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Mutual Funds' Strategic Voting on Environmental and Social Issues

Finance Working Paper N° 774/2021
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Abstract

Environmental and social (ES) funds in non-ES families must balance incorporating the stakeholders' interests they advertise and maximizing shareholder value favored by their families. We find that these funds support ES proposals that are far from the majority threshold, while opposing them when their vote is more likely to be pivotal. This strategy results in a high average support for ES proposals, seemingly consistent with their fiduciary responsibilities, while opposing contested ES proposals. This greenwashing strategy is driven by ES funds in non-ES families who cater to institutional investors. Indeed, these funds experience lower inflows when providing low average support for ES proposals. This strategic voting is not exhibited in governance proposals, nor by ES funds in ES families or by non-ES funds in non-ES families, reinforcing the notion of strategic voting to accommodate family preferences while appearing to meet the fiduciaries responsibilities of the funds.

Keywords: responsible investment, strategic voting, mutual funds, fiduciary duty

JEL Classifications: G11, G30, K22, M14

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"Investors are demanding ESG investment strategies and opportunities, but funds may not always reflect those investor preferences in their voting. Addressing this agency cost is at the heart of corporate governance today."

A.H. Lee, Acting Chair of the SEC, March 17, 2021.

1. Introduction

Voting on corporate policy has been advocated as one of the main mechanisms that environmental and social (ES)-oriented investors can use to achieve their goals (Shleifer and Vishny, 1986; Hart and Zingales, 2017; Matos, 2020; Broccardo, Hart, and Zingales, 2022; Oehmke and Opp, 2024). Given that mutual funds have a fiduciary duty to promote the best interest of their clients, ES fund investors can expect their shares to be cast with sensitivity toward ES matters. Market observers have claimed that many of these funds fail to vote in harmony with their advertised goals (Cook, 2019; Temple-West, 2019; Cook and Hale, 2020), and the Securities and Exchange Commission (SEC) has increased scrutiny over fund voting to assess whether they align with investors' best interests. Conflicts might arise due to fund families' incentives to use their funds' votes in the family interest, which might not align with individual funds' fiduciary duties (Lipton, 2017; Hirst, 2018; Griffith and Lund, 2019). This is particularly relevant for ES proposals, as ES and non-ES funds of the same family are likely to attract investors with different, or even conflicting, interests, which raises the question of whether ES funds' votes on ES issues will reflect the funds' fiduciary responsibilities and their investors' preferences or fund family preferences.

In this paper, we show that family preferences often prevail over mutual funds' declared objectives and that ES funds that belong to non-ES families engage in strategic voting that may negate their fiduciary responsibilities. Strategic voting can arise if ES proposals pose a tension between financial returns and ES objectives and funds have to balance the preferences of their investors and the preferences of their families. We develop a simple model

that formalizes this intuition. We assume that funds may incur a cost if investors detect that their preferences are not represented. When investors do not monitor votes, funds vote with family preferences (i.e., ES funds in non-ES families vote against ES proposals). However, the model shows that as the cost of voting against investors preferences increases, ES funds in non-ES families have incentives to increase average support for ES proposals. One way of doing so is to support ES proposals that fail or pass by large margins while withholding their support in contested proposals. With this strategic voting pattern, akin to greenwashing votes, funds can exhibit high average support for ES proposals, consistent with their stated goals. However, when their votes truly count, they vote against ES proposals in a manner consistent with family preferences.

We find that ES funds in non-ES families use this voting strategy, while other funds, such as ES funds in ES families, do not. In particular, ES funds in non-ES families are relatively supportive of ES proposals that pass or fail by large margins but unsupportive of proposals that end up close to the majority threshold. In Figure 3, we examine the support for ES proposals for different voting outcomes for each type of fund. First, it shows that ES funds are more supportive of ES proposals than non-ES funds, on average. The differential support is approximately 25% higher within both ES and non-ES families. Second, and more importantly, it shows that ES funds in non-ES families depicts a U-shape centered around the 50% approval threshold. This contrasts with the (almost) monotonically increasing patterns exhibited by the other three groups of funds obtained from the intersection of fund and family categories, where there are no conflicts between funds' advertised goals and their family preferences. The graphical evidence, supported by the empirical specification explained below, is consistent with ES funds in non-ES families trying to accommodate family preferences opposing ES proposals when their votes might be pivotal while showing a pro-ES approach expected by their investors in uncontested proposals.

To identify ES funds, we rely on fund' names as they are an important piece of information that investors use to make investment decisions (Cooper, Gulen, and Rau, 2005),

and current regulations prohibit funds from using misleading names (Rule 35d-1). We thus consider ES funds to be those whose name contains an ES-related string such as sustainab, green, impact or climate. We categorize fund families using two proxies based on the preferences revealed by their past votes. First, we estimate fund family ideology over ES using the W-NOMINATE algorithm (Poole and Rosenthal, 1985; McCarty, Poole, and Rosenthal, 1997) following Bolton, Li, Ravina, and Rosenthal (2020). Second, we categorize fund families into ES and non-ES based on their average past support for ES proposals over all their funds. We find that these two proxies are highly correlated (average annual correlation of over 96%), and that, consistent with the notion of ideology, they exhibit high autocorrelation.

Our empirical specification controls for unobserved heterogeneity by including fixed effects at the level of funds, families, proposal types and meetings and other time-varying fund and family characteristics. We compare support of ES funds and non-ES funds, both in non-ES families, in contested and uncontested proposals. We find that ES funds are 21.5% more likely to support an uncontested proposal but that the difference drops by 13.1% for contested proposals. Perhaps even more telling, our results are significant when we exploit variation in support for the same proposal by funds of the same family (using proposal-by-family fixed effects).[1] This strategic voting can arise due to the tension between financial and ES value. Consistently, we find a negative market reaction to the passage of ES proposals (see also Li, Naaraayanan, and Sachdeva, 2023).

In additional analyses, we find that results hold when we include fund-by-meeting fixed effects, indicating that when two ES proposals are cast at the same meeting, ES funds in non-ES families are relatively less supportive of proposals that are likely to be close to the majority threshold. We also use fund-by-proposal-type fixed effects, following Calluzzo and Kedia (2019) and find that ES funds in non-ES families are more likely to support the same type of proposal in shareholder meetings in which the proposal is less likely to be contested

[1] In our main specification we define contestedness of proposals based on realized voting outcomes. In 4.2.1 we obtain consistent results when using ex ante proxies of the contestedness, in line with anecdotal and empirical evidence indicating that voting outcomes are predictable to some extent.

while opposing the same proposal type on contested ones. These findings indicate that when their votes matter the most, ES funds in non-ES families show a lower ES orientation, consistent with family preferences and against their shareholders' interests.

While monitoring votes might not be feasible for unsophisticated investors, prior literature suggests that institutional funds have more resources and ability to exercise market governance than retail funds (Del Guercio and Tkac, 2002; Evans and Fahlenbrach, 2012), and we therefore expect strategic voting to be driven by institutional funds.[2] We rerun our main specifications in the subsamples of institutional and retail funds and find that ES and non-ES retail funds of non-ES families have indistinguishable voting patterns. That is, retail ES funds and non-ES funds are equally (un)supportive of ES proposals, both in contested and uncontested ones. The strategic voting behavior of ES funds in non-ES families is explained by institutional funds only. Moreover, we find that institutional ES funds that provide little support for ES proposals on average experience lower flows than non-ES funds, consistent with institutional investors monitoring fund support rates of ES proposals. In contrast, retail fund flows do not react to low support for ES proposals.

Existing research documents that ties between fund families and their portfolio companies can lead to funds being more supportive of management with their votes (Cvijanović, Dasgupta, and Zachariadis, 2016; Calluzzo and Kedia, 2019). We therefore examine whether business ties can explain our results. If strategic voting on ES proposals was driven by an incentive to support management, then we should also find a similar voting pattern for governance proposals. The falsification test using votes on governance proposals shows that ES funds in non-ES families do not vote strategically on other proposals, and reinforces the interpretation that the strategic voting of ES funds in non-ES families is unique to ES proposals, related to fund family ideology, and is unlikely to be driven by other omitted variables.

We also examine whether this strategic behavior is common to all types of ES funds,

[2]Monitoring mutual fund votes is complex because votes are only disclosed once a year in overwhelmingly long forms without a clear identification of proxy voting matters and categories. See "SEC Proposes to Enhance Proxy Voting Disclosure by Investment Funds and Require Disclosure of Say-on-Pay Votes for Institutional Investment Managers." September 29, 2021. Available here (Accessed October 14, 2022).

regardless of their family type. Our results indicate that ES funds in non-ES families reduce their support for ES proposals by 11.3% in contested proposals relative to ES funds in ES families. This indicates that the decrease in support around the majority threshold is unique to ES funds in non-ES families. We find the same result when we compare the behavior of ES funds in non-ES families to that of non-ES funds in ES families as a third control group. These tests suggest that the results are not driven by the choice of counterfactual and indicate that other alternative explanations related to omitted variables are implausible.

Our paper is the first to provide evidence of ES mutual funds voting strategically in a way that camouflages the actual support for ES proposals from their investors. Two contemporaneous papers by Curtis, Fisch, and Robertson (2021) and Dikolli, Frank, Guo, and Lynch (2022) conclude that ES funds do deliver on their promises based on evidence that their support for ES proposals is greater than the support of non-ES funds. Our results show that reality is more nuanced and constitutes a cautionary tale for such interpretation. First, we find that the greater support of ES funds is partly explained by ES funds of non-ES families inflating their voting records in uncontested proposals. Second, the differential support is driven by institutional ES funds, whose investors have some ability to monitor votes, whereas retail ES funds provide the same support as non-ES funds. Therefore, we uncover a form of greenwashing, adding to other papers that find evidence of misleading ES-related practices (Gibson Brandon, Glossner, Krueger, Matos, and Steffen, 2022) and to the call for further research in this area (Edmans and Kacperczyk, 2022).

Our paper shows that both funds' stated objectives and family preferences influence fund votes, contributing to the literature on the determinants of mutual fund votes in general (Matvos and Ostrovsky, 2010; Iliev and Lowry, 2015; Larcker, McCall, and Ormazabal, 2015; Calluzzo and Kedia, 2019; Bolton et al., 2020; Bubb and Catan, 2022; Heath, Macciocchi, Michaely, and Ringgenberg, 2022) and ES votes in particular, which have received less attention in the literature. Our evidence of tensions between fund investors and fund families adds to prior studies examining conflicts of interest between funds of the same fam-

ily. These studies document the use of cross-subsidization via cross-trading (Gaspar, Massa, and Matos, 2006; Eisele, Nefedova, Parise, and Peijnenburg, 2020) and investment (Bhattacharya, Lee, and Pool, 2013). We show that these conflicts can also translate into transfers of votes in the interest of the family. Finally, our study uncovers a strategic behavior around contested proposals that is novel in the literature. Cvijanović et al. (2016) show that these proposals are used to exploit business ties between firm managers and institutional investors, while Bach and Metzger (2019) find that firm managers may persuade friendly voters when voting outcomes are expected to be close. We find that ES funds in non-ES fund families may exploit contested proposals to conceal the representation of their preferences.

Our results have implications for regulators and investors alike. For regulators, our findings suggest that the current regulatory framework requiring the disclosure of proxy voting does not always "illuminate potential conflicts of interest and discourage voting that is inconsistent with fund shareholders' best interests" (SEC Rule 30b1-4). This is particularly acute for retail investors, who have limited ability and resources to monitor votes. If funds' transparency and adherence to their stated objectives are important, then monitoring and perhaps publishing their voting records on contested votes might be useful. For investors, we show that while a fund's stated ES objectives affect its average voting pattern, the preferences toward ES of the family to which it belongs are also important. In fact, for ES votes that matter, fund family ideology is more important. This is clearly relevant to investors who care about investing responsibly and improving the ES policies of the firms in which they invest.

2. Conceptual Framework

ES proposals can be assessed for both their impact on firm value and their contribution to ES goals. Accordingly, we index ES proposals by two value variables: variable $v \in [\underline{v}, \overline{v}]$, with $\underline{v} < 0 < \overline{v}$, representing the pecuniary value, and variable $\varepsilon \in [0, \overline{\varepsilon}]$, with $0 < \overline{\varepsilon}$, representing the ES value. In addition, we index proposals by their contestedness. For simplicity, we assume that a proposal is implemented if it receives $\geq 50\%$ support (*passes*), and it is not

implemented otherwise (*fails*). Variable $\beta \in (0,1)$ represents the probability that a vote is pivotal: the closer the expected support is to 50%, the greater the β. Therefore, a proposal is characterized by a triplet of variables $\{v, \varepsilon, \beta\}$, which we assume to be jointly distributed.

Mutual funds are sponsored by fund families and vote for their investors. Both families and investors are characterized by their preferences, and all investors in a fund share the same preferences. Families and investors can have either of two preferences: ES and non-ES. Under ES preferences, the payoff from a proposal passing is $v + \alpha\varepsilon$, with $\alpha > 0$. Hence, the pecuniary and the ES values are substitutes, and parameter α determines their relative value. Under non-ES preferences, the payoff from a proposal passing is v, so no weight is given to the ES value. We normalize to zero the payoff from a proposal failing for everyone. Our characterization yields four fund categories: funds are either ES or non-ES based on their investors' preferences, and each fund belongs to either an ES or a non-ES family.

Mutual funds must vote either 'for' or 'against' each proposal. Funds have the fiduciary responsibility to represent their investors' preferences, but these preferences might conflict with those of their families. Two elements can determine the resolution of this conflict. First, the cost of voting against investors. Second, the relevance of the vote for the proposal to pass. We capture these elements by characterizing the payoff from a fund's vote. Let $\alpha_j \in \{0, \alpha\}$ represent the preferences of a fund family, such that $\alpha_j = 0$ is a non-ES family and $\alpha_j = \alpha$ is an ES family. Similarly, let $\alpha_i \in \{0, \alpha\}$ represent the preferences of fund investors. Then, fund i of family j votes 'for' proposal $\{v, \varepsilon, \beta\}$ if

$$\beta[v + \alpha_j \varepsilon] - \mathbb{1}_{i,\{v,\varepsilon\}} \mu k \geq 0, \tag{1}$$

and votes 'against' otherwise.

The first term of the payoff function (1) captures the expected benefit for the family of its fund voting 'for'. The payoff from the proposal passing is scaled by the probability that the vote is pivotal. Therefore, we assume that the family is concerned about its fund's vote

only to the extent that this can influence the passage of the proposal. The second term of (1) captures the cost of voting against investor preferences. Indicator $\mathbb{1}_{i,\{v,\varepsilon\}}$ equals one if fund i votes against the interest of investors given proposal value $\{v, \varepsilon\}$ and equals zero otherwise. μk represents the expected cost of voting against the preferences of investors, which we decompose into two elements for interpretation. Parameter $\mu \in (0, 1)$ is the probability that investors detect the vote against their preferences. This is directly related to the monitoring technology of investors and inversely related to the difficulty of accessing and interpreting mutual fund voting records. Parameter $k \geq 0$ is the cost incurred by the fund when investors detect a vote against their preferences. This may capture, for example, the cost of outflows of disappointed investors.

Proposition 1 *Each category of funds has a distinct voting policy characterized by a pecuniary value threshold function $v^*(\varepsilon, \beta)$ such that funds vote 'for' a proposal if $v(\varepsilon, \beta) \geq v^*(\varepsilon, \beta)$ and vote 'against' otherwise. The threshold policies are characterized as follows:*

$$\begin{aligned}
\textit{ES funds in ES families:} \quad & v^*_{E(E)} = && -\alpha\varepsilon \\
\textit{ES funds in non-ES families:} \quad & v^*_{E(nE)} = && \max\{-\alpha\varepsilon, -{}^{\mu k}/_{\beta}\} \\
\textit{non-ES funds in non-ES families:} \quad & v^*_{nE(nE)} = && 0 \\
\textit{non-ES funds in ES families:} \quad & v^*_{nE(E)} = && \min\{-\alpha\varepsilon + {}^{\mu k}/_{\beta}, 0\}
\end{aligned}$$

A proof of Proposition 1 is presented in Appendix A; here we develop the main intuition. Funds compare the payoff of voting 'for' and 'against' each proposal considering the preferences of both their investors and the family. We obtain thresholds on the pecuniary value of a proposal $v^*(\varepsilon, \beta)$ such that funds in each category only vote for proposals with a value that exceeds their threshold. Hence, a lower threshold implies that funds are keen to support ES proposals with smaller pecuniary value, and therefore that they support a larger fraction of ES proposals. Naturally, voting policy thresholds are nonpositive, so *all* funds support ES proposals with pecuniary value $v \geq 0$. Moreover, the thresholds are (weakly) decreasing

in the ES value ε. Therefore, the greater the ES value of a proposal is, the greater is the pecuniary cost that ES investors and families are willing to incur for its implementation.

Proposition 1 shows that ES funds in ES families are the most supportive of ES proposals, whereas non-ES funds in non-ES families are the least supportive. These funds face no tension between investors and the family, so they can vote to represent their preferences. In contrast, ES funds in non-ES families, and non-ES funds in ES families, might be exposed to conflicting preferences. Then, their voting policy is determined by term $\mu k/\beta$, which captures the cost of voting against the preferences of investors relative to the probability that the vote is pivotal, and therefore relevant for the family. This relative cost determines the differences in support of ES proposals among the four fund categories. A full characterization of the relative support of the four fund categories follows directly from Proposition 1 and is provided in Corollary 2, Appendix A.

Our model represents the voting criteria of funds on ES proposals based on the interaction of the preferences of their investors and their families. Family preferences only matter to the extent that the vote of their fund might be pivotal for the passage of the proposal. In particular, a larger β increases the prevalence of family preferences, reducing the relative cost of voting against the interests of investors. The evidence suggests that funds make informed predictions of the voting outcome of some proposals and, in turn, of whether their vote might be pivotal. Therefore, all else being equal, we expect that funds exposed to conflicts of preferences are more keen to vote in line with their family preferences in contested proposals. We capture this in the following hypothesis:

Hypothesis 1 *The support rate of ES funds in non-ES families is relatively lower for proposals with a voting outcome close to 50%.*

Hypothesis 1 suggests that ES funds in non-ES families may vote strategically on ES proposals based on their contestedness. However, it does not account for an analogous strategy of non-ES funds in ES families. Non-ES investors are arguably less inclined to monitor the votes of their funds on ES proposals because these votes are not directly related to their goals.

Accordingly, we expect the relative cost for funds of voting against their preferences to be smaller and, in turn, the expected voting outcome to be less relevant for the voting decision. We develop this argument formally in Internet Appendix A.1 and show that non-ES funds in ES families might not exhibit strategic voting when non-ES investors exert little monitoring.

3. Data and Variable Definitions

3.1 Data

We gather fund voting data on shareholder proposals at annual shareholder meetings from Institutional Shareholder Services (ISS) Voting Analytics from 2011 to 2021. This dataset provides voting records for funds filing SEC form N-PX. To estimate the voting outcome, we supplement our voting data with the Company Voting Results dataset, which includes ISS voting recommendations, vote casts for each proposal, voting bases and voting requirements. For each shareholder proposal, we collect information on the firm in which the proposal was made, meeting date, mutual fund name, family to which the mutual fund belongs, type of proposal (ES or governance), and the fund's vote.[3] We collect information on proposal type from the ISS Shareholder Proposals dataset. We exclude proposals with supermajority rules (these represent 1.5% of ES proposals and 2% of governance proposals). Further data on mutual fund characteristics, such as total net assets, the expense ratio and portfolio holdings, are retrieved from the CRSP Mutual Fund.[4] Finally, firms' financialdata are computed from Compustat Annual, and institutional ownership information is taken from Thomson Reuters.

[3]We drop 0.4% of the votes recorded as "do not vote" and "none".

[4]Section B of the Internet Appendix explains how we merge the CRSP and ISS data.

3.2 Variable Definitions

3.2.1 ES Proposals

Despite often being grouped together, ES proposals differ from governance proposals in the type of frictions that they may generate. The G in ESG is not new in many ways, and good governance practices have been on the agenda of institutional investors for many years (e.g., Shleifer and Vishny, 1986; Matos, 2020; Starks, 2023). Accordingly, papers that study the monitoring and disciplining incentives of mutual funds typically examine support for governance proposals but not for ES proposals (Gillan and Starks, 2000; Matvos and Ostrovsky, 2010; Iliev and Lowry, 2015; Cvijanović et al., 2016; Heath et al., 2022). The different natures of ES and governance issues are also reflected in Bolton et al. (2020), whose analysis considers ES and governance issues as two different ideological dimensions and shows that they are both independently relevant.[5]

ISS classifies proposals as either "socially responsible investment" or "governance."[6] In our main tests, we use this classification to sort ES and GOV proposals. We further check the accuracy of this categorization and find that in some cases, a proposal cannot be unambiguously classified into one category (Morgan, Poulsen, Wolf, and Yang, 2011). In robustness tests, we reclassify some governance proposals that align management and shareholder preferences along the ES dimensions as ES. We discuss these results in Section 4.6.[7]

Figure 1a plots the number of shareholder-sponsored ES and GOV proposals voted on every year in our sample. Consistent with prior literature, all ES proposals are sponsored by shareholders (e.g., Calluzzo and Kedia, 2019; Bolton et al., 2020; He, Kahraman, and Lowry,

[5]See Section 4.2.2 for further evidence of the different natures of ES and G proposals.

[6]There are three proposal types that are not classified but are governance-related: Amend articles/bylaws/charter, Elect a shareholder-nominee to the board, and Initiate share repurchase program. The issagendaitemid codes are S0233, S0250, and S0315.

[7]Our sample contains voted proposals only and therefore excludes proposals that are omitted or withdrawn before they reach the ballot. This is common to most papers studying mutual fund voting on shareholder proposals (e.g., Iliev and Lowry, 2015; Calluzzo and Kedia, 2019). In Section 4.5, we argue that this is unlikely to affect the interpretation of our results.

2023).[8] Our sample contains 1,866 distinct ES proposals made at 420 unique firms between 2011 and 2021, in line with prior papers (e.g., He et al., 2023). In the same sample period, 3,398 GOV proposals were made at 842 firms.

We also collect information from ISS on the total number of votes for, against and abstentions to determine the voting outcome and management recommendations for each proposal. Figure 1b illustrates the support received by ES and GOV proposals between 2011 and 2021. The figure plots the number of ES and GOV proposals against the voting outcome. Almost 30% of the ES proposals received less than 10% support, and only 4.2% passed (78 proposals) during our sample period. The scant support received by ES proposals in our sample is consistent with existing research (Flammer, 2015; Cao, Liang, and Zhan, 2019; He et al., 2023). This contrasts with shareholder-sponsored governance proposals, of which 22.3% passed in the same period. Notably, nine ES proposals had favorable recommendations from firm management, and they all received over 79% support. The low managerial support for shareholder proposals is consistent with Cvijanović et al. (2016) and Bolton et al. (2020).

Similar to Cvijanović et al. (2016), our approach relies on identifying proposals that may appear contested and thus on which fund managers may decide to vote strategically. We define a proposal as contested (Contested = 1) if the voting outcome is in the 45% to 55% range. The proposal is uncontested (Contested = 0) if it receives support in the interval [20%, 45%) or (55%, 80%].[9] Different from Cvijanović et al. (2016), we drop proposals that receive very little support or received very high support. In our main empirical specification, we focus on proposals in the interval [20%,80%] because they are more homogeneous ex ante: almost all receive a favorable ISS recommendation and all but one receive a negative management recommendation. That is, our sample includes almost exclusively ES proposals in which there

[8]This is unsurprising given that most ES issues are related to the ordinary business of the firm and that managers do not require shareholder approval to implement them. There are only two management-sponsored ES proposals (at S&P Global Inc. and Moody's Corporation), both of which were submitted in 2021 and are related to decarbonization. We do not include them in our sample.

[9]In robustness tests, we also consider the ±10% interval to define contested proposals and a continuous variable for the level of support. In addition, we consider closer bandwidths around the 50% threshold to compare proposals that are arguably more similar.

is a tension between management and ISS recommendation, as the former recommends opposing the proposal, and the latter recommends supporting it, so this tension does not add a source of variation. Furthermore, by dropping proposals with below-average support, we expect to compare proposals of similar (and relatively high) quality (Gantchev and Giannetti, 2021).[10] Importantly, mutual funds have the right and the obligation to vote proxies relating to the fund's portfolio securities (SEC, 2003, p.3); therefore, mutual funds cannot opt-out of voting on proposals that are more likely to be contested. In untabulated results, we find that the voter turnout is approximately 75% for all ES proposals for all voting outcomes.

3.2.2 Fund Classification

Our classification of funds into ES and non-ES is based on mutual fund names. In 2001, the SEC adopted rule 35d-1, also known as the "Names Rule," which prohibits the use of misleading mutual fund names.[11] Moreover, empirical evidence shows that investors often rely on fund names to make investment decisions. For instance, Cooper et al. (2005) show that mutual funds that change their names to reflect "hot" investment styles experience large inflows, even when they do not change their portfolio holdings.[12] Accordingly, other papers use funds' names to identify their investment styles, such as index and passive (Gaspar et al., 2006), or, as we do, an ES orientation (Curtis et al., 2021; He et al., 2023).

We classify funds as ES if their name contains a string related to environmental or social issues. We consider a comprehensive list of strings (sorted by frequency of appearance in our final sample): *sustain* (excluding *"sustainable dividend"*, *"sustainable growth"*, and *"sustainable momentum"*), *social* (excluding *"social media"*), *esg, pax, responsib, clean, impact, sri, environm, green, catholic, parnassus, aquina, women, alternative energy, equality, wind energy, fossil, low carbon, amana, eco or ecolog, epiphany, solar, climate, better world, energy*

[10] In our sample, the average support for ES proposals is 22.96%.

[11] While the original rule does not explicitly mention ES funds, there is currently a proposal to modernize it to include this type of fund. See "Whats in a Name? Aligning Fund Names with Investor Expectations." May 25, 2022. Available here (Accessed October 14, 2022).

[12] Recent anecdotal evidence suggests that some mutual funds are rebranded as green to attract new flows, but in many cases, the rebranding has been in name only (Shifflett, 2021).

solutions, gender, and *just*. Similar to Renneboog, Ter Horst, and Zhang (2011), we include funds with religious values in our main tests, but our results are qualitatively similar when we exclude them. Non-ES funds are funds that do not include any of those strings in their names.

We verify the accuracy of our classification of funds by reading the prospectuses of all 321 ES funds in our sample and a random subsample of 200 non-ES funds. We find that the statements about the principal investment strategies of funds that we categorize as ES do include ES criteria, i.e., they claim to be ES-oriented funds. For instance, the prospectus of BlackRock Impact U.S. Equity Fund states that the fund seeks *"to provide total return by investing in a portfolio of equity securities of companies with positive aggregate societal impact outcomes."*[13] There are only two exceptions, "First Trust Nasdaq(R) Clean Edge(R) Smart Grid Infrastructure Index Fund" and "SoFi Social 50 ETF." We reclassify these funds as non-ES. Within the random subsample of funds classified as non-ES, we find three funds (1.5%) with investment strategies that align with ES objectives even though their name does not contain an ES-related string. Therefore, our sample contains a small classification error, and this is only one type: ES funds classified as non-ES.

We conduct an additional test to better understand the extent of the error. We compare our classification with Morningstar (2019), a report that provides the universe of sustainable funds in the U.S. in 2018 according to Morningstar criteria (see Section C of the Internet Appendix). We find that 12 of the 128 funds (9.4%) that appear both in our sample and in Morningstar (2019) as of 2018 are classified as sustainable by Morningstar, but we tag them as non-ES. Notably, all these funds belong to families that traditionally align with ES objectives and that we consistently classify as ES. In our main tests, we consider funds from non-ES families, and hence, this misclassification is not problematic. We explain how we address this issue in Section 4.5 when we use funds in ES families as alternative control groups.

Panel A of Table 1 shows that on average, mutual funds classified as ES are supportive of ES proposals, voting in favor 59.35% of the time. Funds classified as non-ES support ES

[13] Available here (Accessed October 14, 2022).

proposals in only 27.32% of the cases. Consistent with their stated objectives, ES funds have a more favorable approach toward ES agenda items when they are on the ballot, which suggests that ES funds take voting accountability into consideration when casting their votes, consistent with Dikolli et al. (2022) and Curtis et al. (2021). This finding further validates our fund classification. Overall support for ES proposals by all funds in our sample is 28.39%. This value is close to the average support of non-ES funds given that ES funds account for only 3.4% of the votes in our sample period. Importantly, support for E and S is highly correlated at the fund level (pairwise correlation of 0.87). This is consistent with mutual fund names and prospectuses advertising E and S goals together. This suggests that aggregating ES funds is reasonable.

3.2.3 Family Classification

Our first proxy for family preferences is their ideology on ES in the spirit of Bolton et al. (2020). Investor ideology is determined using the spatial representation developed by Poole and Rosenthal (1985, 1987, 1991, 1997) to capture the ideology of U.S. legislators. Poole and Rosenthal assume that legislators have single-peaked preferences and use their votes to represent their ideology over a Euclidean space. The greater the similarity in the voting records of two legislators, the closer they are in the ideological space. Poole and Rosenthal developed the W-NOMINATE program to enable the estimation of parameters.[14] We use the publicly available version of W-NOMINATE from McCarty et al. (1997) to estimate fund families' ideal points and hence ideology on ES issues. Bolton et al. (2020) use this methodology to estimate institutional investors' ideology in the fiscal year 2012. They find that institutional investors can be mapped onto a single ideological dimension, i.e., a straight line. Investors on one end of the distribution are more supportive of ES proposals and less supportive of executive compensation proposals than investors on the other end. Bolton et al. (2020) call these investors "socially responsible" and "money conscious," respectively.

[14]Since this method has only recently been introduced in finance, we provide a stylized example to illustrate how investor ideology is determined in Section D of the Internet Appendix.

Our inference of fund families' ideology involves treating each family as a single voter and thus aggregating the votes of different funds within the same family. We calculate family votes by aggregating votes for all funds in the family using the majority vote on each proposal in each firm meeting, following Bolton et al. (2020). This seems reasonable given that many funds in a family vote in unison (Cvijanović et al., 2016; Bolton et al., 2020). Unlike Bolton et al. (2020), we treat abstentions as votes against (He et al., 2023; Heath et al., 2022). We do not consider governance proposals and management proposals because we seek to infer family ideology on ES rather than governance or other elements over which families' ideology might differ. The sample used to estimate ideal points excludes proposals with fewer than 20 voters and institutions voting on fewer than 20 proposals.[15]

The ideology on ES is estimated for each family as the W-NOMINATE score from the previous calendar year. Figure 2a plots the histogram of ideal points for the calendar year 2012, the only year considered in Bolton et al. (2020).[16] Families that are closer to one extreme of the distribution are more supportive of ES proposals (arbitrarily placed on the left), while families closer to the other extreme are less supportive. For 2012, Calvert and Pax World are ranked as the most ES-oriented families, while Dimensional Fund Advisors (DFA) is at the opposite end of the distribution. Families such as Fidelity, BlackRock and Vanguard also have ideologies that are relatively opposed to those of ES. Our distribution based on ES proposals is similar to that of Bolton et al. (2020) (see Figure 2A, p.331), which also includes governance and management proposals.[17] Some differences are nonetheless noticeable. For instance, some families, such as DFA, are at the ideological center when considering governance and management proposals but are on the very right for ES proposals only. Calvert and ISS are also at the center in Bolton et al. (2020), but we find that they have a strong ES ideology.

In our main tests, we separate our sample of votes into approximately half of the votes

[15] Bolton et al. (2020) impose a threshold of 50 proposals voted on by each family in a year. Because few ES proposals are made at annual meetings every year, we use a lower threshold of 20 proposals.

[16] We present family classification for 2021 in Section D.2 of the Internet Appendix.

[17] The two distributions are similar from an *ordinal* perspective. They are not comparable from a *cardinal* perspective because our sample differs from the Bolton et al. (2020) sample. For instance, Bolton et al. (2020) includes pension funds, whereas we do not.

in each family category. This results in 30% of the families being classified as non-ES and the rest as ES (the results are robust to alternative cutoffs; see Section J of the Internet Appendix). We find that the unconditional support for ES proposals among funds that belong to ES families is 43.01% over the full sample period, while support among non-ES families is 8.06% (see Panel A of Table 1). The difference is statistically significant at the 1% level.

We estimate an alternative proxy for family preferences based on the average support for ES proposals at the family level in year $t-1$. That is, for each family in each year, we use the mean proportion of votes in favor of ES proposals relative to the total number of votes cast. The classification is year-specific to account for changes in support for ES proposals over time. This proxy has several advantages. First, it is simple, intuitive and easy to estimate. Second, it does not require the aggregation of fund votes into majority votes and therefore allows more variation at the family level.

Families' scores for 2012 using this alternative proxy are presented in Figure 2b. A comparison with the ideology proxy plotted in Figure 2a reveals a very similar order of families across the range of support for ES proposals (we have multiplied by -1 to preserve the ordering). Calvert remains on the left, with the highest support for ES proposals, while DFA is at the opposite extreme. Notably, the distribution of families according to their average support is more negatively skewed, with the mode in the bin with the lowest support for ES proposals (0% to 5%). More systematically, we test for the strength of the association between family preferences for ES proxied by their ideology and by the average support rate using Spearman correlation. For 2012, the correlation coefficient is 0.967, and it ranges from 0.966 to 0.984 for our entire sample period. Hence, the two proxies for ES preferences yield very similar rankings.

We classify families based on their average support using the procedure applied to the ideology proxy. We split our sample with a cutoff that leaves roughly half of the votes on each side. This results in 30% of the families classified as non-ES and the rest as ES. Under this classification, the unconditional support for ES proposals by funds that belong to ES

families is 42.81% for the full sample period, while support by non-ES families is 6.87% (see Panel B of Table 1). In untabulated results we compute family preferences for E and S separately, and find that they are highly correlated. This finding supports the aggregation of these dimensions in our analyses.

Evidence shows that families that are classified as ES (or socially responsible) are more likely to incorporate stakeholders' considerations into their investment philosophy, while non-ES families (or money-conscious) are more likely to mention value maximization as their main driver of their investment decisions (Bolton et al., 2020). The low support for ES proposals by non-ES families indicates that they view ES issues as competing with maximizing shareholder returns, as they would support these proposals otherwise. The survey evidence in Amel-Zadeh and Serafeim (2018) also suggests that some investors are reluctant to incorporate ES issues into their investment decisions because they do not consider them to be consistent with clients' best interests or detrimental to investment performance.

An important aspect of family preferences is their persistence that is, not only how a fund family is classified at a point in time but also whether it remains in the same category over time. Table 2 examines this characteristic using the transition matrix, i.e., the probability that a family classified as either ES or non-ES remains in the same category in the following year. Panel A presents the results using the ideology proxy, and Panel B presents the results obtained with the average support proxy. With the ideology proxy, we find that a family classified as ES in year t has a 92.4% chance of remaining in the same category in year t+1. When families are classified by average support rates, the probability is 93.4%.[18] Hence, our two family classifications are very sticky, consistent with the notion that voting behavior is ideological when it is predictable (Converse, 1964).

Our proxies for fund family preferences are computed using past votes on ES proposals. Alternative observable variables are unlikely to capture family preferences, as claims about

[18]A similar picture emerges when we look at a two-year transition. The chances that an ES family in year t is also classified as such in year t+2 are 91.2% using the ideology proxy and 91.8% when classified by average support (untabulated).

ES-related policies are often vague, and there is little accountability. Gibson Brandon et al. (2022) find evidence of greenwashing among U.S. investors. They show that the ESG footprints of U.S.-based signatories of the Principles for Responsible Investment (PRI) tend to be no better than those of non-PRI signatories. Meanwhile, Couvert (2020) finds that while voting policies are a major predictor of funds' voting behavior in general, this is not the case for ES (compliance with voting policies that support ES issues is less than 50%).

3.2.4 Other Fund Characteristics

Table 3 reports summary statistics on important fund characteristics that we use as control variables in our main specification. The results are reported for the sample of all ES proposals (full sample) and the sample of ES proposals with a voting outcome between 20% and 80% (main sample). The latter contains 479,862 votes on 1,067 ES proposals from 7,851 distinct mutual funds distributed across 329 families. We estimate our regressions at the fund-vote level (similar to Iliev and Lowry (2015)); therefore, summary statistics are also presented at this level. The summary statistics presented in Table 3 show that on average, each fund owns a small fraction of total shares outstanding, 0.043%, and the mean firm represents approximately 1.175% of funds' total net assets in the main sample.[19] The mean (median) size of the assets under management by each fund is 5,473 (515) million, and the mean (median) family size is 265 (37) billion dollars. Approximately 40% of the votes in our sample are cast by institutional funds. The summary statistics for all ES proposals and the main sample look economically similar, suggesting that mutual fund voting on proposals close to the majority threshold is similar to mutual fund voting on proposals that are further away. Similarly, the fraction of votes cast by ES funds and ES families are also similar in the full sample and the sample of proposals with voting outcomes in the [20%,80%] interval, which indicates that ES funds or ES families are not selectively investing in firms in which

[19]The ratio of fund ownership relative to shares outstanding is smaller than the value reported by Iliev and Lowry (2015) because we consider only firms with ES proposals, which are significantly larger and have more dispersed institutional ownership than the average publicly traded firm.

the likelihood of passing an ES proposal is higher.

We also compute firm-level variables to better understand the characteristics of firms with ES proposals. We find that firms with ES proposals differ significantly from other Compustat firms, especially in size (Flammer, 2015; He et al., 2023). These results are presented in Section E of the Internet Appendix.

4. Results

4.1 Funds Support for ES Proposals

Each fund in our sample is classified as ES or non-ES based on its stated goal. Each fund belongs to a family, classified as ES or non-ES based on their ideology (W-NOMINATE) or average support for ES proposals in the prior year. Our classification yields four categories of funds that mirror the conceptual framework in Section 2: (i) ES funds in ES families, (ii) non-ES funds in ES families, (iii) ES funds in non-ES families, and (iv) non-ES funds in non-ES families.

Panel A of Table 1 provides average support rates for fund, family, and fund-family categories based on their ideology. A representative ES proposal obtains 28.39% of the votes in favor. As one may expect, ES funds in ES families provide the most support on average (71.50%), and non-ES funds in non-ES families provide the least (7.47%). Regarding ES funds, 62% of the votes are cast by ES funds in ES families, and the remaining 38% are cast by ES funds in non-ES families. Consistent with Eccles and Klimenko (2019), we find that many mutual fund families now offer ES investment products, irrespective of whether they have a wider ES approach: the number of fund families offering ES funds tripled between 2011 and 2021.

A comparison of the average support rates across fund categories provides two relevant observations. First, ES funds, on average, vote in favor of ES proposals more than non-ES funds, regardless of family ideology. In particular, for both ES and non-ES families, ES

funds are approximately 25% to 30% more supportive of ES proposals (p-value < 0.01 in both cases) using either of our two proxies for their preferences, consistent with recent anecdotal evidence (Cook and Hale, 2020) and empirical evidence (Curtis et al., 2021; Dikolli et al., 2022). This result indicates that although fund families often cast all their funds' votes homogeneously (Cvijanović et al., 2016; Lipton, 2017; Bolton et al., 2020), there is variation at the family level regarding ES and non-ES funds. This suggests that voting accountability matters and is consistent with our assumption in the conceptual framework that it is costly for funds to not vote in line with their investors' preferences.

Second, the average support for ES proposals by non-ES funds in ES families is significantly greater than the support for ES funds in non-ES families (p-value < 0.01). This relation suggests that family preferences are a strong driver of funds' votes on ES proposals.[20] Indeed, in our conceptual framework this relationship holds when the expected cost for funds of voting against the preferences of their investors is sufficiently small (see Corollary 2 and Figure A.1 in Appendix A). Thus, the investment objective and fiduciary duties, as far as ES is concerned, appear to be of second-order importance in determining their vote. If ES funds' (in non-ES families) advertised goals prevailed, then we would likely observe the opposite relation. This finding is consistent with prior evidence documenting the significance for fund families on fund votes. Importantly, this raises concerns about potential breaches of the fiduciary duties of managers of ES funds in families that are relatively opposed to ES proposals (Lipton, 2017; Hirst, 2018).

The two observations above suggest that ES funds in non-ES families might be subject to conflicts of interest between the fund's fiduciary duties and family preferences. Specifically, voting against ES proposals will often be in line with the preferences of the non-ES family (i.e., the votes of most other funds in the same family) but in conflict with the ES fund's fiduciary duty. In our model the conflicts of interest that affect ES funds in non-ES families

[20]This observation might be somewhat mechanical, as our classification of families is based on past votes, and ideology is highly persistent. In our main empirical specifications, we overcome this potential issue by comparing funds within the same family type.

are most salient when the probability that the fund's vote is pivotal for the passage of the proposal is high. That is, we expect a relative decrease in support for ES proposals when these proposals are contested. We formally test this (Hypothesis 1) in the next section.

4.2 Evidence from Contested Proposals

We first investigate strategic voting by plotting funds' support for ES proposals as a function of voting outcomes in Figure 3. The figure shows that ES funds in ES families provide the highest support on average for ES proposals for all possible voting outcomes, while non-ES funds in non-ES families provide the lowest support. Notably, the voting pattern of ES funds in non-ES families reveals a U-shaped relationship centered on the 50% approval rate: they are relatively more supportive of ES proposals when overall support is either low or high – above the support of the average investor, as represented by the 45 degree line. Conversely, they appear to vote for ES proposals relatively less when the probability of being pivotal is higher, consistent with our hypothesis. Importantly, this strategy allows ES funds in non-ES families to exhibit relatively high average support rates for ES proposals, presumably improving their voting accountability, and yet vote in line with their family preferences when it matters the most.

The figure also plots support from ISS, the proxy advisory firm, which existing research finds to significantly influence voting outcomes (Larcker et al., 2015; Malenko and Shen, 2016). Notably, ISS recommends voting in favor of almost all proposals that receive overall support above 20%, and ISS is generally very supportive of ES proposals. For our sample period, ISS recommends voting for 67.5% of ES proposals, similar to the average support of ES funds in ES families.

The graphical evidence suggests that ES funds in non-ES families might vote strategically, changing the sign of their vote in response to the expected voting outcome, consistent with Hypothesis 1. We test this formally by comparing the votes of ES funds in non-ES families with those of non-ES funds in non-ES families, i.e., with funds that belong to the

same category of families but are not ES oriented. We estimate the following specification:

$$Pr(Vote\ For)_{j,f,i,p,t} = \beta_0 Contested_{i,p,t} \times ES(non-ES)_{j,f,t} + \beta_1 Contested_{i,p,t} + \beta_2 ES(non-ES)_{j,f,t} + \delta Controls_{j,f,p,t} + \delta_i \times \gamma_t + \rho_f + \pi_j + \epsilon_{j,f,i,p,t} \quad (2)$$

where $Pr(Vote\ For)_{j,f,i,p,t}$ is equal to one if fund j in family f votes in favor of proposal p cast at firm i at time t, and zero otherwise. $Contested_{i,p,t}$ is equal to one if proposal p receives support in the [45%,55%] interval and zero if the voting outcome is in the ranges [20%,45%) or (55%,80%]. We focus on ES proposals in the [20%,80%] interval because this sample is relatively more homogeneous. These are proposals that receive above average support, and most of them turn out to have a favorable ISS recommendation, which are good indicators of shareholders' expectations about the net benefits of the proposal (Gantchev and Giannetti, 2021). Moreover, all but one of these proposals has an unfavorable management recommendation.

$ES(non-ES)$ is equal to one for ES funds in non-ES families and zero for non-ES funds in non-ES families. Our main coefficient of interest, β_0, captures the differential support for ES proposals of ES funds relative to non-ES funds in non-ES families when the proposal is contested relative to the support for uncontested proposals. We estimate a linear probability model and cluster standard errors at the fund level (Calluzzo and Kedia, 2019).

This specification allows us to control for time-varying determinants of support for ES proposals, $Controls_{j,f,p}$, such as fund and family size, fund stock holdings in the firm in which the proposal is voted, fund turnover, and the expense ratio (Iliev and Lowry, 2015). All fund and family level variables are measured at the record date (or the closest date, but no more than 120 days before the record date). We also include ISS recommendation given the significant influence of ISS in shareholder voting (Cvijanović et al., 2016). We also control for proposal type.[21] We control for time-invariant determinants of support for ES proposals, such as family ρ_f and fund π_j fixed effects, to alleviate concerns that fund and family characteristics might bias our results (Hong and Kostovetsky, 2012; Cvijanović et al.,

[21]There are 46 unique proposal types in ISS, issagendaitemid (e.g., political lobbying disclosure, gender pay gap, recycling). However, only 31 reach at least 20% support to be included in our main specification.

2016; Bolton et al., 2020). All our regressions include firm-by-time (or meeting) fixed effects, $\delta_i \times \gamma_t$. Hence, we compare fund votes within the same meeting, so any variable that does not vary within a meeting cannot explain our results. In alternative specifications, we use family-by-proposal fixed effects; that is, we exploit variation in support within funds of the same family voting on the same proposal at the same company at the same point in time.

The choice of counterfactual is important. We argue that non-ES funds in non-ES families are the most natural. First, comparing the votes of funds in the same type of family diminishes the probability that our results are driven by family-specific omitted variables such as business ties (Cvijanović et al., 2016) and engagement (Azar, Duro, Kadach, and Ormazabal, 2021). Second, conditioning our analysis on family category mitigates concerns that variations in support for ES proposals are explained by the classification of families, which is based on (past) votes. Finally, while our classification of funds into ES and non-ES is likely to misclassify some funds from ES families, misclassification is less likely in non-ES families (see Section 3.2.2 for further details). We therefore use non-ES funds in non-ES families as the main control group and present the results using any of the other control groups (i.e., ES funds in ES families and non-ES funds in ES families) in Section 4.5.

The results when non-ES funds in non-ES families serve as the control group are presented in Table 4. Columns (1) to (3) show the results using fund family ideology as a proxy for family preferences for ES; Columns (4) to (6) show the results using average family support for ES proposals as a proxy. The main coefficient of interest, β_0, is negative and statistically significant in all specifications, consistent with the graphical intuition (Figure 3). That is, ES funds in non-ES families are less likely to support ES proposals when the proposal is more likely to be contested; therefore, their vote is more likely to be pivotal.

The coefficient of $ES(non-ES)$ in Columns (1) and (3) further confirms that ES funds are more likely to vote for ES proposals, even after we control for fund and family characteristics. The results in Column (1) of Panel A indicate that the probability of voting in favor of ES proposals is 21.7% greater for ES funds than for non-ES funds in non-ES families

when the proposal is not contested. This difference shrinks by 13.2% when proposals are contested. The result is quantitatively similar when we use family-by-proposal fixed effects (Column (3)) or the alternative proxies for family preferences (Columns (4) to (6)).[22] These findings suggest that funds tend to align their votes with family preferences when they matter the most.[23] This behavior is unlikely to be consistent with investors' expectations and with those funds' fiduciary responsibilities since evidence suggests that ES fund investors are driven by ES preferences even when these objectives might imply sacrificing financial returns (Riedl and Smeets, 2017; Hartzmark and Sussman, 2019; Barber, Morse, and Yasuda, 2021; Bauer, Ruof, and Smeets, 2021).

These results provide new insights into the study of mutual funds' voting behavior. We find that distinct approaches to ES issues by funds that belong to the same family can develop into differentiated voting behavior. Given the scant dispersion in votes among funds of the same family, it is often assumed that votes are decided at the family level (Morningstar, 2017), and this has led to several studies aggregating the votes of all funds in the same family (Cvijanović et al., 2016; Bolton et al., 2020). Our analysis documents the heterogeneity of votes within families regarding ES proposals and shows that it can reveal sophisticated strategies that respond to conflicts of interest between mutual fund families' ideologies and investors' preferences. Our findings point to the relevance of individual mutual fund managers in explaining their funds' votes beyond family identity, consistent with Hong and Kostovetsky (2012) and Iliev and Lowry (2015). There are two forces that are consistent with our conceptual framework and, combined, explain our results. First, ES funds are more supportive of ES proposals than non-ES funds of the same family type, which contributes to compliance with their fiduciary responsibilities. Second, the votes of ES and non-ES funds

[22]The number of observations differs when using the W-NOMINATE or average support because the number of funds that belong to families classified as non-ES varies depending on how we define ideology. Then, the funds and families included in both panels differ slightly.

[23]We further estimate our specification over the sample of proposals that receive favorable ISS recommendation only and find that the results remain the same (untabulated). Specifically, the coefficient on the interaction term is negative and statistically significant and the economic impact is similar to the results reported in the main specification.

in non-ES families are largely different for uncontested proposals, but their votes are more aligned for contested proposals when their support matters the most.

4.2.1 Predictability of Voting Outcomes

A relevant assumption for the interpretation of our results is that mutual funds can make informed predictions about the contestedness of proposals. Existing evidence shows that institutional investors often consider the probability of their vote being pivotal in their voting decisions (Cvijanović et al., 2016; Zachariadis, Cvijanovic, and Groen-Xu, 2020). We further check the plausibility that mutual funds anticipate whether a proposal is contested in a series of informal meetings with industry practitioners including mutual fund managers, proxy solicitors, and industry experts. We learn that publicly available information from previous years (e.g., voting support for similar proposals), information about the proposal itself (e.g., proposal sponsor, management and proxy advisor recommendations) and firm-specific information (e.g., insider ownership, firm performance on the proposal topic relative to peers) provide a good indication of the upcoming voting outcome (see Section F of the Internet Appendix). Consistently, we also find public statements of prominent mutual fund families that explicitly recognize strategies based on predictions about the probability of their votes being pivotal.[24] This suggests that voting outcomes are predictable to some extent, and that using ex post measures of contestedness can be a good approximation of ex ante expectations.

Based on these interviews and the literature, we estimate the expected voting outcome using variables that are observable to mutual fund managers before the meeting and use those variables that predict voting outcome instead of the observed voting outcome for robustness. In particular, we estimate predicted voting outcome as a function of the support that the same proposal type received in the previous year in all firms in our sample, a dummy equal to one if the firm had a contested ES proposal in the previous year (Gao and Huang, 2024),

[24] Vanguard acknowledges that among the determinants of decisions over securities lending is "whether [they] estimate that voting their shares would affect the shareholder meeting outcome". Available here (Accessed October 14, 2022).

ISS recommendation and management recommendation. We find that all these variables are significantly associated with the voting outcome that a proposal receives. Specifically, these few variables can explain 63.5% of the variation in voting outcome, as indicated by the R2 (see Table IA.2 of the Internet Appendix). These results suggest that the variables that experts suggested to help them predict the voting outcome can provide a good approximation of the ex post outcome.

We next estimate Equation 2 by replacing the variable *Contested* with the ex ante contested variable based on the predicted voting outcome obtained above. We find that for the main coefficient of interest, the coefficient on the interaction term remains negative and statistically significant, and is robust to alternative bandwidths to define ex ante contested (see Table IA.3 of the Internet Appendix). In other words, these results suggest that mutual funds are likely to vote strategically on proposals that are more likely to be contested ex ante. Notably, the results are economically and statistically weaker compared to our main specification with the ex post contested measure, which is not surprising given that our model does not incorporate all information that might be available to managers to predict the voting outcome before casting their shares. For that reason, in the remainder of the paper, we use the ex post measure of contestedness.

4.2.2 Incentives to Vote Strategically

Our conceptual framework shows that strategic voting in ES proposals might arise if there is a tension between ES and financial goals, i.e., $v < 0$ and $\varepsilon > 0$. To evaluate the impact of ES proposals on shareholder value we examine the market reaction to passing an ES proposal. Table 5 presents the results of the difference in abnormal returns between proposals that pass and those that do not.[25] Column (1) presents the results for the sample of ES proposals, allowing for a discontinuous jump at the 50% threshold, and controlling for two polynomials of order 3 on each side of the threshold (e.g., Cuñat, Giné, and Guadalupe, 2012, 2016). The

[25]We use the four factor model as our benchmark model to estimate abnormal returns.

abnormal returns of firms that pass an ES proposal are lower than those of firms that do not pass such proposals. Panel A presents the abnormal returns on the day of the meeting, and Panel B includes the $(-1, 1)$ interval around the meeting day. The abnormal return is -1.4% in the former and -2.4% in the latter, and significant at the 5% level. Column (2) presents nonparametric estimates and shows that the results are economically similar when considering a $\pm 2\%$ interval around the majority threshold, in line with Li et al. (2023). Together these results provide evidence consistent with ES proposals being costly for shareholders, creating incentives for ES funds in non-ES families to vote strategically. Column (3) shows estimates based on the $\pm 10\%$ interval. As expected, we find that the negative coefficient becomes statistically insignificant, indicating that when proposals fail or pass by large margins, the market has already factored in the anticipated voting results into prices.

In Columns (4) and (5), we further show that the passage of both E and S proposals are generally associated with negative abnormal returns, although the results are noisier in these subsamples. This suggests that aggregating E and S proposals seems sensible, as they generate similar frictions. Finally, in Columns (6) and (7), we present the results for governance proposals. We find that the passage of a governance proposal does not have a significant impact on shareholder value in our sample.[26] The estimates are statistically insignificant using the full sample (Column (6)) or a narrow interval around the threshold (Column (7)). These results suggest that ES proposals differ from governance proposals in the type of frictions that they generate, and that good governance practices might be promoted by all funds regardless of their investment objective (Matos, 2020).

4.2.3 Further Evidence on Strategic Voting Using Tighter Subsamples

Our identification has thus far relied on saturating the regression with a wide set of fixed effects that rule out the impact of potentially omitted variables that do not vary within firm-meeting, family, fund or proposal. We conduct additional tests that further tighten our

[26] Using an earlier sample, Cuñat et al. (2012) find positive abnormal returns for this type of proposal.

identification and provide additional support for a causal interpretation of our results.

First, we compare support for ES proposals by the same mutual fund in the same meeting when proposals are contested and when they are not (by augmenting our main specification to include meeting-by-fund fixed effects). This tighter identification excludes the possibility of the results being driven by a different pool of funds voting on contested and uncontested proposals. We present the results in Column (1) of Table 6. The interaction term is negative and statistically significant despite the smaller sample size – by construction, our sample here is restricted to firms for which multiple ES proposals were voted on the same meeting. Notably, the economic impact is greater than the impact that we find absent the meeting-by-fund fixed effects (Column (2) of Table 4) and robust to the alternative proxies for family preferences (Panel A presents the results using ideology, and Panel B presents the results using average family support for ES proposals). This suggests that if omitted variables had an impact on our main specification estimates, it would be to bias our coefficients downward.

Second, we compare support for the same proposal type by the same mutual fund when the proposal is contested and when it is not by including proposal type-by-fund fixed effects in the main specification. The results, presented in Column (2) of Table 6, remain negative and statistically significant, providing further evidence that ES funds in non-ES families vote strategically and that they are less likely to support the same proposal type if they expect it to be contested. These results further show that ES funds in non-ES families do not vote in a one-size-fits-all manner based on the proposal type without considering firm-specific factors (Calluzzo and Kedia, 2019). Rather, for the same resolution, they are more likely to support it when their vote is less likely to matter.

4.3 Retail vs. Institutional Funds

Our conceptual framework shows that mutual funds have incentives to engage in strategic voting if investors monitor their votes and are able to impose some discipline. Meanwhile, monitoring should not be sophisticated enough to detect changes in voting patterns around

the majority threshold. This section sheds light on the drivers of our results. We discuss the current disclosure framework and study the differences in voting patterns between retail and institutional funds to exploit their differences in monitoring capacity and incentives. Furthermore, we examine how ES fund flows respond to fund support for ES proposals to identify whether investors hold funds accountable for their votes.

Since 2003, mutual funds have been required to disclose their voting records for the 12-month period ending on June 30, by no later than August 31, using Form N-PX. This regulation is intended to discourage voting that is inconsistent with fund investors' best interests. However, there are several reasons to believe that Form N-PX is not optimally designed given its objectives. These forms can be excessively long due to the number of voting matters (sometimes exceeding 1,000 pages) and the number of funds included in the reports. Forms N-PX are not filed in machine-readable language, and they often contain unclear and inconsistent descriptions of voting matters. This means that finding a particular fund's voting record or a specific vote might be particularly difficult for fund investors.[27] In addition, Form N-PX does not provide the voting outcome for each proposal, but only the vote cast by the filling fund as well as the management recommendation. As noted by the former Acting Chair of the SEC A.H. Lee, "Its hard to see how retail investors can formulate an accurate and reliable picture of how a fund votes on ESG issues when they are forced to parse voluminous forms that often use bespoke shorthand for shareholder proposals" (March 17, 2021).

Due to the complexity of processing voting information, not all fund investors will have the ability to monitor mutual funds' votes. Prior evidence shows that retail fund investors typically rely on less sophisticated information to assess fund performance, such as ratings (Evans and Sun, 2021; Gantchev, Giannetti, and Li, 2024). In contrast, institutional funds are more sensitive to useful measures of performance, such as risk-adjusted returns (Del Guercio and Tkac, 2002; Evans and Fahlenbrach, 2012). Thus, we argue that institutional fund investors are in a better position to monitor voting records relative to retail fund investors

[27]See the 2021 Proposed Rule for a comprehensive discussion of the limitations of the current disclosure framework, available here (Accessed October 14, 2022).

and predict that the strategic voting documented above is driven by institutional funds.

In Table 7, we present the results for institutional funds (Columns (1) to (3)) and retail funds (Columns (4) to (6)) separately. Following Evans and Fahlenbrach (2012), we define institutional funds as those funds with only institutional share classes, while the rest are classified as retail funds. Panel A shows the results using investor ideology to proxy for family preferences; Panel B shows the results using average family support for ES proposals.

Consistent with our predictions, the results indicate that the strategic voting behavior documented above is driven by institutional funds. The interaction term is statistically significant for institutional funds (Columns (1) to (3)) but statistically indistinguishable from zero for retail funds (Columns (4) to (6)). Columns (1) and (3) show that institutional ES funds are 28.4% more likely to support uncontested ES proposals than non-ES funds in non-ES families, both after family fixed effects and proposal-by-family fixed effects are included. However, the negative coefficient on the interaction term indicates that they are also less likely to support ES proposals close to the majority threshold.

Columns (4) to (6) show that both the coefficient on $ES(non-ES)$ and the interaction term $ES(non-ES) \times Contested$ are statistically equal to zero and are economically small. This means that retail ES and non-ES funds in non-ES families are equally supportive of ES proposals both in contested and uncontested proposals, i.e., retail ES funds in non-ES families do not follow a differentiated voting strategy relative to non-ES funds. This is in line with retail fund investors having little capacity to monitor their funds' votes. When fund investors cannot hold funds accountable for their votes, funds do not need to engage in strategic voting to mask their lack of support for ES proposals. Indeed, from the prism of our conceptual framework, this finding suggests that retail ES funds in non-ES families do not face any cost of voting against the preferences of their investors. As a result, their voting policies are fully aligned with the preferences of their family. Prior evidence documents that ES funds vote in a way consistent with their stated objectives (Curtis et al., 2021; Dikolli et al., 2022) and conclude that "Our empirical results provide no justification for regulatory

invention" (Curtis et al., 2021, p.450). In contrast, our results suggest that retail ES funds in non-ES families do not vote differently from non-ES funds and therefore might not reflect their investor preferences in voting.

4.3.1 ES Fund Support for ES Proposals and Fund Flows

An interesting aspect not yet explored is whether one can empirically detect funds' gains from this strategic behavior. In our conceptual framework, these gains are obtained by avoiding the cost of investor discipline. One plausible proxy is fund flows. We would expect this type of attempt to increase the average ES support provided by ES funds to be associated with increased fund flows. To this end, we study mutual fund flows after the disclosure of voting records (at the end of August each year). We aggregate ES votes for the entire proxy season at the fund level, and study the association between average support for ES proposals and fund flows over different time windows (3, 6, 9 and 12 months) after the publication of the Form NP-X. Following prior literature, we control for fund assets, age, the expense ratio, turnover, risk-adjusted performance and lagged flows (Cooper et al., 2005; Couvert, 2020). Finally, we include year and family fixed effects in all our specifications.[28]

We present the results in Table 8. Columns (1) to (4) present the results for institutional funds, and Columns (5) to (8) present the results for retail funds. *Low_Support* is a dummy equal to one if the fund supports less than 30% of ES proposals during the proxy season (this value is similar to the mean support for ES proposals in our sample); *ES_Fund* is a dummy equal to one if the fund is ES. The main coefficient of interest is the interaction of $Low_Support \times ES_Fund$, which indicates the sensitivity of fund flows to low support for ES proposals for ES funds.[29]

The negative coefficients on the interaction terms in Columns (1) to (4) indicate that low average support for ES proposals by institutional ES funds is associated with lower fund

[28] We restrict the sample to funds that cast more than 5 votes on ES proposals (and in robustness tests, we consider a minimum of 10 votes). We find similar results in both cases.

[29] In untabulated results we obtain consistent results using a 20% threshold or 10% threshold to define *Low_Support* and a continuous variable for support for ES proposals.

flows. The results are statistically and economically stronger when considering longer event windows. The interaction term in Columns (5) to (8), on the other hand, shows that retail ES fund flows are not significantly associated with the support for ES proposals provided by these funds during the proxy season. These results suggest that mutual funds have incentives to engage in strategic voting that inflates average support for ES proposals when fund investors have the ability to monitor fund voting records and discipline fund managers by withdrawing funds. We also find that non-ES funds do not react to ES votes (for institutional or retail funds), consistent with prior literature showing little sensitivity of fund flows to the disclosure of voting records (Iliev and Lowry, 2015; Couvert, 2020).[30]

In summary, these results provide a rationale for why funds engage in strategic voting: institutional ES funds have lower flows when they provide little support for ES proposals on average, creating incentives for institutional ES funds to engage in strategic voting. We find that retail ES fund flows do not react to low support for ES proposals; therefore, mutual funds do not need to hide the low support for ES proposals. Taken together, these results are consistent with institutional investors exerting some monitoring over fund votes and disciplining managers when they do not vote according to their preferences.

4.4 Family Ideology vs. Friendliness Toward Firm Management

We suggest that our results are driven by conflicts of interest between funds' advertised goals and family preferences toward ES. It could be argued, however, that ES funds in non-ES families might simply be more friendly to firm management in general, not only to ES proposals, and would therefore be more likely to follow management's recommendation when a proposal is contested (i.e., vote against it). This alternative explanation for strategic behavior suggests that pressures to oppose a contested proposal come from firm managers wary of losing a vote

[30]We further split the sample into ES and non-ES families and find that only institutional ES funds in non-ES families are penalized, while we do not find any significant result in ES families. This is sensible since ES institutional investors might be aware of potential conflicts in non-ES families and hence might pay more attention to votes (see Internet Appendix H for further detail).

and persuading voters to oppose the contested proposal. Previous evidence shows that managers can exploit business ties with funds (Cvijanović et al., 2016) or persuade friendly voters to vote in line with their recommendations (Bach and Metzger, 2019). In this section, we perform additional tests that further contribute to ruling out these alternative explanations.

We run a placebo test estimating Equation 2 for the sample of shareholder-sponsored governance proposals, as opposed to ES proposals. Recall that management almost always recommends voting against ES proposals. Hence, voting in favor of these proposals is equivalent to voting against management. For consistency with our prior analyses, we drop governance proposals that received favorable management recommendations.

Table 9 presents the results. Columns (1) and (2) present the results for all governance proposals, and Columns (3) and (4) present the results for the subsample of firm meetings that received at least one ES proposal. The latter account for the fact that firms with governance proposals are different in terms of observable characteristics from firms with ES proposals (see Section E of the Internet Appendix). In Columns (1) and (3), we control for meeting, proposal type, and family and fund fixed effects. The interaction term, i.e., the main coefficient of interest, is statistically indistinguishable from zero and economically small, suggesting that ES funds in non-ES families do not vote strategically on governance proposals. These results hold for both proxies of family ideology (Panels A and B).

In Columns (2) and (4), we include proposal-by-family fixed effects to compare support for the same proposal by funds of the same family. The coefficient of interest even changes sign and becomes positive, again indicating that strategic behavior is specific to ES proposals and reinforcing the interpretation of our results based on conflicts between family preferences and funds' fiduciary duties. Our results are also consistent across different subsamples, i.e., when using all proposals or when restricting the sample to firms in which at least one ES proposal was cast.

To further evaluate the influence of management on the voting outcome, we directly test whether there is evidence of manipulation of the voting outcome around the 50% approval

threshold. If management does not influence the voting process, we would expect the density of ES proposals to be smooth around the passage threshold. Because the exact voting outcome is unknown when a proposal is initially put on the agenda and shareholder proposals can only be withdrawn by shareholders (but not by management), a sharp decrease in the density of proposals to the right of the approval threshold would provide evidence that management systematically affects the outcome of contested ES proposals. We do not find evidence of manipulation around the 50% approval threshold (see Section G of the Internet Appendix).

Overall, the results presented in this section suggest that management is unlikely to systematically influence voting outcomes in contested ES proposals, and further support the idea that ES and governance proposals differ in the type of frictions that they generate.

4.5 Alternative Control Groups

In our main analysis, we use non-ES funds in non-ES families as a control group. There are two good reasons to consider alternative counterfactuals. First, it could be that the strategic voting behavior that we identify is common across all ES funds, regardless of their family preferences. For instance, ES funds could use the withdrawal of ES proposals as a bargaining chip. That is, they may engage in negotiations by which they withdraw ES proposals that they previously submitted in exchange for ES policies that managers would otherwise be unwilling to adopt (see e.g., Matsusaka, Ozbas, and Yi, 2019). ES funds in ES families presumably have the same (if not stronger) incentives to engage in a strategy that uses ES proposals as a bargaining chip to coerce managers, so using ES funds in ES families as an alternative control group would help us rule out this alternative explanation. Second, one may wonder whether our results are driven by the selection of the counterfactual rather than by ES funds in non-ES families voting strategically. For instance, it could be argued that our results in the main analyses are driven by an increase in support for ES proposals of non-ES funds in non-ES families, as opposed to a decrease in support for ES funds in non-ES families, as we claim. We use alternative control groups (ES and non-ES funds in

ES families) to show that our results are not driven by the counterfactual selection.

We present the results using ES funds in ES families as the control group in Table 10 and non-ES funds in ES families in Table 11. Column (1) reports the results for all funds together; in Columns (2) and (3), we present the results for institutional and retail funds, respectively. In Column (4), we address the potential misclassification of non-ES funds in ES families. In Panel A, we use investor ideology to classify families, and in Panel B, we use average support rates. In all cases, we include meeting, proposal type, family and fund fixed effects and control for time-varying fund and family characteristics, in line with our main specification.

The results in Table 10 show that the interaction term remains negative when we use ES funds in ES families as the control group, regardless of how the family is defined (Column (1)). The results are economically and statistically significant for institutional funds only (Column (2)) but not for retail funds (Column (3)), consistent with the idea that monitoring of votes is more likely among more sophisticated fund investors (see also Section 4.3). The coefficient in Column (1) of Panel A in Table 10 means that the probability of voting in favor of the proposal drops by 11.3% relative to that of ES funds in ES families when the proposal is contested. These results indicate that the strategic voting documented in the previous sections is not common to all ES funds regardless of their family preferences for ES. They further suggest that our results are driven by conflicts of interest within the family.

As discussed before, it could be argued that families might prefer to engage directly with firm managers as opposed to voting against them (McCahery, Sautner, and Starks, 2016) or to "trade votes" in exchange for actions to address issues such as carbon emissions (Azar et al., 2021). Not only is this unlikely given that we do not find a similar result for governance proposals, but this explanation falls short in that we do not find results consistent with it when we use ES funds in ES families as a control group since these funds could use similar strategies to make real changes.

The results in Table 11 indicate that the coefficient on the interaction term also remains negative and significant when we use non-ES funds in ES families as the counterfactual,

regardless of the family definition (Column (1)). The coefficient in Panel A means that the probability of voting in favor of the proposal drops by 19.8% when we use non-ES funds in ES families as the control group. The results are economically and statistically stronger when we consider institutional funds only (Column (2)). These results, together with the results presented in Table 10, provide reassurance that our findings are not driven by the selection of the counterfactual and that our conclusions remain unchanged regardless of which control group we consider.

One challenge with using funds in ES families as a counterfactual is the potential misclassification of some ES funds (as discussed in Section 3.2.2). In particular, some ES funds are incorrectly excluded from the control group of ES funds in ES families, and some ES funds are incorrectly considered non-ES in the control group of non-ES funds in ES families. To address this potential concern, we rely on Morningstar (2019) to identify families that broadly incorporate ES into their products and assign *all* their funds to the ES category.[31] The results are reported in Column (4) of Tables 10 and 11 for ES funds in ES families and non-ES funds in ES families, respectively. Unsurprisingly, the results obtained are quantitatively very similar.

Finally, we run a throughout regression specification, where we jointly estimate interactions of the different fund categories vis-à-vis non-ES funds in non-ES families. The results, presented in Table IA.7 of the Internet Appendix show that non-ES funds in non-ES families are less supportive of ES proposals relative to other fund categories in uncontested proposals (as indicated by the coefficients on ES(non-ES), ES(ES) and non-ES(ES)). It also shows that the reduction in support for ES proposals around the majority threshold is unique to ES funds in non-ES families, and it does not occur for other funds (i.e., ES funds in ES families or non-ES funds in ES families, as indicated by the interaction with the variable Contested). Importantly, the main coefficient of interest (ES-nonES x Contested) is economically and statistically stronger in this specification, providing reassurance that our results are not driven by the omission of the other two categories of funds.

[31] These families are Allianz Global Investors, Brown Investment Advisory, Calvert, MMA Capital Management, and PowerShares Capital Management. These families are always classified as ES in our sample.

4.6 Additional Analyses and Robustness Tests

In additional analyses, we investigate which proposals are driving the results. Nearly 50% of the votes in our main specifications are related to political contributions and lobbying disclosures. Proposals requiring firms to report on climate change, sustainability, equal employment opportunities (EEO) or greenhouse gas (GHG) emissions contribute nearly 25% of the votes. We estimate our main specification for social proposals, social proposals excluding political contributions and lobbying disclosure, and environmental proposals separately and find that the interaction term is negative and statistically significant for all types of proposals (we present these results in Section I of the Internet Appendix). These results suggest that strategic voting is widespread and is not specific to the "E" or "S" dimension.

We further check the sensitivity of our results to alternative definitions of ES proposal and of the main dependent and independent variables, and find that the results are robust to the choices made in our main analysis. We report all these results in Section J of the Internet Appendix. We first include in our main specification proposals classified as governance by ISS but that can be considered ES. Similar to Morgan et al. (2011), we find that some resolutions that are described as GOV could be classified as ES: (i) board diversity, (ii) linking of executive pay to social criteria, (iii) reporting on pay disparities, (iv) limiting executive compensation, (v) limiting/prohibiting executive stock-based awards, (vi) establish environmental/social issue board committee, and (vi) require environmental/social issue qualification for director nominees. We estimate our main specification after reclassifying these proposals and find quantitatively the same results (reported in Columns (1) and (2) of Table IA.8). We also exclude abstentions following Bolton et al. (2020) and include only 'for' and 'against' votes in the variable $VoteFor$ (see Columns (3) and (4) of Table IA.8). If anything, the results are stronger after dropping abstentions.

In our main specifications we use a 70% threshold to separate ES and non-ES families. In Table IA.9 in Section J of the Internet Appendix, we use two alternative thresholds: in

Columns (1) and (2) we use 80%, and in columns Columns (3) and (4) we consider 60%. Overall, the results are consistent with those presented in the benchmark analysis.

We also conduct several robustness tests on the definition of a 'contested' proposal, and on the interval around the approval threshold considered in our main tests. These results are presented in Table IA.10 in Section J of the Internet Appendix. In particular, we replace *Contested* with the distance from the 50% voting outcome as a continuous variable (Columns (1) and (2)), we consider as *Contested* those proposals in the [40%,60%] interval (Columns (3) and (4)), we consider a subsample of proposals that are closer to the threshold and are arguably more comparable, i.e., proposals in the interval [30%, 70%] (Columns (5) and (6)), and we consider the tighter interval of proposals with the wider definition of *Contested* (Columns (7) and (8)). In Column (10), we use all proposals (i.e., interval [0%,100%]) with our main definition of *Contested*. All the results are consistent with our main specification, suggesting that our results are not driven by the subsample of proposals used in the main specification or the definition of *Contested*. Finally, in untabulated results, we exclude funds with strings related to religious values, and our results remain unchanged.

5. Concluding Remarks

Attention to and interest in ES issues have increased exponentially in the past decade by citizens worldwide, governments and regulators, individual investors and intermediaries such as mutual funds (Hartzmark and Sussman, 2019; Azar et al., 2021; Bolton and Kacperczyk, 2021; Gibson Brandon et al., 2022; Heath, Macciocchi, Michaely, and Ringgenberg, 2023). At the center of the debate is whether ES funds indeed select firms that rank high on the ES scale, whether they try and are able to affect firms' ES policies (e.g., Heath et al., 2023), and the extent to which they "greenwash." We study how U.S. mutual funds vote on ES proposals, with particular attention given to ES funds. To better understand funds' incentives, we distinguish between those who belong to families with different preferences for ES matters, which we call ES and non-ES families. Our analysis provides evidence of incentive

conflicts that affect funds' support for ES proposals and, in particular, of strategic voting behavior that arguably seeks to inflate ES support records.

We find that ES funds are more supportive of ES proposals than are non-ES funds, consistent with their stated objective and fiduciary duty toward their investors. Importantly, we show that average support rates might not be representative of their true support. We find that ES funds in non-ES families are relatively supportive of ES proposals that receive either large or small aggregate support. However, when their vote is more likely to be pivotal, they are much less supportive of ES proposals. Given the tension between ES and financial goals, this strategic voting behavior allows ES funds in non-ES families to portray themselves as supporters of ES policies, on average, while accommodating family preferences when their support matters the most.

Our results are driven by institutional funds, whose investors have the capacity and incentives to monitor support for ES proposals, and penalize funds with lower flows when average support for ES proposals is low. Importantly, we do not find a similar strategic voting pattern in governance proposals, which suggests that the results are specific to ES proposals and are unlikely to be driven by other omitted variables that we cannot control for in our specification. We do not find evidence of strategic voting by ES funds in non-ES families, which are not subject to conflicts of interest.

Our findings are relevant to both regulators and mutual fund investors. We show that the current regulatory framework might not guarantee the representation of investor preferences over ES issues by their asset managers. Our analysis therefore prompts a call for increased scrutiny of the voting policies of ES-oriented funds. We show that incentive conflicts within fund families should be addressed to solve this problem and that ES-driven investors should pay particular attention to family-wide voting policies on ES matters.

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A. Appendix: Derivation of Results in Section 2

Proof of Proposition 1. ES funds in ES families vote according to ES preferences only. Hence, they always feature $\mathbb{1}_{i,\{v,\varepsilon\}} = 0$ and vote 'for' if $\beta\left[v + \alpha\varepsilon\right] \geq 0$ and 'against' otherwise. Similarly, non-ES funds in non-ES families vote according to non-ES preferences only, so $\mathbb{1}_{i,\{v,\varepsilon\}} = 0$ and they vote 'for' if $\beta v \geq 0$, and 'against' otherwise. The corresponding voting policy thresholds follow directly.

Funds with investors and families with distinct preferences face a conflict over proposals such that $v \in [-\alpha\varepsilon, 0)$. In the ES funds of non-ES families, families wish these proposals to fail, whereas investors are keen for them to pass. These funds vote 'for' if $\beta v \geq -\mu k$ and 'against' otherwise. Conversely, in non-ES funds of ES families, families want these proposals to pass, whereas investors want them to fail. Hence, these funds vote 'for' if $\beta\left[v + \alpha\varepsilon\right] - \mu k \geq 0$ and 'against' otherwise. The corresponding voting policy thresholds follow directly.

The relation among voting policies. The following corollary characterizes the relationship among the voting policy thresholds of the four fund categories.

Corollary 2 *The relation among the voting policy thresholds of the four groups of funds is determined by the cost of voting against the preferences of investors relative to the probability of being pivotal $\mu k/\beta$ as follows:*

a) If $\frac{\mu k}{\beta} \geq \alpha\varepsilon$, then all funds vote in line with the interest of their investors, i.e., $v^*_{E(E)} = v^*_{E(nE)}$ and $v^*_{nE(E)} = v^*_{nE(nE)}$. Instead, if $\frac{\mu k}{\beta} < \alpha\varepsilon$, funds might vote against the interest of their investors, i.e., $v^*_{E(E)} < v^*_{E(nE)}$ and $v^*_{nE(E)} < v^*_{nE(nE)}$.

b) If $\frac{\mu k}{\beta} \geq \frac{\alpha}{2}\varepsilon$, then ES funds in non-ES families are more supportive of ES proposals than are non-ES funds in ES families, i.e., $v^*_{E(nE)} < v^*_{nE(E)}$. Instead, if $\frac{\mu k}{\beta} < \frac{\alpha}{2}\varepsilon$, the order reverses, i.e., $v^*_{nE(E)} < v^*_{E(nE)}$.

c) If $\frac{\mu k}{\beta} = 0$, then all funds vote in line with the interest of their families, i.e., $v^*_{E(E)} = v^*_{nE(E)}$

and $v^*_{nE(nE)} = v^*_{E(nE)}$.

The derivation of Corollary 2 follows immediately from Proposition 1; Figure A1 depicts the results. Intuitively, when the relative cost of voting against the interest of investors $\mu k/\beta$ is high, funds are keen to comply with their fiduciary responsibilities, so family preferences do not matter: $v^*_{nE(E)} = v^*_{nE(nE)}$ and $v^*_{E(nE)} = v^*_{E(E)}$. As the cost diminishes, funds subject to conflicting preferences may choose to deceive investors in favor of their families, so $v^*_{nE(E)} < v^*_{nE(nE)}$ and $v^*_{E(E)} < v^*_{E(nE)}$. Eventually, for a sufficiently small cost, family preferences become so relevant that funds' voting policies are more aligned with their family interests than with those of their investors. Then, ES funds in non-ES families become less supportive of ES proposals than non-ES funds in ES families, i.e., $v^*_{nE(E)} < v^*_{E(nE)}$.

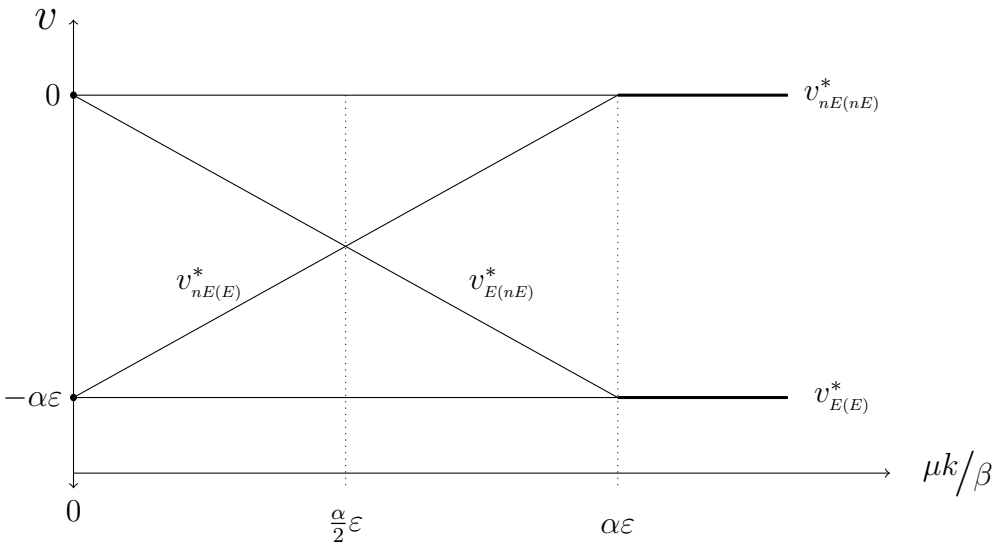


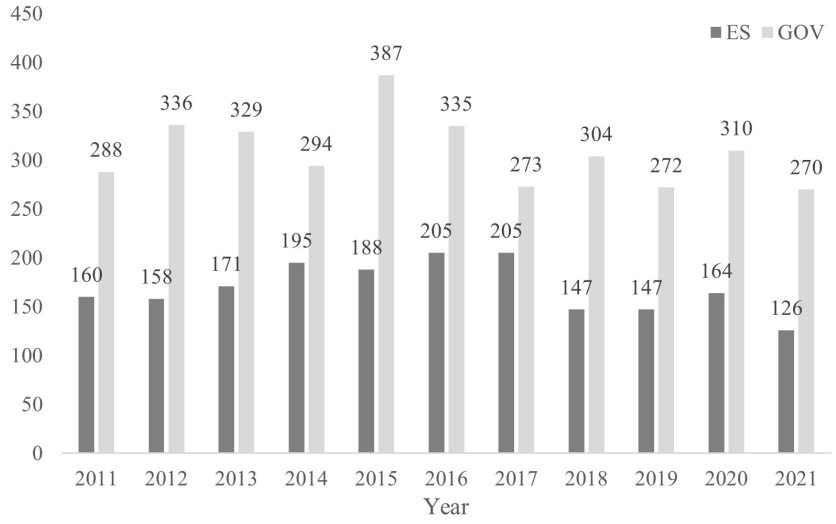
Figure A1. Voting threshold policies as a function of the cost of voting against investors' interests relative to the probability of being pivotal.

Data Availability

The data underlying this article were provided under license. Given the proprietary nature of the data, we are not allowed to make them available to third parties. A pseudo dataset and all Stata codes for replication are provided in the Supplementary Material section.

Figure 1. Environmental and social, and governance proposals by year and voting outcome. This figure plots the number of environmental and social (ES) and governance proposals (GOV) at annual shareholder meetings distributed by year (Figure 1a) and by voting outcome in 10% intervals (Figure 1b). The classification of proposals is primarily given by Institutional Shareholder Services (ISS)—ISS classifies proposals as either socially responsible investment (ES) or governance (GOV) proposals. Our sample excludes proposals with supermajority rules.

(a) Number of ES and governance proposals voted on each year



(b) Number of ES and governance proposals by voting outcome

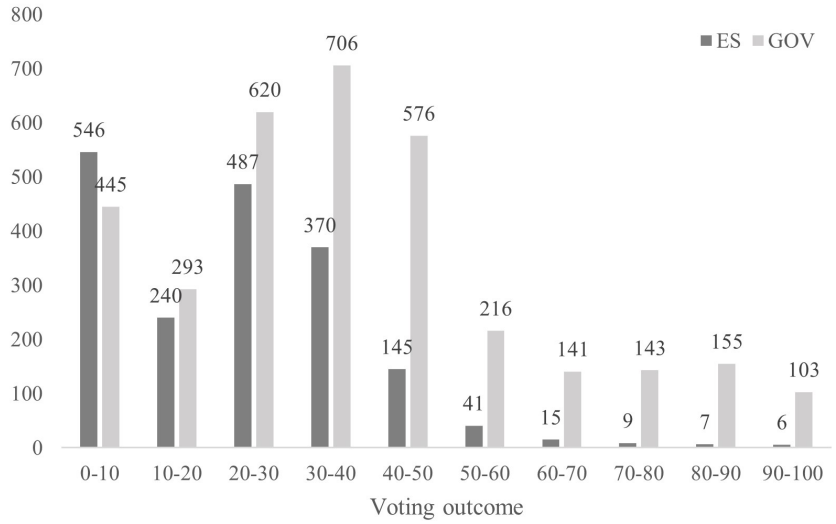
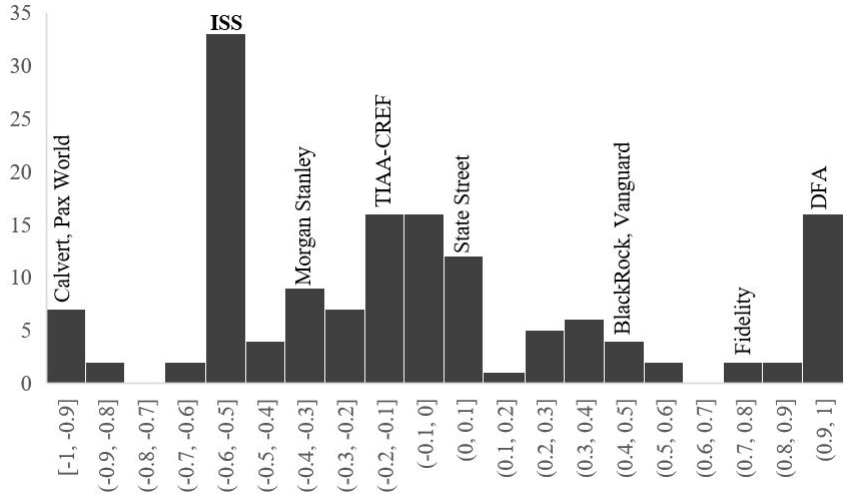


Figure 2. Fund family preferences. This figure plots histograms of the distribution of fund family preferences according to our two estimation criteria for the year 2012, for comparability with Bolton et al. (2020). Figure 2a reports the distribution of families by ES ideology estimated using W-NOMINATE. Families' ideal points are mapped over the interval $[-1, 1]$, with the ES-oriented families arbitrarily chosen to appear on the left. The vote of a family is considered to be the vote of the majority of its funds. Figure 2b reports the distribution of families by their mean proportion of votes in favor of ES proposals relative to their total number of votes. Average support is multiplied by -1 to preserve the order from left (more supportive) to right (less supportive).

(a) W-NOMINATE



(b) Average support

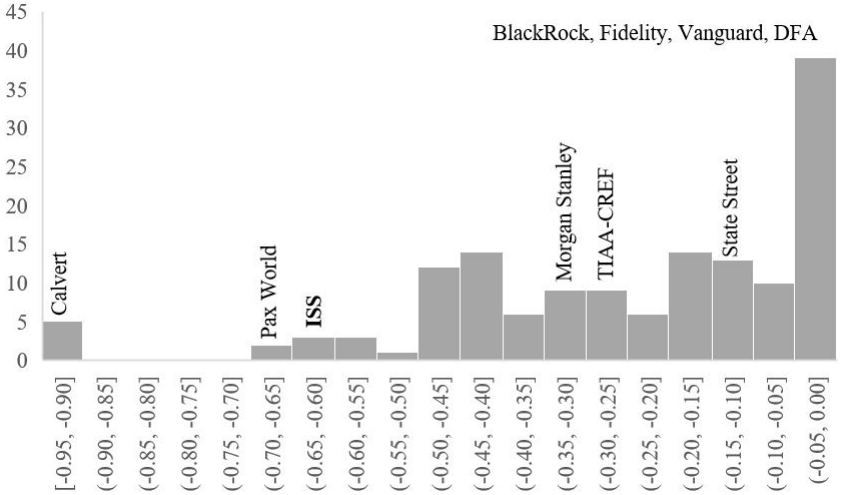


Figure 3. Support for ES proposals by fund-family categories. This figure plots the average fraction of votes in favor of ES proposals by funds within the four fund-family categories against the voting outcome of the proposals. ES families are plotted in gray and non-ES families in orange. ES funds are plotted with dashed lines and non-ES funds with solid lines. The dashed dotted line shows ISS average support for ES proposals. The dotted line is a 45-degree line that depicts average support. A fund-family category exhibits support above (below) average when its corresponding line is above (below) the 45-degree line.

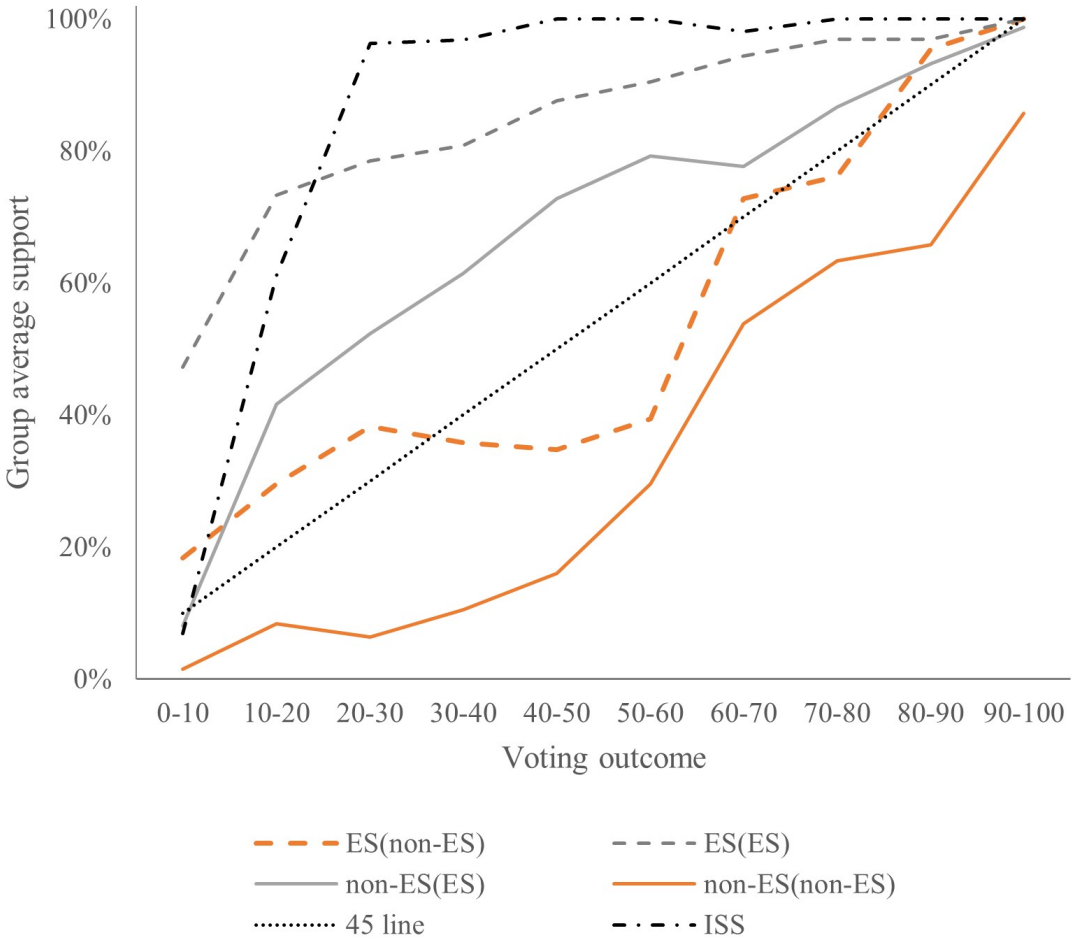


Table 1. Average support for ES proposals by fund and family category. This table reports the average support for ES proposals of each fund and family category. Panel A reports the percentage of votes in favor of ES proposals of each fund category (rows) and each family category (columns) based on the W-NOMINATE score. The bottom row and the right column report average support rates conditional on family and fund categories only; the bottom-right cell provides the unconditional percentage of votes in favor. Panel B reports the same information for the family classification based on average support rates.

Panel A: W-NOMINATE

		Family		
		ES	non-ES	
Fund	ES	71.50%	31.57%	59.35%
	non-ES	41.82%	7.47%	27.32%
		43.01%	8.06%	28.39%

Panel B: Average support

		Family		
		ES	non-ES	
Fund	ES	69.00%	31.18%	59.35%
	non-ES	41.67%	6.34%	27.32%
		42.81%	6.87%	28.39%

Table 2. Family category transition matrix. This table reports the probability that a family preserves or changes category (ES or non-ES) in the following period for our two classification methods. Rows indicate family classification at any period *t*, and columns indicate the classification at period *t+1*, with the intersection cell reporting the associated probability. Panel A reports the transition matrix for our classification based on W-NOMINATE scores. A family classified as ES in year *t* is classified as ES in the following year with a probability of 92.40% and as non-ES with a probability of 7.60%. Panel B reports the transition matrix for our classification based on average support rates. An ES family preserves its category the following year with probability 93.40%, and a non-ES family preserves its category with probability 83.90%.

Panel A: W-NOMINATE

		t+1		
		ES	non-ES	
t	ES	92.40%	7.60%	100%
	non-ES	17.78%	82.22%	100%
		70.40%	29.60%	100%

Panel B: Avg. support

		t+1		
		ES	non-ES	
t	ES	93.40%	6.60%	100%
	non-ES	16.10%	83.90%	100%
		70.52%	29.48%	100%

Table 3. Fund and family characteristics. This table reports the characteristics of the funds and families that voted for the ES proposals in our sample. The first four columns report key statistics for all ES proposals. The last four columns report key statistics for the ES proposals that received aggregate support within the interval [20%,80%], which is the main subsample that we use in our multivariate analysis. *ES_Fund* is a dummy variable equal to one if the fund name contains at least one ES-related string and zero otherwise. *ES_Family (W-NOMINATE)* is a dummy variable equal to one if the family is in the bottom 70% of the W-NOMINATE score and zero otherwise. *ES_Family (Avg. Support)* is a dummy variable equal to one if the family is in the bottom 70% of the average family support and zero otherwise. *Fund Own (SO)* equals the fund's percentage ownership of shares outstanding of the firm for which a proposal is voted on at the record date (or the closest date). *Fund Own (TNA)* is the portfolio weight of the firm for which a proposal is voted on in a fund's portfolio measured by total net assets (TNA). *Ln_Fund* equals the natural logarithm of a fund's TNA. *Ln_Family* is the natural logarithm of sum of funds' TNA. *Turnover ratio* equals a fund's minimum between aggregated sales and purchases of securities over its TNA. *Expense ratio* is the dollar value of a fund's expense ratio relative to its TNA. *Institutional fund* equals one if the fund only has institutional share classes. *Mgt_For* is a dummy variable equal to one if firm management recommends voting in favor of a proposal. *ISS_For* is a dummy variable equal to one if ISS recommends voting in favor of a proposal.

	All ES proposals				Voting outcome [20,80]			
	Obs	Mean	S.D.	Mdn	Obs	Mean	S.D.	Mdn
ES_Fund	878,985	0.034	0.181	0.000	479,862	0.035	0.185	0.000
ES_Family (W-N)	878,985	0.582	0.493	1.000	479,862	0.589	0.492	1.000
ES_Family (Avg. S)	878,985	0.599	0.490	1.000	479,862	0.606	0.489	1.000
%FundOwn (SO)	769,838	0.043	0.141	0.004	421,178	0.046	0.148	0.004
% FundOwn (TNA)	769,838	1.175	1.563	0.610	421,178	1.072	1.539	0.497
Ln_Fund	878,985	6.240	2.185	6.290	479,862	6.258	2.201	6.314
Ln_Family	878,985	10.736	2.142	10.656	479,862	10.773	2.148	10.675
Turnover ratio	675,300	0.637	0.833	0.380	370,349	0.634	0.843	0.380
Expense ratio	673,992	0.007	0.005	0.007	369,491	0.007	0.005	0.007
Institutional fund	686,110	0.385	0.486	0.000	375,962	0.402	0.490	0.000
Mgt_For	878,985	0.003	0.054	0.000	479,862	0.000	0.020	0.000
ISS_For	878,985	0.640	0.480	1.000	479,862	0.970	0.169	1.000

Table 4. Evidence from contested proposals. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls (see Eq. 2). *Contested* is a dummy equal to one if the proposal outcome is between [45% and 55%] and zero if it is in the interval [20% and 45%) or (55% and 80%]. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is a non-ES fund from a non-ES family. Columns (1) to (3) present the results using W-NOMINATE to measure family preferences toward ES, while in Columns (4) to (6), we present the results using average support for ES proposals (both measured at $t-1$). The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

	Pr(Vote for)					
	(1)	(2)	(3)	(4)	(5)	(6)
	W-NOMINATE			**Average support**		
ES(non-ES) x Contested	−0.132***	−0.088**	−0.115***	−0.150***	−0.102***	−0.129***
	(−3.200)	(−2.372)	(−2.832)	(−3.360)	(−2.673)	(−2.896)
ES(non-ES)	0.217***		0.208***	0.238***		0.228***
	(3.272)		(2.936)	(3.396)		(3.039)
Contested	0.067***	0.066***		0.069***	0.068***	
	(4.868)	(4.764)		(4.780)	(4.681)	
FundOwn_TNA	−0.006***	−0.004***	−0.003***	−0.006***	−0.004***	−0.003***
	(−4.188)	(−3.469)	(−2.762)	(−5.025)	(−3.862)	(−2.984)
FundOwn_SO	0.013	−0.002	0.007	0.007	−0.006	0.005
	(1.312)	(−0.294)	(0.640)	(0.711)	(−0.824)	(0.527)
Ln_Fund	−0.004**	−0.007	−0.002	−0.003*	−0.006	−0.001
	(−2.283)	(−1.466)	(−0.999)	(−1.679)	(−1.511)	(−0.702)
Ln_Family_TNA	−0.025*	−0.015		−0.029**	−0.029**	
	(−1.698)	(−0.833)		(−2.391)	(−2.268)	
Turnover ratio	0.002	−0.011*	−0.005*	0.002	−0.017***	−0.003
	(0.572)	(−1.795)	(−1.665)	(0.439)	(−3.629)	(−1.122)
Expense ratio	−0.757	−13.007*	2.838**	−0.810	−10.400**	1.477*
	(−0.654)	(−1.918)	(2.539)	(−0.886)	(−2.213)	(1.827)
ISS_For	0.015	0.015		0.021	0.021	
	(0.935)	(0.927)		(1.330)	(1.319)	
Observations	123,515	123,328	117,239	122,620	122,434	116,312
Adjusted R-squared	0.339	0.449	0.800	0.290	0.391	0.800
Meeting FE	Y	Y		Y	Y	
Proposal type FE	Y	Y		Y	Y	
Family FE	Y	Y		Y	Y	
Fund FE		Y			Y	
Family x Proposal FE			Y			Y

Table 5. Abnormal returns around the majority threshold. This table shows the abnormal returns around the passage of shareholder proposals. Panel A presents the abnormal results on the day of the meeting and Panel B considers a window from the day before to the day after the meeting. Columns (1) to (3) present the results for ES proposals, Columns (4) and (5) for E and S proposals, respectively. Columns (6) to (8) show the results for governance proposals. Columns (1), (4), (5) and (6) include a third order polynomial and the reported t-statistics are clustered at the firm level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

Panel A	CAR(0)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Pass	−0.014**	−0.014*	−0.004	−0.027**	−0.010	0.002	0.002	0.001
	(−2.140)	(−1.789)	(−1.218)	(−2.070)	(−1.265)	(1.025)	(0.637)	(0.925)
Observations	1,761	24	175	492	1,269	3,231	123	752
Adjusted R-squared	0.004	0.087	0.003	0.023	0.000	0.000	−0.005	−0.000
Proposal	ES	ES	ES	E	S	G	G	G
Interval	All	2%	10%	All	All	All	2%	10%
Polynomial order	3			3	3	3		
Panel B	CAR(−1, 1)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Pass	−0.024**	−0.029*	−0.009	−0.008	−0.033**	0.002	−0.004	0.000
	(−2.211)	(−2.071)	(−1.540)	(−0.356)	(−2.562)	(0.559)	(−0.720)	(0.047)
Observations	1,761	24	175	492	1,269	3,231	123	752
Adjusted R-squared	0.002	0.125	0.008	−0.003	0.003	−0.001	−0.004	−0.001
Proposal	ES	ES	ES	E	S	G	G	G
Interval	All	2%	10%	All	All	All	2%	10%
Polynomial order	3			3	3	3		

Table 6. Further evidence on strategic voting using tighter subsamples. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls. Column (1) includes meeting-by-fund fixed effects and Column (2) includes proposal type-by-fund fixed effects. Panel A presents the results using W-NOMINATE to measure family preferences toward ES, while in Panel B, we present the results using average support for ES proposals (both measured at $t-1$). The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

	Pr(Vote for)	
	(1)	(2)
Panel A: W-NOMINATE		
ES(non-ES) x Contested	−0.153**	−0.098**
	(−2.194)	(−2.343)
Contested	0.068***	0.051***
	(4.872)	(3.599)
Observations	53,706	116,825
Adjusted R-squared	0.558	0.558
Panel B: Average support		
ES(non-ES) x Contested	−0.150**	−0.109**
	(−1.968)	(−2.503)
Contested	0.069***	0.055***
	(4.740)	(3.721)
Observations	53,151	116,149
Adjusted R-squared	0.484	0.512
Meeting x Fund FE	Y	
Proposal type x Fund FE		Y

Table 7. Retail vs institutional funds. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls. Columns (1) to (3) report the results for institutional funds, and Columns (4) to (6) present the results for retail funds. Panel A presents the results using W-NOMINATE to measure family preferences toward ES, while in Panel B, we present the results using average support for ES proposals (both measured at $t-1$). The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

	Pr(Vote for)					
	Institutional funds			Retail funds		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: W-NOMINATE						
ES(non-ES) x Contested	−0.154***	−0.115**	−0.151***	−0.010	−0.003	0.002
	(−3.193)	(−2.573)	(−3.099)	(−0.257)	(−0.087)	(0.102)
ES(non-ES)	0.285***		0.283***	0.049		0.020
	(3.577)		(3.453)	(1.578)		(1.138)
Contested	0.040**	0.038**		0.094***	0.094***	
	(2.434)	(2.324)		(4.360)	(4.354)	
Observations	50,293	50,225	47,962	73,221	73,101	67,827
Adjusted R-squared	0.400	0.511	0.743	0.346	0.436	0.866
Panel B: Average support						
ES(non-ES) x Contested	−0.193***	−0.135***	−0.187***	−0.007	−0.014	0.007
	(−4.084)	(−2.957)	(−3.998)	(−0.176)	(−0.466)	(0.378)
ES(non-ES)	0.337***		0.331***	0.033		0.016
	(4.365)		(4.178)	(1.445)		(0.991)
Contested	0.040**	0.037**		0.096***	0.096***	
	(2.236)	(2.106)		(4.369)	(4.377)	
Observations	47,936	47,868	45,573	74,683	74,562	69,383
Adjusted R-squared	0.379	0.473	0.747	0.291	0.374	0.866
Meeting FE	Y	Y		Y	Y	
Proposal type FE	Y	Y		Y	Y	
Family FE	Y	Y		Y	Y	
Fund FE		Y			Y	
Family x Proposal FE			Y			Y

Table 8. Do ES funds' investors monitor ES votes? This table reports the results from regressing fund flows on an indicator for low support for ES proposals and the fund type. *ES_Fund* equals 1 if the fund is ES and 0 if it is non-ES. *Low_Support* is an indicator equal to one if the fund supported less than 30% of ES proposals in the previous proxy season. Form N-PX must be filed by August 31 each year, reporting all proxy votes for the prior year ended June 30. Therefore, we set 0 equal to the end of August of each year, and examine flows in the three months period (Columns (1) and (5)), six month (Columns (2) and (6)), nine month (Columns (3) to (7)) and twelve month period (Columns (4) and (8)). Columns (1) and (4) report the results for institutional funds, and Columns (5) to (8) present the results for retail funds. The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

Monthly flows:	0 to 3	0 to 6	0 to 9	0 to 12	0 to 3	0 to 6	0 to 9	0 to 12
	Institutional funds				Retail funds			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Low_Support x ES_Fund	−0.010	−0.013*	−0.017**	−0.014**	−0.007	−0.004	−0.003	−0.001
	(−1.590)	(−1.685)	(−2.571)	(−2.442)	(−1.319)	(−0.784)	(−0.655)	(−0.328)
Low_Support	−0.002	0.000	0.001	−0.001	0.001	0.001	0.001	0.001
	(−0.932)	(0.210)	(0.271)	(−0.355)	(0.565)	(0.694)	(0.891)	(0.684)
ES_Fund	0.006	0.009	0.012**	0.010**	0.009***	0.009***	0.009***	0.009***
	(1.184)	(1.596)	(2.276)	(2.183)	(2.818)	(3.226)	(3.397)	(3.563)
Observations	4,735	4,744	4,744	4,744	10,916	10,930	10,930	10,930
Adjusted R-squared	0.089	0.131	0.155	0.164	0.129	0.179	0.205	0.209
Controls	Y	Y	Y	Y	Y	Y	Y	Y
Year FE	Y	Y	Y	Y	Y	Y	Y	Y
Family FE	Y	Y	Y	Y	Y	Y	Y	Y

Table 9. Family ideology vs friendliness toward firm management. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls. Columns (1) and (2) report the results for all governance proposals, and Columns (3) and (4) present the results for governance proposals cast in meetings that also have ES proposals. The reported t-statistics are clustered at the fund level. Panel A presents the results using W-NOMINATE to measure family preferences toward ES, while in Panel B, we present the results using average support for ES proposals (both measured at $t-1$). Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

	Pr(Vote for)			
	(1)	(2)	(3)	(4)
Panel A: W-NOMINATE				
ES(non-ES) x Contested	−0.012	0.034**	−0.015	0.054**
	(−0.603)	(2.096)	(−0.508)	(2.279)
ES(non-ES)		0.134***		0.132**
		(2.589)		(2.551)
Contested	0.047***		0.070***	
	(8.781)		(8.885)	
Observations	244,314	231,712	108,107	103,430
Adjusted R-squared	0.487	0.856	0.467	0.839
Panel B: Average support				
ES(non-ES) x Contested	−0.014	0.035**	−0.002	0.061**
	(−0.741)	(2.072)	(−0.071)	(2.463)
ES(non-ES)		0.145***		0.142***
		(2.634)		(2.600)
Contested	0.051***		0.078***	
	(9.358)		(9.795)	
Observations	244,963	232,270	108,699	103,914
Adjusted R-squared	0.481	0.856	0.462	0.837
Meeting FE	Y		Y	
Proposal type FE	Y		Y	
Family FE	Y		Y	
Fund FE	Y		Y	
Family x Proposal FE		Y		Y
Meetings with ES proposals			Y	Y

Table 10. ES funds in ES families as control group. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is an ES fund from an ES family. Column (1) presents the results for all funds, and Columns (2) and (3) present the estimates for institutional and retail funds, respectively. In Column (4), we use an alternative ES fund definition that relies on Morningstar (2019) to identify families that incorporate ES criteria in all their funds. Panel A presents the results using W-NOMINATE to measure family preferences toward ES, while in Panel B, we present the results using average support for ES proposals (both measured at $t-1$). The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

	Pr(Vote for)			
	(1)	(2)	(3)	(4)
Panel A: W-NOMINATE				
ES(non-ES) x Contested	−0.113***	−0.184***	0.022	−0.146***
	(−2.881)	(−4.857)	(0.960)	(−4.345)
Contested	0.152***	0.175***	0.139**	0.042
	(3.475)	(2.852)	(2.351)	(1.574)
Observations	12,746	6,756	5,917	23,960
Adjusted R-squared	0.606	0.565	0.671	0.583
Panel B: Average support				
ES(non-ES) x Contested	−0.116***	−0.190***	0.029	−0.146***
	(−2.879)	(−5.028)	(1.219)	(−4.237)
Contested	0.149***	0.167***	0.137**	0.040
	(3.412)	(2.709)	(2.323)	(1.483)
Observations	12,746	6,756	5,917	23,960
Adjusted R-squared	0.606	0.565	0.673	0.583
Funds	All	Institutional	Retail	All
ES Funds	S	S	S	S+M
Meeting FE	Y	Y	Y	Y
Proposal type FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y

Table 11. Non-ES in ES families as control group. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is a non-ES fund from an ES family. Column (1) presents the results for all funds, and Columns (2) and (3) present the estimates for institutional and retail funds, respectively. In Column (4), we use an alternative ES fund definition that relies on Morningstar (2019) to identify families that incorporate ES criteria in all their funds. Panel A presents the results using W-NOMINATE to measure family preferences toward ES, while in Panel B, we present the results using average support for ES proposals (both measured at $t-1$). The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

	Pr(Vote for)			
	(1)	(2)	(3)	(4)
Panel A: W-NOMINATE				
ES(non-ES) x Contested	−0.200***	−0.251***	−0.078***	−0.202***
	(−5.314)	(−5.668)	(−2.737)	(−5.325)
Contested	0.147***	0.153***	0.141***	0.160***
	(12.345)	(7.906)	(9.703)	(12.873)
Observations	195,122	76,204	118,904	183,923
Adjusted R-squared	0.515	0.514	0.531	0.519
Panel B: Average support				
ES(non-ES) x Contested	−0.202***	−0.261***	−0.074***	−0.204***
	(−5.165)	(−5.866)	(−2.660)	(−5.178)
Contested	0.144***	0.149***	0.140***	0.157***
	(12.352)	(7.864)	(9.754)	(12.870)
Observations	195,036	77,650	117,371	183,837
Adjusted R-squared	0.510	0.520	0.519	0.515
Funds	All	Institutional	Retail	All
ES Funds	S	S	S	S+M
Meeting FE	Y	Y	Y	Y
Proposal type FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y

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