



UNCOVERING CONFLICT OF INTERESTS

PROXY VOTING DATA REVEALS BIAS
FOR ASSET MANAGERS TO FAVOR CLIENTS



AS YOU SOW[®]



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EXECUTIVE SUMMARY

This report compares millions of proxy voting records from January 2015 to June 2020 to commercial relationships, which uncovers the fact that all major fund managers considered — BlackRock, State Street, T. Rowe Price, and Vanguard — vote with management of their customers at a significantly higher rate compared to non-customers. Proxy voting biases favoring clients occurred at all four asset managers on management resolutions and occurred at three of the four asset managers on environment, social, and governance (ESG) resolutions; and climate-related resolutions. The bottom line is that proxy voting by major asset managers favors their clients — a clear conflict of interest. More stringent reporting requirements and new technological and policy solutions should be implemented to remove proxy voting conflicts of interest and allow shareholder interests, as intended, to be the primary driver of proxy voting.

KEY TAKEAWAYS

- From January 2015 through June 2020, BlackRock, State Street, T. Rowe Price, and Vanguard all voted in favor of management resolutions more often when they also had business ties for financial services.
- BlackRock, State Street, and T. Rowe Price supported shareholder ESG proposals less often when they received compensation for financial services from January 2015 through June 2020.
- BlackRock was three times more likely to vote with shareholders when no business ties were present on climate-related proposals from January 2015 through June 2020, voting with shareholders 10.4% with no relations versus 3.6% when commercial relations were present.
- State Street had the highest level of bias on shareholder proposals across the same timeframe, voting with shareholders only 23% when business ties are present versus 37% when no relations were present — showing a 14% bias to favor companies providing compensation.
- In 2019, the four managers analyzed received \$489 million in compensation across a total of 932 corporations where they also voted proxies on behalf of shareholders — demonstrating conflict of interest for fund managers that vote proxies at corporate clients.
- The number of years each asset manager favored management recommendations by resolution type is summarized in Figure 1, demonstrating the trend to favor commercial clients.

Figure 1: Years Favoring Management Recommendations with Commercial Relations: January 2015–June 2020





FUND MANAGER	MANAGEMENT PROPOSALS 	SHAREHOLDER PROPOSALS 	ESG PROPOSALS 	CLIMATE PROPOSALS 
BlackRock	5	5	5	5
State Street	6	6	5	6
T. Rowe Price	6	5	4	5
Vanguard	6	2	4	3

Table displays years favoring management recommendations at clients; out of 6 years.

RED = voting favors clients (3 years or more), **GREEN** = voting does not favor clients (3 years or less), **GREY** = neutral (3 years)

- The proxy voting bias for assets managers by each year is summarized in Figure 2, demonstrating year over year biases to favor commercial relations.

Figure 2: Proxy Voting Bias by Asset Manager and Year

	YEAR	BIAS TO FAVOR MANAGEMENT RECOMMENDATIONS WITH COMMERCIAL TIES			
		MANAGEMENT PROPOSALS	SHAREHOLDER PROPOSALS	ESG PROPOSALS	CLIMATE PROPOSALS
BlackRock	2020	2.6%	3.5%	1.1%	20.8%
	2019	3.7%	4.6%	-5.0%	-4.3%
	2018	1.1%	7.4%	2.9%	3.7%
	2017	-0.2%	-7.1%	3.7%	12.2%
	2016	1.9%	5.9%	0.3%	0.1%
	2015	13.5%	14.1%	8.9%	8.9%
	YEAR	BIAS TO FAVOR MANAGEMENT RECOMMENDATIONS WITH COMMERCIAL TIES			
		MANAGEMENT PROPOSALS	SHAREHOLDER PROPOSALS	ESG PROPOSALS	CLIMATE PROPOSALS
STATE STREET	2020	3.4%	7.7%	8.1%	30.4%
	2019	4.9%	7.7%	-5.7%	3.5%
	2018	6.6%	12.2%	8.7%	0.2%
	2017	4.8%	18.0%	28.0%	9.4%
	2016	4.8%	14.8%	15.9%	4.4%
	2015	12.8%	25.3%	24.9%	41.8%
	YEAR	BIAS TO FAVOR MANAGEMENT RECOMMENDATIONS WITH COMMERCIAL TIES			
		MANAGEMENT PROPOSALS	SHAREHOLDER PROPOSALS	ESG PROPOSALS	CLIMATE PROPOSALS
T.Rowe Price®	2020	4.4%	-1.2%	-6.2%	19.2%
	2019	4.8%	8.5%	2.1%	-14.3%
	2018	3.7%	7.7%	3.7%	2.9%
	2017	1.7%	16.6%	6.4%	4.7%
	2016	2.7%	8.9%	-3.6%	2.9%
	2015	20.0%	50.4%	57.0%	38.7%
	YEAR	BIAS TO FAVOR MANAGEMENT RECOMMENDATIONS WITH COMMERCIAL TIES			
		MANAGEMENT PROPOSALS	SHAREHOLDER PROPOSALS	ESG PROPOSALS	CLIMATE PROPOSALS
Vanguard®	2020	0.0%	1.6%	2.0%	8.4%
	2019	1.5%	-4.3%	0.1%	-37.8%
	2018	1.6%	4.9%	4.9%	5.5%
	2017	0.5%	-1.4%	6.8%	12.0%
	2016	1.1%	-21.0%	-23.5%	-6.7%
	2015	5.1%	-21.5%	-20.0%	-29.2%

RED = proxy votes to favor companies providing boards with business ties, **GREEN** = proxy votes do not favor commercial clients,

GREY = close to zero (below 0.5% or above -0.5%)

Bias is calculated as the percentage of votes following management recommendations at commercial clients minus the percentage of votes following management recommendations at companies with no relations.

THE PROBLEM

U.S. fund managers that vote proxies while also receiving compensation for providing retirement plan services to portfolio companies are exposed to a conflict of interest that can lead to a question of the fund manager's duty to act responsibly. These fund managers have conflicting priorities to both hold company management accountable to shareholder interests and to continue earning millions of dollars in recordkeeping, advisory, and consultant services.

Proxy voting conflicts have been well documented by corporate governance experts and academics. The Securities and Exchange Commission (SEC) has recognized the conflict facing fund managers receiving compensation from companies where they also vote proxies.¹ A 2016 academic study, analyzing proxy voting results from 2003 to 2011, found a significant bias for fund managers to favor management on shareholder-sponsored proposals when business ties existed with portfolio firms.² Another study, published in 2017, found that seven of 10 large fund managers supported shareholder-sponsored climate resolutions less frequently when they also earned fees or managed assets for the companies.³

THE FINDINGS

This report assesses proxy voting biases at four large U.S. fund managers (BlackRock, State Street, T. Rowe Price, and Vanguard) that have significant commercial ties with portfolio companies. Compensation for recordkeeping, management, advisory, and other financial services for corporate retirement plans has been sourced from the Department of Labor Form 5500 disclosures.⁴ Data for the year 2019 has been used to assess commercial business ties because it is the most recent timeframe covering all corporate reporters. Proxy voting records from January 1, 2015, to June 30, 2020, have been sourced from Insightia.⁵

In 2019, these four fund managers had commercial relations with 932 companies where they also voted proxies and, in total, received \$489 million in compensation. Additionally, a range of 13% to 25% of the proxy votes cast by these managers occurred at companies that also provided compensation. The potential for a conflict of interest is high for these managers as they have hundreds of commercial relations as well as receive millions of dollars in monetary incentives for financial services. Figure 3 provides a summary of commercial relations as well as the proxy votes from January 2015 to June 2020 analyzed, totaling 9.6 million when counting one vote per fund for each company resolution.

Figure 3: Fund Manager Compensation and Proxy Voting

FUND MANAGER	WHERE MANAGER VOTES PROXIES		TOTAL PROXY VOTES* JANUARY 2015 - JUNE 2020	
	COMMERCIAL RELATIONS (2019)	2019 TOTAL COMPENSATION	COMMERCIAL RELATIONS	NO RELATIONS
BlackRock	188	\$ 75,089,167	618,236	3,608,880
State Street	140	\$ 272,251,615	274,444	1,709,079
T. Rowe Price	194	\$ 61,524,984	76,313	598,792
Vanguard	410	\$ 79,679,699	547,656	2,180,388
Total	932	\$ 488,545,465	1,516,649	8,097,139

* Proxy votes are counted as one per vote per fund for each company resolution.

All four of the asset owners analyzed voted for management recommendations on management-sponsored proposals more often from 2015 to Q2 2020 when receiving compensation. For example, State Street voted with management 94.8% when commercial relations were present but only 88.9% with no relations. BlackRock, T. Rowe Price, and Vanguard also favored board-support proposals more often at companies with business ties. These results are summarized in Figure 3 and all have a p-value below .001%, showing a high degree of statistical significance.

Figure 4: Management Proposals* Voting Bias: January 2015–June 2020

FUND MANAGER	BIAS TO FAVOR MANAGEMENT	VOTES WITH MANAGEMENT			<i>p-value** (less than 5% is significant)</i>
		COMMERCIAL RELATIONS	NO RELATIONS	TOTAL	
BlackRock	3.4%	97.0%	93.6%	93.9%	< .001%
State Street	5.9%	94.8%	88.9%	89.5%	< .001%
T. Rowe Price	3.9%	95.2%	91.3%	91.6%	< .001%
Vanguard	1.5%	94.9%	93.4%	93.6%	< .001%

* All proposals where management recommend a "FOR" vote.

** Probability of no difference between voting with commercial relations versus no relations

On shareholder resolutions, BlackRock, State Street, and T. Rowe Price displayed high levels of voting bias to favor management. For example, T. Rowe Price voted with shareholders 20.9% when there were no relations but only 10.6% when commercial relations were present. Similarity, BlackRock was only half as likely to vote on shareholder proposals at commercial clients, showing a bias to favor management. Vanguard was the only asset manager considered that did not favor commercial clients on shareholder proposals.

Figure 5: Shareholder Proposals* Voting Bias: January 2015–June 2020

FUND MANAGER	BIAS TO FAVOR MANAGEMENT	VOTES WITH SHAREHOLDERS			<i>p-value (less than 5% is significant)</i>
		COMMERCIAL RELATIONS	NO RELATIONS	TOTAL	
BlackRock	7.2%	7.2%	14.5%	12.7%	< .001%
State Street	14.1%	22.5%	36.7%	32.8%	< .001%
T. Rowe Price	10.3%	10.6%	20.9%	19.3%	< .001%
Vanguard	-10.5%	28.6%	18.1%	19.4%	< .001%

* All proposals where management recommend an "AGAINST" vote.

To highlight the proxy voting bias present at BlackRock, State Street, and T. Rowe Price on shareholder proposals, a year-by-year summary is provided for January 2015 to June 30, 2020, in Figures 6, 7 and 8. BlackRock and State Street supported management recommendations on shareholder resolutions more frequently when receiving compensation across every year assessed, and T. Rowe price supported management recommendations more frequently every year except January to June 2020. These results reinforce the consistent year over year trends for these asset managers to favor commercial clients.

Figure 6: BlackRock: Votes with Management Recommendations on Shareholder Resolutions

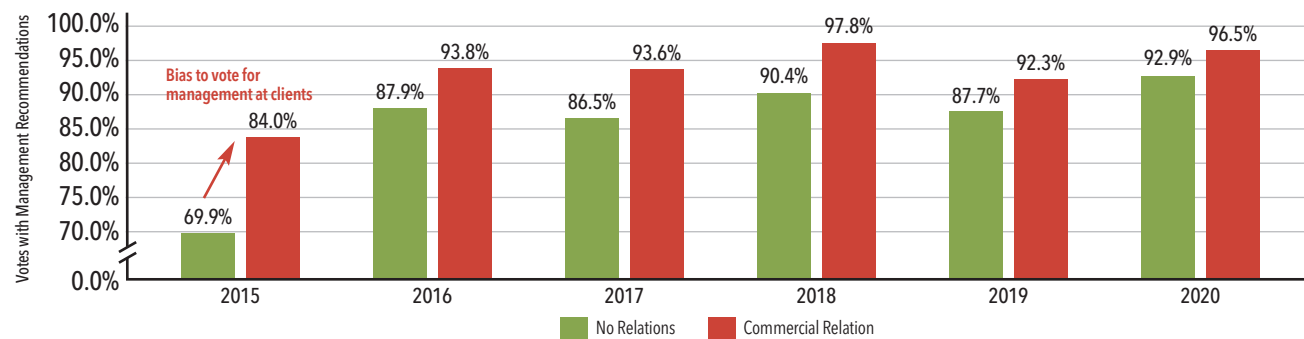


Figure 7: State Street: Votes with Management Recommendations on Shareholder Resolutions

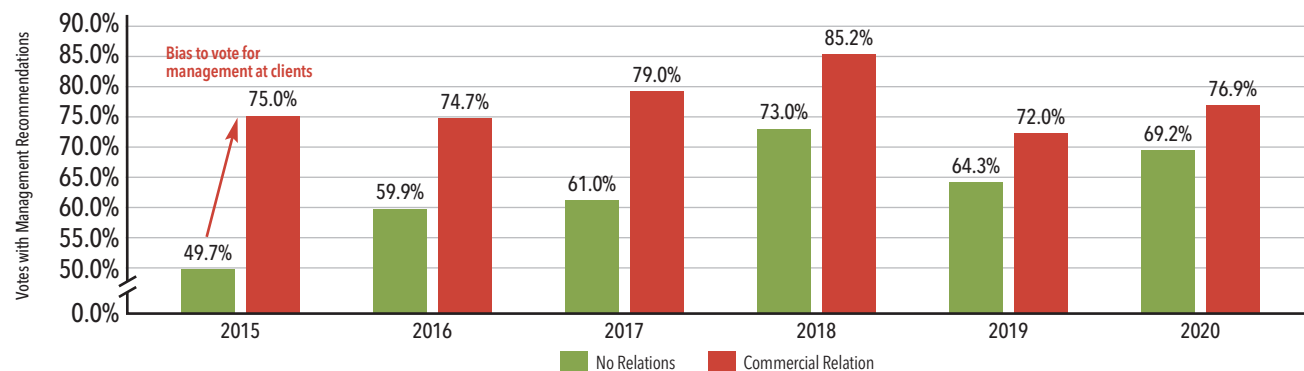
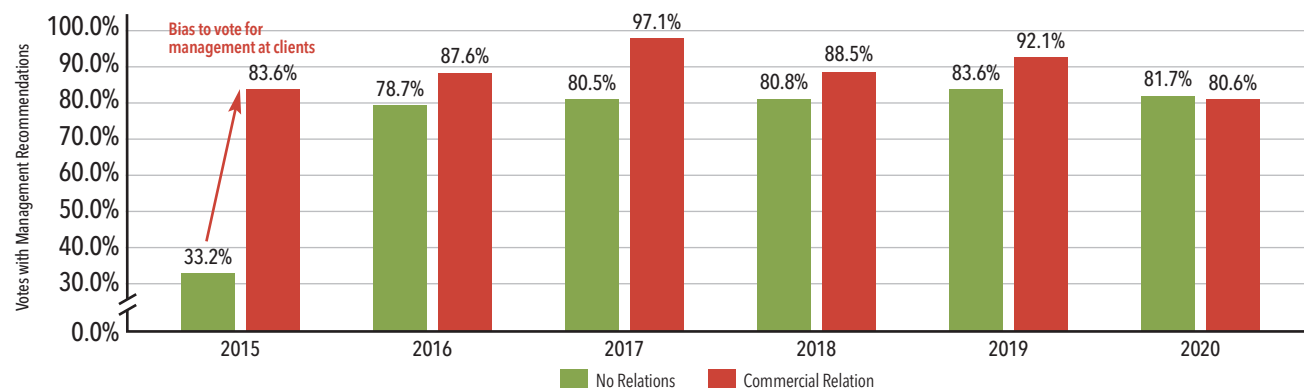


Figure 8: T. Rowe Price: Votes with Management Recommendations on Shareholder Resolutions



A similar analysis was performed on ESG related shareholder proposals. ESG proposals are resolutions that go beyond normal corporation business, such as electing directors or approving compensation packages, and focus on specific environmental, social, and governance issues. The results follow the same trend, with BlackRock, State Street, and T. Rowe Price showing biases to favor management. These results are all statistically significant and show large biases in relationship to the total votes. For example, BlackRock's bias of 2.4% constitutes a notable bias because this is the difference of 2.8% versus 5.2% of support on shareholder votes. This means only 54 ESG resolutions were supported at commercial clients for every 100 ESG resolutions supported at companies with no business ties at BlackRock from 2015 to June 2020.

Figure 9: ESG Proposals Voting Bias: January 2015–June 2020

FUND MANAGER	BIAS TO FAVOR MANAGEMENT	VOTES WITH SHAREHOLDERS			<i>p-value (less than 5% is significant)</i>
		COMMERCIAL RELATIONS	NO RELATIONS	TOTAL	
BlackRock	2.4%	2.8%	5.2%	4.7%	< .001%
State Street	15.2%	24.4%	39.6%	35.5%	< .001%
T. Rowe Price	1.9%	8.2%	10.1%	9.9%	1.12%
Vanguard	-11.4%	30.9%	19.5%	21.1%	< .001%

Biases to favor corporations providing compensation also occurred on climate-related resolutions focusing specifically on greenhouse gas or energy related disclosures, policies, and targets. BlackRock and State Street favored commercial clients, with BlackRock showing the greatest ratio of commercial to non-commercial clients. Startlingly, BlackRock was three times as likely to vote in support of climate-related resolutions when no commercial relations were present (10.4% vs. 3.6), showing a strong bias to favor management.

Figure 10: Climate-Related Proposals Voting Bias: January 2015–June 2020

FUND MANAGER	BIAS TO FAVOR MANAGEMENT	VOTES WITH SHAREHOLDERS			<i>p-value (less than 5% is significant)</i>
		COMMERCIAL RELATIONS	NO RELATIONS	TOTAL	
BlackRock	6.8%	3.6%	10.4%	8.7%	< .001%
State Street	15.5%	35.2%	50.7%	45.1%	< .001%
T. Rowe Price	-0.6%	9.6%	9.0%	9.0%	78.3%
Vanguard	-15.3%	40.6%	25.3%	27.3%	< .001%

BlackRock voted in favor of management on key resolutions at these clients:

- **Report on Costs and Benefits of Environment-related Activities (At Exelon Corp. during 2019)**
BlackRock received at least \$7.7 million in compensation from Exelon in 2019
- **Report on Political/Lobbying Contributions (At Ford during 2019)**
BlackRock received at least \$1.8 million in compensation from Ford in 2019
- **Report on Gender Pay Gap (At JP Morgan Chase during 2019)**
BlackRock received at least \$3.7 million in compensation from JP Morgan Chase in 2019
- **Report on Climate Change (At UPS during 2020)**
BlackRock received at least \$0.98 million in compensation from UPS in 2019

State Street voted in favor of management on key resolutions at these clients:





- **Report on Political/Lobbying Contributions (At General Electric during 2018 & 2017)**
State Street received at least \$200 million in compensation from General Electric in 2019
- **Report on Integrating Drug Pricing into Compensation (At Johnson & Johnson during 2019)**
State Street received at least \$7.2 million in compensation from Johnson & Johnson in 2019
- **Report on Pesticide Management (at PepsiCo in 2019)**
- **Adopt Quantitative Renewable Energy Goals (at PepsiCo in 2016)**
State Street received at least 2.1 million in compensation from PepsiCo in 2019

T. Rowe Price voted in favor of management on key resolutions at these clients:

- **Report on Governance Measures Implemented Related to Opioids (At J&J n in 2020)**
T. Rowe Price received at least \$10.7 million in compensation from J&J in 2019
- **Report on Climate Change (At JP Morgan Chase in 2020)**
T. Rowe Price received at least \$1.9 million in compensation from JP Morgan in 2019
- **Report on Gender Pay Gap (At Bank of America in 2019)**
T. Rowe Price received at least \$2.0 million in compensation from Bank of America in 2019
- **Report on Costs and Benefits of Environment-related Activities (At Exelon Corp. during 2019)**
T. Rowe Price received at least \$2.9 million in compensation from Exelon in 2019

The aggregate summary of the proxy voting bias results by resolution type is provided in Figure 11, showing the biases to favor management recommendations. This analysis displays the consistent biases displayed at Black Rock, State Street, and T. Rowe Price and the mixed results at Vanguard.

Figure 11: Bias to Favor Management Recommendations with Commercial Relations: January 2015–June 2020

FUND MANAGER	MANAGEMENT PROPOSALS 	SHAREHOLDER PROPOSALS 	ESG PROPOSALS 	CLIMATE PROPOSALS 
BlackRock	2.4%	7.2%	2.4%	6.8%
State Street	5.9%	14.1%	15.2%	15.5%
T. Rowe Price	3.9%	10.3%	1.9%	-0.6%
Vanguard	1.5%	-10.5%	-11.4%	-15.3%

RED = favors companies with business ties, **GREEN** = does not favor commercial clients, **GREY** = Statistically Insignificant

THE SOLUTIONS

Various solutions can be implemented to reduce the conflict of interest for fund managers, including disclosure requirements, recusing proxy votes when there is a conflict, as well as new technologies and policies. Disclosures and actions to reduce conflicts have been identified by the 50/50 Climate Project *Proxy Voting Conflicts* report, which includes the following recommendations to fund managers:⁶

- Disclose any existing business and contractual relationships when casting votes.
- Delegate votes that may involve conflicting interests to a neutral third party.
- Recuse proxy votes when there is a conflict of interest.
- Describe all voting policies in sufficient detail and make them clearly transparent to investors.
- Discuss existing policies with and solicit input from underlying clients for voting policies.

Additionally, new technologies provide the opportunity for shareholders to cast votes on resolutions when investing in pooled funds. For example, Citizen Shareholder is developing an online tool and mobile app for clients to vote all their proxies in one place, irrespective of how many asset managers, intermediaries, or pensions they invest in.⁷ Tumelo is another technical solution providing the democratization of proxy voting to shareholders with assets in funds.⁸

Finally, legislative actions can be taken to remove conflicts for fund managers. For example, the EMPOWERS Act, backed by U.S. Senator Tammy Baldwin, would allow workers to elect representative trustees to manage their retirement plans and set voting guidelines that investment managers would be required to follow.⁹ Senator Baldwin stated, “We must take action to give workers and retirees a seat at the table and their rightful voice in board rooms across America, and that’s what my legislation will do.” The EMPOWERS Act is just one example of several potential legislative solutions that can be enacted to remove fund manager proxy voting conflicts and to ensure proxies are rightfully voted with retirement plan participants interests forefront and center.

CONCLUSION

All four asset managers including BlackRock, State Street, T. Rowe Price, and Vanguard showed consistent bias to vote in favor of management resolutions at commercial clients from January 2015 to June 2020. Additionally, BlackRock, State Street, and T. Rowe Price showed consistent bias to favor board recommendations at commercial clients on shareholder, ESG, and climate-related proposals. New disclosure requirements, technologies, and legal actions should be taken to remove this conflict and allow shareholder interests, as intended, to be the primary driver of proxy voting.

METHODOLOGY

■ Proxy Voting Data

- Proxy voting data has been sourced from Proxy Insight and is from January 2015 to June 2020. Proxy votes for company resolutions have been counted as one per fund.

■ Commercial Relations Data

- Commercial relations use U.S. Department of Labor Form 5500 data of retirement plan providers from the year 2019. Only specified payments to companies were included, and “only eligible indirect” payments were not included.

■ Matching Proxy Voting to Commercial Relations

- An index was created to match commercial compensation payments of retirement plans to the companies where proxies are voted. This matching index was created as best as possible with the available information and is not guaranteed to be perfectly accurate since retirement plans of subsidiaries do not report parent companies with standardized identifiers.

■ Statistical Significance

- P-values use the chi-squared test and aggregate one vote per fund by company resolutions.

■ Resolution Types

- Management proposals are all resolutions for which the management recommends a "FOR" vote or proposes specific years to continue compensation packages or other policies.
- Shareholder proposals are all resolutions for which the management recommends an "AGAINST" or “No” vote.
- ESG proposals focus on specific environmental, social, and governance issues that go beyond standard corporate practice and administrative duties.
- Climate proposals include greenhouse gas or energy related disclosures, policies, and targets.

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