Corporate Reform Coalition

Democracy Through Accountability

Ask Vanguard to Support Political Spending Disclosure

This proxy season, shareholders are calling on the major mutual fund company Vanguard to support political spending disclosure at the companies in which it invests. As the largest manager of retirement savings in the country, Vanguard should support shareholders who are calling for big companies to disclose their political spending, but instead it either abstains from voting or votes against disclosure resolutions.

Background

In the ongoing battle to roll back the effects of the Supreme Court's decision in *Citizens United* (the notorious case that opened the flood gates for corporate spending in elections) major mutual fund companies can and should play a pivotal role. For years shareholders have been putting forth resolutions at major companies asking for political spending disclosure. In the 2016 proxy season alone almost 100 resolutions on political spending and lobbying disclosure have already been filed. While more than half of the S&P 100 companies have moved to disclose because of this pressure, according to the Center for Political Accountability, the resolutions themselves rarely get majority votes. This is because major mutual fund companies like Vanguard own a large percent of shares and choose not to use them to support disclosure.

Earlier this year 65,000 prospective and current Vanguard customers wrote to the mutual fund company asking it to support disclosure. In response to the disclosure campaign, Vanguard's Fund Treasurer, Glenn Booraem, said that Vanguard typically abstained from voting on resolutions where "sufficient impact on shareholder value had not been established." However, this illustrates the exact point that shareholders are trying to make: without political spending disclosure it is impossible to evaluate the full effects of political spending on shareholder value.

Materiality for Shareholders

Evidence already shows that company political spending does affect shareholder value. A 2012 study by Harvard Law Professor John C. Coates IV found that "in most industries, political activity correlates negatively with measures of shareholder power, positively with signs of agency costs, and negatively with shareholder value." Professor Coates' findings are supported by a subsequent empirical study published in the Strategic Management Journal, which found that cumulative political investments tend to have a deleterious effect on both market and accounting performance over time.

U.N. Principles for Responsible Investment

Vanguard claims on its website to act solely in its clients' best interest and to be guided by a simple statement: "Do the right thing." It would seem to back this claim up by signing on to the United Nations Principles for Responsible Investment (PRI) and committing to upholding six principles of sustainable investing, including the principle to "support shareholder initiatives and resolutions promoting ESG disclosure." Corporate spending in politics clearly falls under this category. Despite making these surface- level commitments, Vanguard voted against or abstained from disclosure votes every time they came up in 2015, according to a report by the Center for Political Accountability.

Ultimately, increased transparency in political spending could be achieved if the U.S. Securities and Exchange Commission (SEC) issued a rule requiring all publicly traded companies to disclose their political spending. If Vanguard takes a stand in favor of disclosure, this could go a long way towards showing the SEC how important this issue is to shareholders.

Send a letter to or dialogue directly with Vanguard and ask the company to do right by its customers and change its proxy voting guidelines to always support political spending disclosure.

Report back on your actions at www.corporatereformcoalition.org/campaigns.