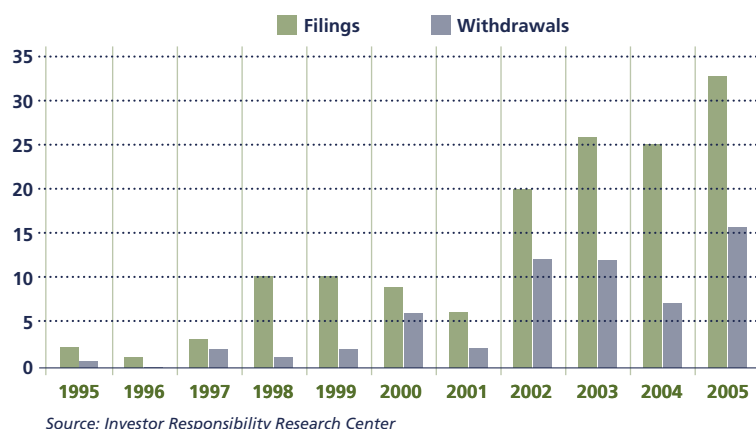
With the influx of participants across a broad cross-section of the investment community, the engagement between investors and companies on climate issues has become much more than the filing of shareholder resolutions. Some of these engagements are focused on key carbon-emitting sectors, such as autos, electricity, and oil and gas. Others have begun reaching out to real estate investment trusts and property & casualty insurers, which are especially vulnerable to physical damages caused by climate change.

The long history of this effort has also led to some important agreements between shareholder proponents and companies. Rising average support levels—which approached 19 percent in 2002—set the stage for many of the early, precedent-setting agreements. These agreements, in turn, have built a framework for the discussions going forward with various industries:

- **Electricity producers:** Some of the nation's largest electric utilities—including American Electric Power, Southern Company, TXU and Cinergy— have issued climate risk reports, after receiving votes for climate change shareholder resolutions ranging up to 27 percent. In 2005, INCR members contacted 43 of the largest utilities, asking them to prepare similar reports on the impact of climate change on their companies. The electric power industry is the source of nearly 40 percent of the country's carbon dioxide emissions and about 10 percent globally.
- **Insurance providers:** In December 2005, INCR members asked 30 of the largest property and casualty insurers in North America to disclose their financial exposure to climate change, and the steps they are taking to reduce associated liabilities. These companies are being benchmarked against leading European reinsurers, such as SwissRe and MunichRe, which have identified climate change as a leading source of risk to their industry.
- **Other industries:** All told, well over 100 companies are in various states of dialogue with U.S. shareholder proponents about climate change. The industry sectors represented include autos, oil and gas, homebuilding, retailers, banks and

manufacturers in industries ranging from chemicals to computers. Many of these companies are raising their level of disclosure on climate risk without shareholder proposals ever being filed. Many others, which have received proposals, have worked out withdrawal agreements with shareholder proponents because of the constructive dialogue that has taken place.

Table 3. U.S. Climate Change Shareholder Resolutions, 1995–2005



A record number of climate change resolutions were filed—and withdrawn—in 2005

Progress in 2005

In 2005, both the number of global warming resolutions filed and those withdrawn reached record levels. Thirty-three climate change resolutions were filed, and 17 were later withdrawn. (See Table 3.) More than a dozen large U.S. companies made formal commitments to shareholders to disclose climate risk information to investors, and in some cases to voluntarily reduce their greenhouse gas emissions and support nationwide mandatory controls on greenhouse gas emissions. Five of the 11 resolutions that came to votes were first-year proposals filed with homebuilders and real estate investment trusts. Average support for the 2005 resolutions was 10.7 percent. (See Table 4 for a listing of all resolutions filed and their outcomes.)

Among the highlights of the 2005 proxy season:

- **Ford Motor Co.** agreed to produce a comprehensive report, which it released in December, examining the business implications of reducing greenhouse gas emissions from its motor vehicles and manufacturing plants.
- **Three major power companies**—DTE, FirstEnergy, Progress Energy—assumed board oversight for corporate strategies to address climate change, and agreed to issue reports describing how greenhouse gas limits might affect their profitability and competitive positioning.
- **Six U.S. oil companies**—Anadarko Petroleum, Apache, Chevron, Marathon, Tesoro and Unocal—agreed to pursue a range of response options, such as:
 - disclosure of operational greenhouse gas emissions and/or end-product emissions,
 - setting absolute emission goals and reduction targets,
 - increasing investments in low- and no-carbon energy technologies, such as renewables and carbon sequestration, and

- factoring carbon costs into capital allocation decisions and integrating climate risk into core business strategies.
- **At ExxonMobil**, a resolution asking the company's board of directors to undertake a comprehensive review of how it will meet greenhouse gas reduction targets in countries participating in the Kyoto Protocol, received support from 28.3 percent of the shares cast. This was the highest vote ever on a climate change proposal at ExxonMobil, with strong institutional backing.

New Momentum

The progress made in addressing climate change as a financial and risk management issue extends well beyond the proxy arena. In the plan sponsor community, institutions are banding together to press for new investment research and strategies to address climate change. On Wall Street, money managers are responding with new analytical tools in the emerging field of carbon finance. Most significant, a growing number of large, influential companies are calling for mandatory controls on greenhouse gas emissions in order to resolve policy uncertainties and facilitate the launch of new business initiatives.

- **Investors:** In May 2005, the second Institutional Investor Summit on Climate Risk held at the United Nations in New York City attracted more than 400 institutional investors, fund managers, financial professionals and other experts from 15 countries.
 - ***New Call for Action:*** A new 10-point Call for Action by members of the Investor Network on Climate Risk asks fund managers to describe their capabilities and strategies to assess the financial risks and opportunities posed by climate change.
 - ***Clean energy investments:*** INCR members have also pledged to invest \$1 billion of their capital in companies with carbon-reducing technologies over the next year. This pledge builds on the Green Wave Initiative, launched in 2004 by the California Public Employees' Retirement System and California State Teachers' Retirement System. This initiative earmarks \$1.5 billion of the funds' assets for investments in climate-friendly technologies and clean energy companies.
 - ***Carbon Disclosure Project:*** Separately, the Carbon Disclosure Project (CDP), a nonprofit consortium based in London, has brought together 155 institutional investors with \$21 trillion in assets to request information from companies on their climate change policies. Since its inception in 2002, CDP has sent three questionnaires to the world's 500 largest companies (defined by market capitalization on the *Financial Times* stock index). In 2004, 350 of the companies responded, up from 235 in the first year of the study.
- **Money managers:** More investment banks launched programs to address climate change within their lending, research and property management operations.
 - ***JPMorgan Chase:*** In May 2005, JPMorgan Chase announced that it would begin tracking and controlling greenhouse gas emissions within its own operations and evaluate the effects of its lending operations on emissions in carbon-intensive industries. In evaluating construction of new power plants, the bank will factor in a cost for greenhouse gas emissions.
 - ***ABN Amro:*** ABN Amro, one of the largest banks in Europe, launched new climate risk-management services in 2005. These include new mutual funds focused on sustainability investments and trading of greenhouse gas emission

allowances through its commodity trading desk. In June 2005, the bank brokered its first carbon-credit transaction between two private corporations.

- **Goldman Sachs:** In November 2005, Goldman Sachs issued a new Environmental Policy Framework for its investment banking operations, and said it would integrate environmental, social and governance metrics in its share valuation models. Goldman Sachs declared: “We believe climate change is one of the most significant environmental challenges of the 21st century and is linked to other important issues such as economic growth and development, poverty alleviation, access to clean water, and adequate energy supplies.” It added, “Voluntary action alone cannot solve the climate change problem.”
- **Other banks:** Citigroup, BankAmerica and HSBC are among other banks that have announced similar programs to address climate change. BankAmerica has pledged to reduce its own greenhouse gas emissions by 9 percent between 2004 and 2009 and to assess climate risk in its financings. HSBC declared in 2004 that it would become carbon neutral by 2006 (a goal it has already achieved) through emission reductions, purchases of green electricity and buying emission credits. In April 2005, Citigroup and ABN Amro launched a new information platform that will provide news, regulatory information, market analysis and price tracking of emerging environmental commodities such as carbon dioxide.
- **Corporations:** A growing number of U.S. companies also agree that governments must set mandatory limits on greenhouse gas emissions in order to reduce investor uncertainty and provide confidence in strategic planning. The CEOs of some of the largest firms in their industries are speaking out in support of policies they believe will help their companies grow, despite emission constraints.
 - **Duke Power:** *Chairman and CEO Paul Anderson (May 2005)*—“I believe U.S. public policy on global climate change should encourage a transition to a lower-carbon-intensive economy through a broad-based, mandatory approach. And I believe the best approach is a carbon tax, which addresses greenhouse gas emissions from all sectors of the economy.” Pending approval of its merger with Cinergy, Duke will become the nation’s largest power company. Cinergy Chairman James Rogers has also spoken out repeatedly in support of carbon emission caps.
 - **General Electric:** *Chairman and CEO Jeffrey Immelt (May 2005)*—Industry and government have to take steps to develop a policy that is engaged in greenhouse gases, like carbon dioxide. There’s a long road ahead to implement lasting solutions but even small steps will get us headed in the right direction.” In May 2005, GE launched its Ecoimagination campaign, which aims to double the company’s revenues from carbon-reducing and environmentally friendly sources to \$10 billion by 2010. GE has also pledged to cut its own greenhouse gas emissions by 1 percent, which were forecast to grow by 40 percent by 2012.
 - **BP:** *Chairman John Browne (November 2005)*—“As the pricing of carbon develops through trading schemes and other initiatives, the market will grow rapidly as low-emission technologies displace less clean forms of power generation.” In November 2005, BP established a new Alternative Energy business unit that plans to invest \$8 billion in renewable, hydrogen and integrated gasification energy technologies over the next decade. BP has

A growing number of banks and companies agree that caps on greenhouse emissions are needed to provide investor certainty

reduced its own greenhouse gas emissions by 9 percent over the last six years and is committed to further reductions.

- **Other company statements:** In July 2005, the CEOs of two dozen companies, including at Alcan, Hewlett-Packard, Ford Motor, Siemens, Rio Tinto and Toyota, issued a joint statement urging leaders of the Group of Eight industrialized nations who were meeting in Scotland to set climate-stabilization targets and adopt global trading systems to control greenhouse gas emissions. In June 2005, the leaders of five Fortune 500 companies—Baxter, Cinergy, DuPont, United Technologies and Whirlpool—provided congressional testimony that carbon controls are a reality outside of the United States and that companies (including U.S. firms with international operations) are dealing with them successfully. Cinergy Chairman and CEO James Rogers warned, “The longer we [in the United States] postpone acting on the issue, the more extreme the measures might have to be to deal with the issue in the future.”

Such messages appear to be resonating in Congress. In drafting the 2005 Energy Bill, a solid majority of the U.S. Senate supported a resolution stating, “Congress should enact a national mandatory, market-based program to slow, stop and reserve growth of these emissions.” While the resolution is non-binding, it shows that the Senate is preparing for the United States to join other nations in regulating greenhouse gas emissions.

Table 4. 2005 U.S. Climate Change Shareholder Proposals

Company	Outcome	Company	Outcome
<i>U.S. Companies</i>			
Allergan	Withdrawn	Health Care Property	8.9
Anadarko Petroleum	Withdrawn	JPMorgan Chase	Omitted
Analog Devices	Withdrawn	Lennar	2.3
Apache	Withdrawn	Liberty Property Trust	7.5
Avery Dennison	Withdrawn	Newell Rubbermaid	Withdrawn
Centex	Withdrawn	Nucor	Withdrawn
Chevron (renewables)	Withdrawn	Progress Energy	Withdrawn
Corning	Withdrawn	Ryland Group	7.9
Dominion Resources	8.3%	Simon Property Group	7.5
Dow Chemical	Withdrawn	Tesoro	Withdrawn
ExxonMobil (climate data)	10.3	Unocal	Withdrawn
ExxonMobil (Kyoto compliance)	28.3	Vintage Petroleum	25.6
FirstEnergy	Withdrawn	Wachovia	Omitted
Ford Motor	Withdrawn	Wells Fargo	Omitted
Ford Motor (lobbying)	6.4	XTO Energy	Withdrawn
Ford Motor (warming/cooling)	Omitted		
General Motors	5.2		
General Motors (warm/cool)	Omitted		
		# Filed	# Voted
		33	11
			Avg. Support
			10.7%

WHY DO MUTUAL FUNDS OPPOSE CLIMATE CHANGE RESOLUTIONS?

If institutional investors, money managers and major corporations increasingly view climate risk as a core business issue that bears on shareholder value, why are the nation's leading mutual funds so opposed to shareholder resolutions seeking more disclosure on this topic? The answer lies in how these funds approach the proxy voting process, and how they tend to regard shareholder resolutions that challenge management policies on social and environmental issues. When such issues come up for a shareholder vote, their overwhelming tendency is either to follow management's recommendation to vote against the proposal, or cast abstentions that effectively take their shares out of the proxy voting process.

Walk or Talk?

Not long ago, many institutional investors applied the "Wall Street Walk" when voting their proxies—and on social and environmental issues some still do. This tenet of portfolio management urged investors to support management's stated position on ballot questions or sell their holdings in the company. To voice disagreement while retaining shares was seen as overstepping the bounds of investor responsibility and meddling unnecessarily in the affairs of management. Accordingly, the Wall Street Walk recommended that unsatisfied shareholders "vote with their feet," not with their voice or hands.

Over the years, however, the Wall Street Walk has fallen largely out of favor, replaced by more vocal and proactive forms of corporate engagement. The tremendous growth of assets held by institutional investors, combined with the trend toward indexed investing, has meant that many institutions now maintain core holdings that they rarely, if ever, sell. Transaction costs in trading securities also discourage institutions from selling shares that they might want to buy back later on. In addition, the Department of Labor, which oversees the Employee Retirement Income Security Act (the law governing most private pension plans), has issued two key rulings that have added weight and volume to the shareholder activism movement.

- **Avon Letter:** In 1988, the DoL issued its bellwether "Avon letter," which stated, "the fiduciary act of managing plan assets which are shares of corporate stock... includes the voting of proxies appurtenant to those shares of stock." Shareholders' voting power, in other words, is part of the value of holding the asset—and exercising that voting power is part of being a prudent fiduciary.
- **Interpretive Bulletin 94-1:** In 1994, the DoL went a step further. In an Interpretive Bulletin, it stated that shareholder activism itself is consistent with a fiduciary's obligations where "there is a reasonable expectation that such monitoring or communication with management... is likely to enhance the value of the plan's investment in the corporation, after taking into account the costs involved." Among the types of shareholder activism consistent with this goal, the DoL said, are monitoring and communication about a "company's long-term business plan" and its "financial and non-financial measures of corporate performance."

New Disclosure Rules

In the wake of recent corporate accountability scandals, the Securities and Exchange Commission has also weighed in with a ruling that affects mutual funds directly. Because these funds typically are part of larger investment firms that underwrite corporate securities and manage corporate retirement plans, these funds face a possible conflict of interest in voting their shares. By opposing management's voting recommendations to protect the fiduciary interests of mutual fund shareholders, they could put their lucrative corporate business at risk. To address this concern, the SEC issued rules in January 2003 to make the voting process more transparent. Starting in August 2004, mutual funds and other registered investment management companies had to disclose both their proxy votes and voting guidelines on an annual basis, and make them available to their shareholders. (The first reporting period dated back to July 1, 2003.)

In justifying the decision, the SEC declared, "shedding light on mutual fund proxy voting could illuminate potential conflicts of interest and discourage voting that is inconsistent with fund shareholders' best interests." Moreover, it said, "recent corporate scandals have created renewed investor interest in issues of corporate governance and have underscored the need for mutual funds and other institutional investors to play a more activist role in corporate governance." Transparency in voting, the SEC concluded, could encourage funds to get more involved in the governance of the firms in their portfolios, "which could benefit all investors and not just fund shareholders."

New voting disclosure rules urge mutual funds to avoid conflicts of interest and protect shareholder value

Mutual Fund Voting Guidelines

In its 2003 rulemaking, the SEC highlighted proxy voting guidelines on "social and corporate responsibility issues" as one of four types of proposals that would be "appropriate" for policy development and disclosure. (The other examples addressed corporate governance and executive compensation proposals as well as proposed changes in capital structure.) With this requirement, most mutual funds now post their proxy voting guidelines on their company web sites. Mutual funds also are required to list their guidelines in the Statement of Additional Information that accompanies their fund prospectuses.

In reviewing these guidelines, it is common to find mutual funds that support several types of shareholder proposals addressing strict governance matters—meaning they will vote *against* the wishes of management and corporate boards of directors in these instances. Examples of such shareholder proposals typically include requests for annual election of directors, boards composed with a majority of independent directors, repeal of "poison pills" and other takeover defenses, and adoption of cumulative voting and confidential voting.

Yet, as discussed earlier, the nation's leading mutual funds have yet to identify virtually any shareholder proposals on social and environmental issues that they would routinely support. Instead, their guidelines typically call for blanket opposition to these proposals, or voting abstentions. While the wording of the guidelines often leaves room to make exceptions for proposals that are identified as having a positive impact on shareholder value, in practice mutual funds almost never apply this out-clause. Such opposition extends to proposals seeking to avoid financial risks associated with climate change, despite the benefits to shareholders that would result.

Mutual funds offer various explanations for not supporting shareholder resolutions on this and other social and environmental topics. Reading between the lines, however,

Box 1. Mutual Fund Proxy Guidelines on Social and Environmental Resolutions

This report examines the proxy voting guidelines and voting practices of the 31 investment management companies responsible for managing the 100 largest U.S. equity mutual funds. The report finds that most funds have catch-all proxy voting guidelines on social and environmental issues; none has affirmative guidelines on climate risk or related environmental topics. When it comes to voting, most funds cast their shares with management, or they abstain from voting on these types of proposals. Even in instances where a fund's guidelines call for a case-by-case evaluation of proposals' economic impacts, most funds invariably vote against them. In sum, social and environmental proposals tend to be dismissed as a class—without consideration of their individual merits—on grounds that their economic impact is either too difficult to gauge or that management is in the best position to analyze and act on these issues.

Accordingly, mutual fund proxy voting guidelines on social and environmental issues tend to fall into the following categories (with quotes provided from representative mutual fund families):

- **Support for management:** “It is our general policy to vote as management recommends on social issues, unless we feel that voting otherwise will enhance the value of our holdings. We recognize that highly ethical and competent managements occasionally differ on such matters, and so we review the more controversial issues closely.” (Quote from Lord Abbett. See also Ameriprise, Dodge & Cox, Franklin Templeton, Harbor, Oakmark, T. Rowe Price and Van Kampen.)
- **Opposition to ‘social and environmental agendas’:** “There are many groups advocating social change, and many have chosen the publicly held corporation as a vehicle for their agenda. Common among these are resolutions requiring the corporation to... adhere to some list of goals or principles (e.g., environmental standards) or to report on various activities. MFS votes against such proposals unless their shareholder-oriented benefits will outweigh any costs or disruptions to the business, including those that use corporate resources to further a particular social objective outside the business of the company or when no discernible shareholder economic advantage is evident.” (Quote from MFS. See also Excelsior, Legg Mason and Longleaf Partners.)
- **Inability to gauge economic impacts:** “In general, Artisan Partners votes with management on shareholder social and environmental proposals, on the basis that a positive impact on share value can rarely be anticipated from such proposals. Among the social and environmental issues to which this pertains are ... environmental and energy issues (e.g., wildlife preservation, CERES principles, general environmental issues, climate change, recycling, renewable energy).” (Quote from Artisan Partners. See also American Century, Davis and Selected Funds.)
- **Opposition to all shareholder proposals, except for limited corporate governance exceptions:** “The funds generally will vote in accordance with the recommendation of the company's board of directors on all shareholder proposals [except board declassification, shareholder approval of shareholder rights plans, proposals consistent with the funds' proxy voting guidelines for board-approved proposals, and case-by-case votes on other shareholder proposals where the funds are otherwise withholding votes for the entire board of directors].” (Putnam Funds)
- **Abstentions on social and environmental proposals:** “Janus will generally abstain from voting on shareholder proposals that relate to social, moral or ethical issues, or issues that place arbitrary constraints on the board or management of a company.” (Quote from Janus. See also Fidelity index funds, Oppenheimer, Pioneer and Vanguard.)
- **Case-by-case analysis (but usually votes against social and environmental proposals):** “When evaluating social proposals relating to issues such as human rights, labor and employment, the environment and smoking and tobacco, decisions are made on a case-by-case basis. We consider each of these proposals based on the impact to the company's shareholders, the specific circumstances at each individual company, and the current policies and practices of the company.” (Quote from American Funds. See also Columbia, The Hartford and Neuberger Berman.)
- **No social or environmental guidelines (but typically votes against these proposals):** (Fidelity actively managed funds)
- **No readily accessible voting guidelines.** (Ariel, Calamos, Clipper, DFA Financial, Third Avenue)

many of their voting guidelines serve as a modern-day adaptation of the Wall Street Walk. Deference is given to management for a variety of reasons. Among the reasons commonly cited:

- **Ordinary business:** It should be the responsibility of management and the board of directors to deal with social and environmental issues. Shareholders should not interfere in how the company conducts its affairs or sets policy on these matters.
- **Economic impact:** The effect of these proposals on shareholder value is likely to be negative or difficult to discern. Therefore, it is best left to management to weigh the merits of individual proposals.
- **Agenda setting:** These proposals serve as a platform for activist shareholders to promote their own agendas. They are not concerned about the priorities of the company or its shareholders.
- **Opting out:** Some social and environmental proposals may have merit, but reasonable people may disagree as to their relative costs and benefits. Therefore, fund managers should not express any opinion through proxy voting (and cast abstentions).

(See Box 1 for specific examples of proxy voting guidelines that mutual funds apply to social and environmental shareholder resolutions.)

Financial impacts of climate change rival or exceed those of many governance issues for which mutual funds have voting guidelines

Expedience over Diligence?

Beyond the theoretical arguments to oppose social and environmental shareholder resolutions, mutual funds have a practical reason as well. By lumping these proposals together in a category that is distinct from other types of proxy proposals, funds can summarily dismiss them, without the need for individualized guidelines or case-by-case proxy voting decisions. Given the range of social issues explored each year—often on complex, contemporary policy questions—this “one-size-fits-all” approach can be a tremendous time saver for fund managers and proxy voting administrators.

But does this constitute a prudent approach to proxy voting? Are all social and environmental resolutions created equal in that sense? Or do some proposals merit further consideration—including those addressing climate change? A growing number of institutional investors believe climate change proposals do stand out because of the ways in which this issue bears on shareholder value. For this reason, members of the Investor Network on Climate Risk have called on their fund managers to begin supporting these resolutions. As the Final Report of the 2005 Institutional Investor Summit on Climate Risk explained:

Climate change is rapidly emerging as a significant environmental and economic challenge, which can only be expected to intensify as the worldwide demand for energy increases and the search for cleaner sources of energy expands. The ramifications of climate change extend to businesses in countless industries, and their shareholders around the world, and the global economy.

The financial implications of climate change raise serious and substantive questions for fiduciaries concerned about the safety and soundness of all investments. While governments must respond promptly and effectively to the environmental threat, investors must be provided with sufficient information to adequately con-

sider the risks to their portfolios. As a growing risk factor that could adversely affect individual and institutional investments, climate change cannot be ignored when analyzing corporate and investment risk profiles.

To be sure, climate change is not the only social issue that may affect shareholder value. Other commonly cited issues include how companies treat workers, deal with countries known for human rights abuses, and manage the effects of globalization. Arguably, the financial impacts of these social issues rival or exceed those of many governance issues for which mutual funds now have extensive proxy voting guidelines.

Emerging Fiduciary Principles

With all of this in mind, the United Nations Environmental Programme issued a new set of Principles for Responsible Investment in October 2005. The purpose of these principles is to align the long-term goals of sustainable development with the fiduciary obligations of institutional investors. The preamble for these principles states:

As institutional investors, we have a duty to act in the best long-term interest of our beneficiaries. In this fiduciary role, we believe that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sections, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society.

An accompanying legal brief takes this argument a step farther. Written by Freshfields Bruckhaus Deringer, one of the world's largest law firms (with a highly regarded environmental, planning and regulatory practice), the brief evaluated existing fiduciary guidelines for investment managers in seven countries in Europe, North America and Asia. The Freshfields analysis concluded, "the links between ESG factors and financial performance are increasingly being recognized. On that basis, integrating ESG considerations into an investment analysis so as to more reliably predict financial performance is clearly permissible and is arguably required in all jurisdictions." (emphasis added)

In effect, the UNEP Principles for Responsible Investment and the accompanying legal brief are turning conventional thinking about fiduciary prudence on its head. Rather than making exceptions for analyzing the shareholder value impacts of social and environmental issues, they say, fund managers should make such analysis the rule. Conversely, fund managers that summarily dismiss such analysis because it does not conform with conventional research methods or definitions of corporate governance might be seen as failing to conduct proper due diligence.

New Thinking

How much this new way of thinking about fiduciary duty will be embraced by the investment community—and by mutual funds in particular—remains to be seen. However, the new environmental policies that large financial institutions such as Goldman Sachs, JPMorgan Chase, BankAmerica and others have recently announced (as discussed earlier) suggests that this idea is gaining traction.

Yet even before these recent announcements, the groundwork had been laid for those who believe that mutual funds are justified in taking a more proactive approach

***It should be the rule,
not the exception,
to evaluate
shareholder
impacts of social
and environmental
resolutions***

in voting their proxies on issues such as climate change. Contrary to the general arguments found in many mutual fund voting guidelines, *it can be argued that climate change:*

Mutual funds will have an increasingly difficult time explaining why they remain on the sidelines of this important issue

- **Is not 'ordinary business':** Except in the case of insurance companies, the SEC has consistently ruled that climate change shareholder resolutions cannot be excluded from company proxy statements on ordinary business grounds, provided that they seek broad disclosure on the effects and responses of companies to this issue. In addition, such resolutions are consistent with examples of prudent shareholder activism as laid out by the Department of Labor, which address a "company's long-term business plan" and its "financial and non-financial measures of corporate performance."
- **Has identifiable economic impacts:** While it is difficult for some companies to quantify the economic impacts of climate change, especially in the absence of U.S. legislation, the effects are still clearly there. The current government policy debate hinges largely on the ways in which economic growth would be affected by mandatory controls on greenhouse gas emissions. Physical effects of climate change are also becoming increasingly evident, as seen through the spread of tropical disease, thawing of permafrost and increases in weather-related property damage.
- **Is on the corporate agenda:** Though some funds may regard the filing of climate change resolutions as part of an "activist agenda," the SEC has affirmed the right of these resolutions to be included for consideration at companies' annual meetings. Since 2002, climate change resolutions have been filed in greater numbers than on any other social or environmental issue. In addition, a growing number of companies readily acknowledge that responding to climate risk is on *their* own agenda. In 2000, members of the World Economic Forum ranked climate change as the most pressing issue before them in the 21st century. More recent announcements suggest that companies have begun to position themselves as "problem solvers" rather than "problem causers" of climate change.
- **Is not an issue to 'opt out':** By its very nature, climate change affects the global economy and the worldwide investment community. Mutual funds that abstain from voting on climate change shareholder resolutions may have an increasingly difficult time explaining why they choose to remain on the sidelines. Given that climate risk is not classified as an ordinary business issue, has identifiable economic impacts and is squarely on the corporate agenda, funds should end their silence and take a stand in their proxy votes—either for or against these resolutions.

CONCLUSIONS AND RECOMMENDATIONS

Because of the potentially drastic effects of climate change on the world's economy, environment and people, climate change shareholder resolutions have received prominent, widespread and growing support among institutional investors over the last 15 years. Yet the nation's leading mutual funds still consistently oppose or abstain on virtually all climate change proposals. These funds apparently have not yet made the link between climate change and risks to shareholder value, at least in terms that show up in their voting decisions. Nor have they explained why added financial disclosure on this issue is not in the best interests of their funds. This is especially curious for an industry that, in its advertising, says it wants to know companies from "top to bottom" and "inside-out" when making investment decisions.

When the Securities and Exchange Commission issued the proxy voting disclosure requirements for mutual funds in 2003, the expressed purpose was to show whether mutual funds are making independent and objective proxy voting decisions—free of conflicts of interest from their other business dealings. The funds' near-universal opposition to climate change proposals, and most other social and environmental proposals, suggests that these funds still hold an allegiance to management, or at the very least an adherence to the "Wall Street Walk" that increasingly is seen as being out of step with the times.

The fact that only one company managing top 100 mutual funds (Janus) has amended its proxy voting guidelines on social and environmental issues since the disclosure requirements went into effect may be a sign of fund indifference or philosophical disagreement with the way the voting process works in approaching these issues. Yet with environmental, social and governance issues becoming more closely linked with fiduciary duties to protect shareholder value, such steadfast views may not hold much longer.

In fact, with plan sponsors pressing on one side for more investment research and fund manager engagement on climate risk, and corporations on the other starting to press for policy reforms to spur investment in climate-friendly technologies, mutual fund companies may feel compelled to reevaluate their voting positions. Signs are emerging already that some investment management firms are trying to break from the pack in terms of demonstrating capabilities to address climate risk in their portfolio selections. If the trend extends to proxy voting, the change in how large mutual funds treat climate change resolutions could be dramatic and quick.

Accordingly, mutual funds looking to make their proxy voting practices on climate change more credible, consistent and robust can take these four steps:

1. Recognize that climate change affects companies' bottom line and the value of mutual fund investments. Climate change has embedded risks for companies that make poor choices in how to respond, and opportunities for those planning wisely and prudently for a carbon-constrained world. The energy and technology strategies that companies employ not only have direct effects on shareholder value, but also on the attitudes of consumers, regulators and litigators who will shape the prospects of these companies going forward.

2. Abandon the "Wall Street Walk" when framing proxy voting guidelines on social and environmental issues. Mutual funds are already distancing themselves from this rule (and rigid adherence to management) when it comes to voting on many strict corporate governance matters. They should apply the same cost-benefit tests and selective voting criteria to *all* proxy issues that address a company's

Will some mutual funds break from the pack to demonstrate concern and ability to assess climate change risk?

long-term business plan and performance—including proposals that focus on the shareholder value impacts of responding to climate change.

3. Establish proxy voting guidelines that address climate change explicitly. Climate change is not going away as a proxy issue as long as the threat to the global environment and economy remains. Coalitions such as the Investor Network on Climate Risk are now part of a growing community of investors that are committed not only to sustaining this shareholder campaign, but also to reaching out to their money managers and portfolio companies in mutually beneficial ways. To benefit from this trend, mutual funds should establish specific proxy voting guidelines that favor more corporate disclosure on the financial impacts of climate change, and support company strategies to maximize investment returns while reducing exposure to climate risk.

4. Engage companies and investors to find mutual solutions to climate change. While proxy voting is key to this engagement process, it need not end at the casting of the ballot.

- In analyst briefings and site visits, mutual funds can ask companies about their climate response strategies.
- In conducting investment research, funds can incorporate new measures of climate risk to help with portfolio selections.
- In investment prospectuses and in response to requests for proposals, funds can lay out their strategies and capabilities to assess climate risk.
- And in fund development, they can launch new investment products to support “climate-friendly” technologies and companies.

As investment management companies come to recognize the central role they will play in providing much-needed capital for the transition to a low-carbon economy, mutual fund shareholders have a unique opportunity to move this process forward. They can begin by evaluating how their funds vote on climate change shareholder resolutions, and what guidelines fund managers apply when making these voting decisions. If they disapprove of the funds’ votes and guidelines, they can communicate with their fund managers to urge changes in voting practices to support greater corporate disclo-

Box 2. How to Access Mutual Fund Proxy Voting Results and Guidelines

The Securities and Exchange Commission (SEC) approved rules in January 2003 that require investment management companies to disclose in their registration statements the policies and procedures they use to vote their mutual fund proxies. Firms must file an annual “N-PX” form with the SEC presenting their voting decisions on both management and shareholder proposals for a period that begins on July 1 of the previous calendar year and ends on June 30 of the current year. The annual filing deadline for the NP-X form is August 31.

Proxy votes on SEC web site: The NP-X filings are placed in the SEC’s Electronic Data Gathering and Retrieval (EDGAR) system and are posted on the SEC’s web site. To access the NP-X filings:

- Go to www.sec.gov and select “Filings and Forms (EDGAR)”
- Select “Companies and Other Filers”
- Enter the name of the investment management company
- Search for and select N-PX forms (usually listed by mutual fund or mutual fund series)

Each N-PX form contains a list of stocks held in a mutual fund as of the record date for each corporate annual meeting or special meeting. The form requires submission of four pieces of proxy voting information: a description of each proposal listed on the company’s proxy ballot, whether the proposal was sponsored by management or shareholders, how the mutual fund cast its shares (i.e., for, against, abstain or not voted), and whether the fund supported management’s position on each proposal.

Not all investment management companies make each of their mutual funds readily identifiable in the fund headings listed on the EDGAR web site, however. This is because the companies often list multiple funds under one group name or fund series. In these instances, viewers may have to look at several N-PX forms before finding the one listing the fund in which they actually invest.

Proxy votes on mutual fund web sites: In addition to posting proxy votes on EDGAR, investment management companies are required to respond to requests from fund shareholders for a record of votes cast over the most recent filing period. To facilitate such requests, most firms now make their proxy votes available on their corporate web sites. Of the 31 investment management companies reviewed for this report, 27 now post proxy voting information on their web sites or provide links to their EDGAR filings.

Some funds place proxy voting information in relatively obscure sections of their web sites, rather than as obvious links from their home page, so this, too, can be an arduous search process. A common practice by investment management companies is to place proxy voting information in a section of the site that describes the management and governance of the firm’s mutual funds. (A typical link on the home page might say “About Us.”) Viewers can also try using the web site’s search engine, with “proxy voting” as key words. Once the proper location has been found, some funds simply reproduce their N-PX forms. Others offer advanced search functions that enable viewers to specify the name of particular mutual funds or companies where annual meetings have taken place.

Information on proxy voting guidelines: Investment management companies must include information on their proxy voting guidelines in their Statement of Additional Information (SAI), which is part of a fund’s registration statement filed with the SEC. As with voting information, however, these guidelines can be very time-consuming to track down through SEC filings. Fortunately, most firms now post this information on their corporate web sites along with their proxy voting records.

Firms usually do not list contact information for their proxy administrators. Responsibility for drafting proxy voting guidelines typically rests with a committee that includes the firm’s general counsel, chief investment officer and other administrative staff. Many mutual funds (or their investment sub-advisors) also contract with proxy voting services to provide independent research, record-keeping and voting advice. A few funds, starting with Domini Social Investments in 1999, agreed to disclose voting information before the SEC requirements took effect. Domini, along with the AFL-CIO, led the effort to make such disclosure required of all mutual funds. Fidelity and Vanguard were among many large funds that opposed this rule.

Box 3. Sample 2005 Shareholder Resolution on Disclosure of Climate Risks

This resolution was filed with seven U.S. oil companies in 2005. Variations of this resolution were filed with nearly two dozen other companies in 2005 in industries such as banking, oil & gas, electric power, homebuilding and property management. Ceres and the Interfaith Center on Corporate Responsibility helped draft these proposals and coordinated filings by public pension plans, social investing firms and faith-based groups.

WHEREAS:

The American Geophysical Union, the world's largest organization of earth, ocean and climate scientists, states it is "virtually certain" that greenhouse gas (GHG) emissions cause global warming and that the warming will continue.

A 2004 report by the Bush Administration's Climate Change Science Program stated that increases in human-derived GHG emissions are the only likely explanation for global warming over the past three decades.

The Environmental Protection Agency's "Climate Action Report—2002," concluded that climate change poses risks to coastal communities due to sea level rise, water shortages, and increases in the heat index and heat wave frequency. Polls in 2003 and 2004 found 75-80% of Americans favor mandatory controls on GHG emissions.

Carbon regulation is growing. The Kyoto Protocol will cap GHG emissions in 30 industrialized countries beginning in 2005. At least half of U.S. states are addressing global warming through legislation, lawsuits or governors' programs.

A 2004 Conference Board report declared, "The global economy will become less carbon-intensive over time...The real questions are what the pace of the transition will be and who will be the winners and losers...[B]usinesses that ignore the debate over climate change will do so at their peril."

We believe our industry is highly exposed to climate change risk; over half of US GHG emissions are from oil and gas combustion, according to the Energy Information Administration.

Analysts at Goldman Sachs, Deloitte & Touche, Booz Allen, McKinsey, Bank of America, and WestLB Panmure have recognized the financial risks of climate change and raised concerns about companies that do not adequately disclose them.

Industry leaders like Shell, BP, ConocoPhillips, Statoil, Amerada Hess and Suncor are taking actions to reduce their exposure to climate related risks, including assuming a cost for carbon in their strategic planning, reporting and reducing their GHG emissions, engaging in emissions trading, and investing in renewable energy. BP reports that its emissions reduction activities have generated savings with an NPV of \$650 million.

According to *Oil and Gas Investor*, the industry's environmental record is hurting its ability to attract strong employees. Companies like BP claim that their proactive stance on climate change helps to recruit and retain quality employees.

RESOLVED:

Shareholders request that a committee of independent directors of the Board assess how the company is responding to rising regulatory, competitive, and public pressure to significantly reduce carbon dioxide and other greenhouse gas emissions and report to shareholders (at reasonable cost and omitting proprietary information) by September 1, 2005.

SUPPORTING STATEMENT:

We believe management has a fiduciary duty to assess and disclose to shareholders all pertinent information about its response to climate change. We believe early action to reduce emissions and prepare for standards could provide competitive advantages, while inaction and opposition to emissions control efforts could expose companies to regulatory, litigation, and reputation risk.

APPENDIX

Mutual Fund Company Voting Policies on Climate Change Shareholder Resolutions

This Appendix lists the social and environmental proxy voting policies and climate change voting records of the 31 investment management companies responsible for the 100 largest U.S. equity mutual funds. These funds had assets valued at \$1.47 trillion as of June 30, 2005. Proxy voting information was obtained from company web sites and as reported to the Securities and Exchange Commission, using the Form NP-X. A sample 2005 climate change resolution appears on the facing page.

PLEASE NOTE:

- ▶ Mutual fund votes AGAINST climate change proposals (listed in the first column of each company table) are votes *supporting management's position* against adoption of the resolution.
- ▶ In the PDF version, readers can link to company web sites (shown in the second column) to review mutual fund proxy voting guidelines and voting results.

American Century	22	Hartford Mutual Funds.....	28
American Funds	22	Janus.....	28
Ameriprise Financial.....	23	Legg Mason	29
Ariel	23	Longleaf Partners	29
Artisan.....	23	Lord Abbett	30
Calamos Investments	24	MFS	30
Clipper Fund.....	24	Neuberger Berman.....	30
Columbia	24	Oakmark.....	31
Davis Funds.....	25	Oppenheimer.....	31
DFA Investments.....	25	Pioneer Funds	32
Dodge & Cox	25	Putnam	32
Excelsior	26	Selected Funds.....	33
Fidelity (active funds)	26	T. Rowe Price	33
Fidelity (index funds).....	27	Third Avenue	33
Franklin Templeton.....	27	Van Kampen.....	34
Harbor Fund.....	27	Vanguard.....	35

American Century

Votes by Ultra/Inv	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: ExxonMobil (science report), ExxonMobil (Kyoto plan)	VOTES AGAINST most social issue proposals. <p>“American Century will generally vote management’s recommendation on issues that primarily involve social, moral or ethical matters... While the resolution of such issues may have an effect on shareholder value, the precise economic effect of such proposals, and individual shareholder’s preferences regarding such issues is often unclear. Where this is the case, American Century believes it is generally impossible to know how to vote in a manner that would accurately reflect the views of American Century clients, and therefore will review management’s assessment of the economic effect of such proposals and rely upon it if we believe its assessment is not unreasonable.</p> <p>Shareholders may also introduce social, moral or ethical proposals which are the subject of existing law or regulation... American Century believes that such proposals are better addressed outside the corporate arena, and will vote with management’s recommendation; in addition, American Century will generally vote against any proposal which would require a company to adopt practices or procedures which go beyond the requirements of existing, directly applicable law.” (Adoption date not provided)</p>	Link from “About Us” page (see Proxy Voting)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
TWCUX	American Century Ultra/Inv	19,537.10

American Funds

Votes by American Funds	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: Dominion Resources, ExxonMobil (science report), ExxonMobil (Kyoto plan), Ford Motor (lobbying), General Motors, Lennar Properties	VOTES AGAINST social issue proposals. <p>“When evaluating social proposals relating to issues such as human rights, labor and employment, the environment, and smoking and tobacco, decisions are made on a case-by-case basis. We consider each of these proposals based on the impact to the company’s shareholders, the specific circumstances at each individual company, and the current policies and practices of the company.” (Adoption date not provided)</p>	Link from “About Us – Disclosures” (see Proxy Voting and American Funds... What You Need to Know)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
AMCPX	AMCAP Fund/A	14,668.20
AMRMX	American Mutual Fund/A	14,016.30
ANCFX	Fundamental Investors Fund/A	22,604.70
AGTHX	Growth Fund of America/A	66,640.70
AGRBX	Growth Fund of America/B	6,026.30
GFACX	Growth Fund of America/C	6,873.40
GFAFX	Growth Fund of America/F	11,720.40
RGACX	Growth Fund of America/R3	6,160.40
RGAEX	Growth Fund of America/R4	7,565.40
AIVSX	Investment Company of America Fund/A	66,272.50
AWSHX	Washington Mutual Investors Fund/A	64,109.60
		TOTAL: 286,657.90

Ameriprise Financial (AXP)

Votes by New Dimensions	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: Dominion Resources ExxonMobil (science report), ExxonMobil (Kyoto plan)	VOTES AGAINST social issue proposals. “The Board believes that proxy proposals should address the business interests of the corporation. Such proposals typically request that the company disclose or amend certain business practices, but lack a compelling economic impact on shareholder value. In general, these matters are primarily the responsibility of management and should be reviewed by the corporation’s board of directors, unless they have a substantial impact on the value of the Fund’s investment” (Adoption date not provided)	Not provided. (See Edgar for proxy votes)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
INNDX	AXP New Dimensions Fund/A	6,709.00

Ariel

Votes by Ariel Fund	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES AGAINST social issue proposals. (Proxy voting guidelines not found)	Not provided. (See Edgar for proxy votes)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
ARGF	Ariel Fund	5,035.60

Artisan

Votes by Mid Cap Fund	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES AGAINST social issue proposals. “[A] client’s economic interest as a shareholder is Artisan Partners’ primary consideration in determining how proxies should be voted. Except as otherwise specifically instructed by a client, Artisan Partners generally does not take into account interests of other stakeholders or interests the client may have in other capacities. In general, Artisan Partners votes with management on shareholder social and environmental proposals, on the basis that a positive impact on share value can rarely be anticipated from such proposals. Among the social and environmental issues to which this pertains are ... environmental and energy issues (e.g., wildlife preservation, CERES principles, general environmental issues, global warming, recycling, renewable energy).” (Adopted 8/4/2005)	Link from home page (see “shareholder center,” proxy voting).

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
ARTMX	Artisan Mid Cap Fund	5,996.80

Calamos Investments

Votes by Growth/A	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: ExxonMobil (science report), ExxonMobil (Kyoto plan), Ryland Group	VOTES AGAINST social issue proposals. (ABSTAINS when support withheld from directors.) <i>Proxy voting guidelines not found.</i>	Not provided. (See Edgar for proxy votes.)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
CVGRX	Calamos Growth/A	11,601.1

Clipper Fund

Votes by Clipper Fund	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES AGAINST social issue proposals. <i>Proxy voting guidelines not found.</i>	Link from "Fund Literature."

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
CFIMX	Clipper Fund	6,985.60

Columbia Funds

Votes by Acorn Fund/Z	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES CASE-BY-CASE on most social issue proposals. The company "believes that 'ordinary business matters' are primarily the responsibility of management and should be approved solely by the corporation's board of directors. However, proposals regarding social issues initiated by shareholders asking the company to disclose or amend certain business practices will be analyzed by the appropriate WAM stock analyst and evaluated on a case-by-case basis. If an analyst believes that a vote against management is appropriate, he/she should refer the proposal to the full vote by the Proxy Committee." (Adopted 8/1/2003; revised 9/23/2003)	Link from home page. (See "I Want To... View Proxy Voting Records").

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
ACRNX	Columbia Acorn Fund/Z	9,784.3

Davis Funds

Votes by Venture A/B/C	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holding in companies with 2005 proposals.	VOTES AGAINST social issue proposals. "Davis Advisors will generally vote with management on shareholder social and environmental proposals on the basis that their impact on share value is difficult to judge and is therefore best done by management." (Adopted April 2004)	Link on home page (see Proxy Voting Information)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
NYVTX	Davis New York Venture/A	17,652.30
NYVBX	Davis New York Venture/B	5,136.50
NYVCX	Davis New York Venture/C	5,034.10
		TOTAL: 27,822.90

DFA Investment Dimensions

Votes by US Small Cap	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: Vintage Petroleum	VOTES AGAINST social issue proposals. <i>Proxy voting guidelines not found.</i>	Search on home page for "proxy voting."

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
DFSVX	DFA Invest Grp US Small Cap Val Portfolio	6,914.50

Dodge & Cox

Votes by Stock Fund	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals.	VOTES AGAINST social issue proposals. "Dodge & Cox generally supports management's decisions regarding the company's day-to-day business operations so long as the company is complying with applicable laws and regulations. Dodge & Cox is focused on maximizing long-term shareholder value and will typically vote against shareholder proposals regarding social/human rights, economic, and health/environmental issues unless there is a demonstrable positive economic impact on the corporation." (Adopted April 2005)	Link from home page (see Proxy Voting Policy and Reports).

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
DODGX	Dodge & Cox Stock Fund	48,073.00
		TOTAL: 53,538.70

Excelsior

Votes by Value/ Restructuring	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals.	<p>VOTES AGAINST social issue proposals.</p> <p>"Proposals restricting business conduct for social and political reasons - We do not believe that social and political restrictions should be placed on a company's business operations, unless determined as appropriate by management. While from an investment perspective we may consider how a company's social and political practices may affect present and prospective valuations and returns, we believe that proposals which prohibit companies from lines of business for social or political reasons are often motivated by narrow interest groups and not in the best interest of the broad base of shareholders of a company. We believe that management is in the best position to determine these fundamental business questions. We will typically vote against such proposals." (Adopted 10/1/2004)</p>	Link from home page (see Proxy Voting Policy and Reports).

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
UMBIX	Excelsior Value and Restructuring	5,060.30

Fidelity (actively managed funds)

Votes by active funds	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
<p>AGAINST: Dominion Resources, ExxonMobil (science report), ExxonMobil (Kyoto plan), Ford Motor (lobbying), Lennar Corp., Simon Property Group</p>	<p>VOTES AGAINST social issue proposals.</p> <p>No reference made to corporate social responsibility issues in proxy voting guidelines. (Adopted July 2003, revised March 2005)</p>	Link from "Inside Fidelity" (see Investment Expertise)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
FBGRX	Fidelity Blue Chip Growth	22,429.00
FDCAX	Fidelity Capital Appreciation	7,021.80
FCNTX	Fidelity Contrafund	53,436.00
FDEQX	Fidelity Disciplined Equity	5,761.50
FDGFX	Fidelity Dividend Growth	16,809.70
FEQIX	Fidelity Equity Income	26,066.40
FEQTX	Fidelity Equity Income II	12,313.60
FFIDX	Fidelity Fund	10,137.00
FGRIX	Fidelity Growth & Income	31,117.50
FDGRX	Fidelity Growth Company	25,056.90
FLPSX	Fidelity Low Priced Stock	37,347.60
FMAGX	Fidelity Magellan	53,890.90
FMCSX	Fidelity Mid Cap Stock	9,352.60
FOCPX	Fidelity OTC	7,933.60
FRESX	Fidelity Real Estate Investment	5,855.10
FDVLX	Fidelity Value	13,090.10
		TOTAL: 337,619.30

Fidelity (index funds)

Votes by Spartan index funds	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
ABSTAIN: Dominion Resources, ExxonMobil (science report), ExxonMobil (Kyoto plan), Ford Motor, Simon Property Group	"ABSTAINS with respect to shareholder proposals addressing Social/Political Responsibility Issues , which Geode (Fidelity's investment adviser) believes generally address ordinary business matters that are primarily the responsibility of a company's management and board, except that Geode will vote on a CASE-BY-CASE basis where a proposal has substantial economic implications for the company's securities held in client accounts." (Adopted July 2003, revised March 2005)	Link from "Inside Fidelity" (see Investment Expertise)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
FSMKX	Fidelity Spartan 500 Index	12,852.40
FUSEX	Fidelity Spartan US Equity Index	22,279.30
	TOTAL:	35,131.70

Franklin Templeton

Votes by Small Mid Cap	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES FOR OR AGAINST social issue proposals. Franklin Templeton funds are managed by various investment advisers who have different proxy voting policies. Franklin Small Mid Cap Growth Fund is managed by Franklin Advisers, Inc., which says in its policy that it "will generally give management discretion with regard to social, environmental and ethical issues, although Adviser may vote in favor of those issues that are believed to have significant economic benefits or implications." (Adoption date not provided)	Link from "our company" page (SEC filings).

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
FRSGX	Franklin Small Mid Cap Growth Fund/A	7,171.20

Harbor Fund

Votes by Capital Appreciation	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES AGAINST social issue proposals. "Proposals in this category, frequently initiated by shareholders, typically request that the company disclose or amend certain business practices. In general, Harbor believes that these matters are primarily the responsibility of management. Such matters should be evaluated and approved solely by the corporation's board of directors. Generally, Harbor will vote with a company's management on such issues although we may make exceptions where we believe a proposal has significant economic merit that has not been adequately addressed by management and is in the best interests of the fund shareholders." (Adoption date not provided)	Link from home page. (See voting results.)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
HACAX	Harbor Funds Capital Appreciation Fund/Instl	6,987.20

The Hartford

Votes by Hartford Funds	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: Dominion Resources, ExxonMobil (science report), ExxonMobil (Kyoto plan)	VOTES AGAINST majority of social issue proposals. No reference made to social issues in proxy voting guidelines. <i>(Adopted March 2004)</i>	Not provided. (See Edgar for proxy votes.)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
ITHAX	Hartford Capital Appreciation Fund/A	5,783.30
HIADX	Hartford HLS Dividend & Growth/IA	4,952.40
HSTAX	Hartford HLS Stock/IA	5,321.50
		TOTAL: 16,057.20

Janus Funds

Votes	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
Votes by Twenty Fund ABSTAIN: ExxonMobil (science report), ExxonMobil (Kyoto plan)	ABSTAINS on most social issue proposals. "Janus will generally abstain from voting on shareholder proposals that relate to social, moral or ethical issues, or issues that place arbitrary constraints on the board or management of a company." <i>(Adopted December 2004)</i>	Link from home page. (See Janus Funds, Proxy Voting Information.)
Votes by Growth & Income AGAINST: ExxonMobil (science report), ExxonMobil (Kyoto plan)		

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
JANSX	Janus Fund	11,996.90
JAGIX	Janus Growth and Income Fund	5,588.60
JAVLX	Janus Twenty Fund	9,751.00
		TOTAL: 27,336.50

Legg Mason

Votes by Equity Trust Value	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	<p>VOTES AGAINST social issue proposals.</p> <p>"We support policies, plans and structures that give management teams appropriate latitude to run the business in the way that is most likely to maximize value for owners. Conversely, we oppose proposals that limit management's ability to do this. We generally oppose proposals that seek to place restrictions on management in order to promote political, religious or social agendas." <i>(Adopted May 2003)</i></p>	Link from "Legg Mason Funds—About LM Funds" (see Proxy Voting Guidelines and Proxy Voting Results)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
LMNVX	Legg Mason Eq Tr:Value/Instl	5,188.20
LMVTX	Legg Mason Eq Tr:Value/Prim	11,723.10
	TOTAL:	16,911.30

Longleaf Partners

Votes by Partners Fund	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: General Motors	<p>VOTES AGAINST most social issue proposals.</p> <p>"There may also be proposals which attempt to further the political or social views of its proponents. Southeastern's (the investment adviser's) primary objective in voting proxies is to support corporate operating policies which provide the maximum financial benefit to shareholders. Because Southeastern votes on behalf of numerous clients with varying viewpoints, Southeastern is not in a position to advance the social or political aims of others. In Southeastern's opinion, if a company's management has demonstrated that it is shareholder-oriented by adopting operating policies and procedures which are beneficial to shareholders, Southeastern may oppose minority shareholder proposals, particularly when the adoption of such proposals could inhibit normal operations or might be disruptive. Southeastern believes that supporting shareholder-oriented management in this manner is acting in the best interest of all Southeastern's clients." <i>(Adopted May 2005)</i></p>	Link from "Fund Facts and Forms" (select Proxy Voting Record)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
LLPFX	Longleaf Partners Fund	8,819.20

Lord Abbett

Votes by Affiliated and Mid Cap Value	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: ExxonMobil (science report), ExxonMobil (Kyoto plan), Health Care Property	VOTES AGAINST social issue proposals. "It is our general policy to vote as management recommends on social issues, unless we feel that voting otherwise will enhance the value of our holdings. We recognize that highly ethical and competent managements occasionally differ on such matters, and so we review the more controversial issues closely." (Adopted December 2004)	Link from "About Lord Abbett" page (see Proxy Voting Policies and Procedures and Edgar for proxy votes)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
LAFFX	Lord Abbett Affiliated Fund/A	14,893.40
LAVLX	Lord Abbett Mid Cap Value Fund/A	7,373.10
	TOTAL:	22,266.50

MFS

Votes by Investors Growth	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES AGAINST social issue proposals. "There are many groups advocating social change, and many have chosen the publicly held corporation as a vehicle for their agenda. Common among these are resolutions requiring the corporation to refrain from investing or conducting business in certain countries, to adhere to some list of goals or principles (e.g., environmental standards) or to report on various activities. MFS votes against such proposals unless their shareholder-oriented benefits will outweigh any costs or disruptions to the business, including those that use corporate resources to further a particular social objective outside the business of the company or when no discernible shareholder economic advantage is evident." (Adopted March 2005)	Link from home page. (See Proxy Voting.)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
MIGFX	Massachusetts Investors Growth Stock Fund/A	4,931.70

Neuberger Berman

Votes by Genesis/Trust	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES FOR OR AGAINST social issue proposals. "For socially responsive clients, Neuberger Berman has adopted socially responsive voting guidelines. For non-socially responsive clients, Neuberger Berman's guidelines adopt the voting recommendations of ISS. Neuberger Berman retains final authority and fiduciary responsibility for proxy voting." (Adoption date not provided)	Link from home page. ("Products and Services," Mutual Funds.)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
NBGEX	Neuberger Berman Genesis/Trust	6,361.30

Oakmark

Votes by Fund/I and Select/I	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	<p>VOTES AGAINST social issue proposals.</p> <p>"With respect to 'social responsibility' proposals, we believe that matters related to a company's day-to-day business operations are primarily the responsibility of management. We are focused on maximizing long-term shareholder value and will normally vote against shareholder proposals requesting that a company disclose or change certain business practices unless we believe the proposal would have a substantial positive economic impact on the company." (Adopted August 2003)</p>	Link from "About Us" page (see Proxy Voting Policies)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
OAKMX	Oakmark Fund/I	6,934.40
OAKLX	Oakmark Select Fund/I	6,120.60
		TOTAL: 22,266.50

Oppenheimer

Votes by Main Street Fund/A	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
<p>AGAINST: ExxonMobil (science report), ExxonMobil (Kyoto plan)</p> <p>ABSTAIN: Ford Motor (lobbying), General Motors, Ryland Group, Vintage Petroleum</p>	<p>ABSTAINS on most social issue proposals.</p> <p>"In the case of social and political responsibility issues, [Oppenheimer] believes they do not primarily involve financial considerations and abstains from voting on those issues." (Adopted July 2003)</p>	Search on home page for "Proxy Voting" (see Proxy Voting Procedures and Guidelines and Edgar for proxy votes)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
OPTFX	Oppenheimer Capital Appreciation/A	5,638.60
MSIGX	Oppenheimer Main Street Fund/A	7,820.90
		TOTAL: 13,459.50

Pioneer Funds

Votes by Pioneer Fund/A	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
<p>ABSTAIN: ExxonMobil (science report), ExxonMobil (Kyoto plan), Ford Motor (lobbying)</p>	<p>ABSTAINS or votes AGAINST most social issue proposals.</p> <p>"Pioneer will abstain on stockholder proposals calling for greater disclosure of corporate activities with regard to social issues. "Social Issues" may generally be described as shareholder proposals for a company to:</p> <ul style="list-style-type: none"> · Conduct studies regarding certain issues of public concern and interest; · Study the feasibility of the company taking certain actions with regard to such issues; or · Take specific action, including ceasing certain behavior and adopting company standards and principles, in relation to issues of public concern and interest. <p>We believe these issues are important and should receive management attention. Pioneer will vote against proposals calling for substantial changes in the company's business or activities. We will also normally vote against proposals with regard to contributions, believing that management should control the routine disbursement of funds." <i>(Adopted March 2004)</i></p>	<p>Search on home page for proxy voting.</p>

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
PIODX	Pioneer Fund/A	5,518.30

Putnam

Votes by Putnam Funds	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
<p>AGAINST: Dominion Resources, ExxonMobil (science report), ExxonMobil (Kyoto plan) Ford Motor (lobbying), Lennar Corp.</p>	<p>VOTES AGAINST social issue proposals.</p> <p>"The funds generally will vote in accordance with the recommendation of the company's board of directors on all shareholder proposals, except" certain corporate governance matters. <i>(Adopted December 2004)</i></p>	<p>Link from "About Putnam" on Individual Investor home page.</p>

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
PGRWX	Putnam Fund for Growth and Income/A	12,331.70
PVOYX	Putnam Voyager Fd/A	7,489.10
TOTAL:		19,820.80

Selected Funds

Votes by American Shares/S	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES AGAINST social issue proposals. "Davis Advisors (investment adviser for Selected Funds) will generally vote with management on shareholder social and environmental proposals on the basis that their impact on share value is difficult to judge and is therefore best done by management." (Adopted April 2004)	Link from home page. (See Proxy Voting Information.)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
SLASX	Selected American Shares/S	7,482.60

T. Rowe Price

Votes by T. Rowe Price	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
AGAINST: Dominion Resources, ExxonMobil (science report), ExxonMobil (Kyoto plan), Ford Motor (lobbying), General Motors, Ryland Group, Simon Property Group	VOTES AGAINST most social issue proposals. "T. Rowe Price generally votes with a company's management on social issues unless they have substantial economic implications for the company's business and operations that have not been adequately addressed by management." (Adoption date not provided)	Link from "Company Info & Press" (see Proxy Voting Policies).

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
TRBCX	T Rowe Price Blue Chip Growth Fund	7,673.70
PRFDX	T Rowe Price Equity Income Fund	17,781.10
PREIX	T Rowe Price Equity Index 500 Fund	5,613.30
PRGFX	T Rowe Price Growth Stock Fund	9,975.20
RPMGX	T Rowe Price Mid Cap Growth Fund	13,800.40
TRMCX	T Rowe Price Mid-Cap Value Fund	5,399.50
PRNHX	T Rowe Price New Horizons Fund	6,315.70
OTCFX	T Rowe Price Small Cap Stock Fund	6,753.70
		TOTAL: 73,312.60

Third Avenue

Votes by Value Fund	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
No holdings in companies with 2005 proposals	VOTES AGAINST most social issue proposals. <i>Voting guidelines not found.</i>	Link from "Site Map" page (see Policies and Disclosures)

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
TAVFX	Third Avenue Value Fund	6,011.60

Van Kampen

Votes by Van Kampen funds	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
<p>AGAINST: Dominion Resources, ExxonMobil (science report) ExxonMobil (Kyoto plan)</p>	<p>VOTES AGAINST most social issue proposals.</p> <p>“The following proposals generally will be voted as indicated below, unless otherwise determined by the Proxy Review Committee.</p> <p>Proposals to add restrictions related to social, political, environmental or special interest issues that do not relate directly to the business of the company and which do not appear to be directed specifically to the business or financial interest of the company generally will not be supported.</p> <p>Proposals requiring adherence to workplace standards that are not required or customary in market(s) to which the proposals relate will not be supported.” <i>(Adoption date not provided)</i></p>	<p>Link from “Investor Services” page (see Proxy Voting)</p>

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
ACSTX	Van Kampen Comstock/A	11,274.20
ACGIX	Van Kampen Growth & Income/A	6,043.60
		TOTAL: 17,317.80

Vanguard

Top 100 mutual fund: 500 Index

Votes by Vanguard funds	Voting Guidelines on Social and Environmental Issues	Web Site Posting of Proxy Votes
ABSTAIN: Dominion Resources ExxonMobil (science report), ExxonMobil (Kyoto plan), Ford Motor (lobbying), General Motors, Health Care Property, Lennar Corp., Liberty Property Trust, Ryland Group, Simon Property Group, Vintage Petroleum	ABSTAINS on most shareholder proposals. “The Board generally believes that these [proposals] are “ordinary business matters” that are primarily the responsibility of management and should be evaluated and approved solely by the corporation’s board of directors. Often, proposals may address concerns with which the Board philosophically agrees, but absent a compelling economic impact on shareholder value (e.g., proposals to require expensing of stock options), the funds will typically abstain from voting on these proposals. This reflects the belief that regardless of our philosophical perspective on the issue, these decisions should be the province of company management unless they have a significant, tangible impact on the value of a fund’s investment and management is not responsive to the matter.” (Adoption date not provided)	Link from personal investor home page, “About Vanguard.”

Top 100 Funds

Symbol	Mutual Fund Name	Assets (in \$millions)
VFIAX	Vanguard 500 Index/Admrl	31,457.90
VFINX	Vanguard 500 Index/Inv	74,406.80
VHCOX	Vanguard Capital Opportunity/Inv	5,535.30
VGEXX	Vanguard Energy/Investor	6,557.90
VEXPX	Vanguard Explorer	8,248.40
VEXMX	Vanguard Extended Market Index/Inv	5,217.00
VQNPX	Vanguard Growth & Income/Inv	5,345.70
VIGRX	Vanguard Growth Index/Inv	6,844.80
VGHGX	Vanguard Health Care	17,977.80
VGHAX	Vanguard Health Care/Admrl	6,805.80
VINIX	Vanguard Institutional Index/Instl	38,877.60
VIIIX	Vanguard Institutional Index/Instl Plus	14,287.00
VIMSX	Vanguard Mid Cap Index/Inv	5,993.60
VPMCX	Vanguard PRIMECAP	21,017.80
VPMAX	Vanguard PRIMECAP/Admrl	6,371.40
NAESX	Vanguard Small Cap Index/Inv	5,925.90
VSEQX	Vanguard Strategic Equity	5,025.30
VTSAX	Vanguard Total Stock Market Index/Admrl	16,718.10
VITSX	Vanguard Total Stock Market Index/Instl	11,114.00
VTSMX	Vanguard Total Stock Market Index/Inv	30,492.00
VWNAX	Vanguard Windsor II/Admrl	10,608.80
VWNFX	Vanguard Windsor II/Inv	29,674.70
VWNEX	Vanguard Windsor/Admrl	6,764.40
VWNDX	Vanguard Windsor/Inv	14,405.70
		TOTAL: 385,673.70

