OPINIONS

January 14, 2003

Fund Industry Leaders Join Forces on Proxy Voting Disclosure

No Disclosure: The Feeling Is Mutual

by John J. Brennan and Edward C. Johnson 3rd

The Securities and Exchange Commission is considering a proposal to require mutual funds to disclose how they vote the proxies of the corporations whose stock they hold. While it seems a well-intended effort to restore investor confidence in corporate America and promote accountability, the proposal's unintended consequences could undermine the best interests of 95 million mutual-fund shareholders in the U.S.

The threat is so severe that we, the leaders of the fund industry's two largest competitors, come together now, for the first time ever, to speak out publicly against it.

Fidelity and Vanguard approach our businesses in different ways and we compete ferociously in the marketplace. Yet, we have an identical view of our most basic duty: to advance the financial interests of our clients. These clients count on us to make the wisest investment choices we can. They expect us to vote the proxies of shares held in our funds and to vote in their best interests.

This fiduciary duty brings our two companies together to oppose the SEC's disclosure proposal. Simply put, we believe that requiring mutual-fund managers to disclose their votes on corporate proxies would politicize proxy voting. In case after case, it would open mutual-fund voting decisions to thinly veiled intimidation from activist groups whose agendas may have nothing to do with maximizing our clients' returns.

A fund manager's focus belongs on investment management, not on becoming an arbiter of political and social disputes. Preserving the confidentiality of proxy voting is essential to ensuring the independence and integrity of the process. For years, shareholders have fought to retain a right to confidential voting. If the SEC's proposed rule goes into effect, one—and only one—group of investors will be singled out to lose this right: mutual funds. Pension funds, insurance companies, foundations, bank-trust departments and other investors would retain their rights of confidentiality. The effect would be to make mutual funds the prime pressure point for every activist group with a political or social ax to grind with corporate America.

Disclosing the individual proxy votes of the hundreds of securities owned by the typical mutual fund is neither practical nor useful. If a mutual fund holds 200 stocks and proxy statements run 20 pages, this could require fund shareholders to analyze 4,000 pages of data to determine how the votes on each proxy question had advanced their interests. Shareholders currently pay fund managers to do this work for them. “Disclosure” would put the burden back on them. That won’t help shareholders make better investment decisions. But it will distract them from more critical issues in judging funds—like investment objectives, long-term performance, and risk.

Shareholders currently trust $6.5 trillion in assets to mutual funds, believing they will make sound investment decisions. We will continue our efforts to ensure that corporate America delivers economic value for our shareholders. The SEC’s current proposal will not help us achieve that goal.

Instead of all the regulation, why not simply enhance the proxy oversight role of mutual-fund boards? Ensure that they hold their companies to clearly established proxy voting guidelines. Let them see that fund managers’ votes are consistent with the company’s guidelines—subject to SEC examination.

Our proposal is consistent with the SEC’s own approach to this same issue, an approach that has served investors well since the enactment of the Investment Company Act of 1940. Most importantly, it would ensure that the financial interests of fund shareholders—not the political or social agendas of outsiders—drive proxy-voting decisions. That would be the best way for regulators, and the fund industry, to advance the interests of the people we both serve.

Messrs. Brennan and Johnson are chairman and CEO of The Vanguard Group and Fidelity Investments, respectively.

(As published in The Wall Street Journal, January 14, 2003)
