

# Discussion of Investor Ideology

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# My agenda

1. Bolton Li Ravina & Rosenthal (BLRR – this paper) vs. Bubb & Catan (BC)
  - *Ryan Bubb & Emiliano Catan, The Party Structure of Mutual Funds (2018-19)*
2. Interpreting the results
  1. “Lots of disagreement”?
  2. 1<sup>st</sup> dimension = “Ideology” = ?
3. Observations/Suggestions

# 1. BLRR vs. BC

# BLRR vs. BC: Different methods ...

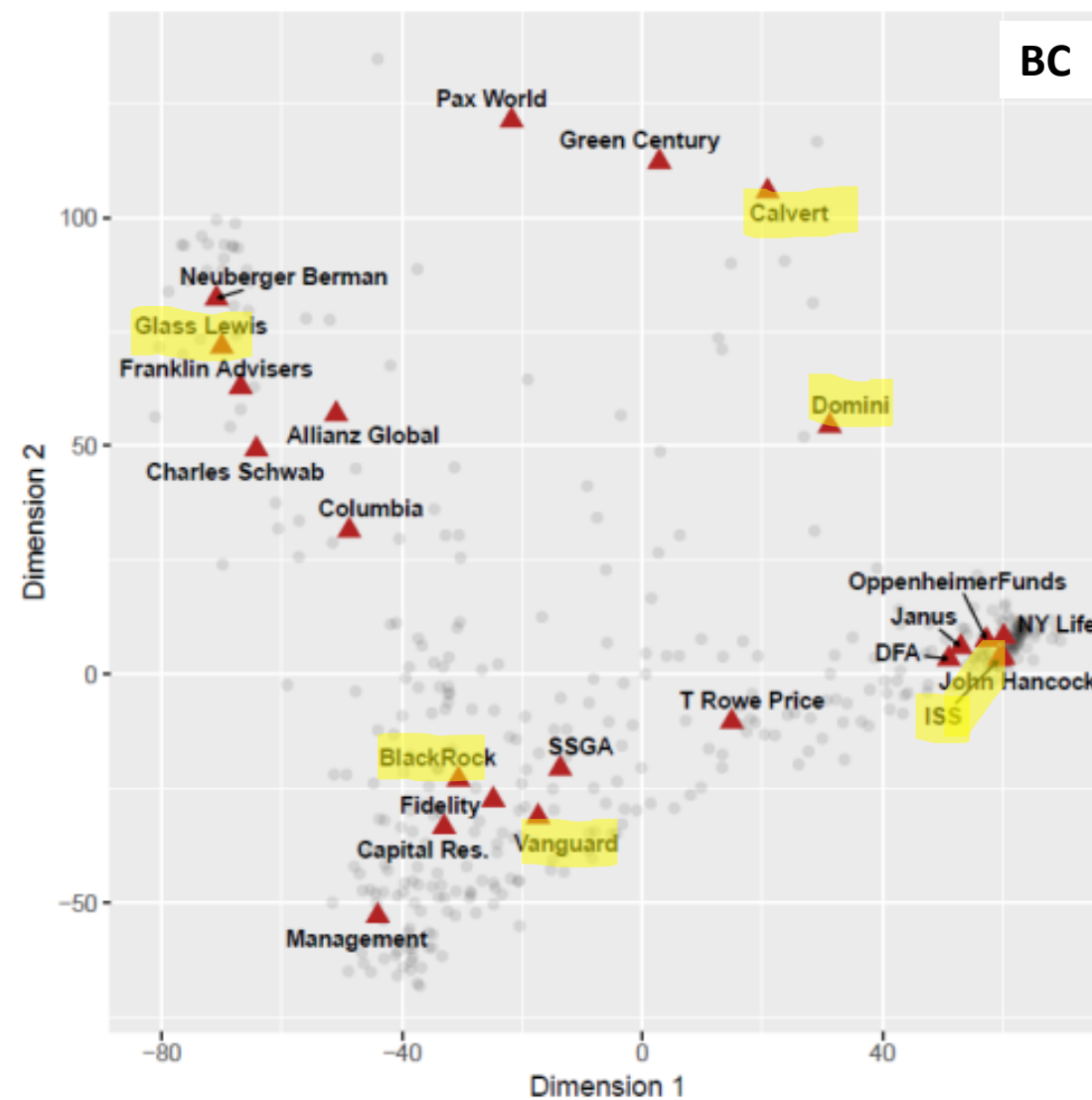
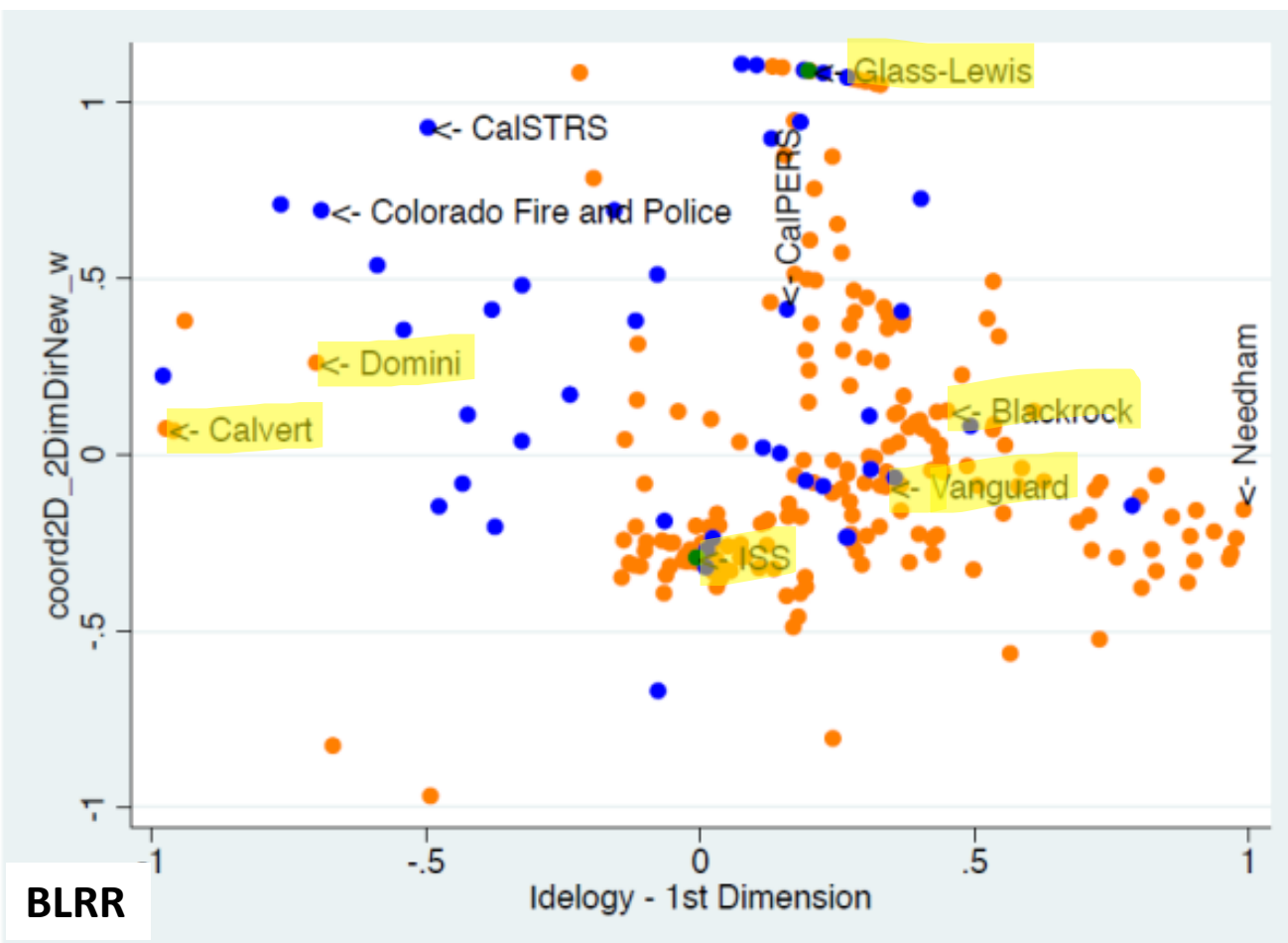
	Bolton Li Ravina & Rosenthal	Bubb & Catan
<b>Investors</b>	US mutual & public pension funds	US mutual funds
• <b>Level of investor aggregation</b>	Fund family	Fund <ul style="list-style-type: none"> <li>• fund advisors for robustness</li> </ul>
<b>Firms</b>	Russell 3000	All US with at least 30 funds voting
• <b>Votes</b>	All SH votes (unweighted)	All SH votes (unweighted)
• <b>Minimum SH disagreement</b>	3%	5% <ul style="list-style-type: none"> <li>• other % for robustness</li> </ul>
<b>Years</b>	FY 2012 <ul style="list-style-type: none"> <li>• FY 2016 for extension</li> </ul>	FY 2010-15
<b>Dimensions considered</b>	1 <ul style="list-style-type: none"> <li>• 2 for robustness</li> </ul>	2 <ul style="list-style-type: none"> <li>• 1 included by method</li> </ul>
<b>Method of Dim. Reduction</b>	W-NOMINATE (ML of fund ideal points & proposal positions) <ul style="list-style-type: none"> <li>• Poole's OC for robustness</li> </ul>	PCA



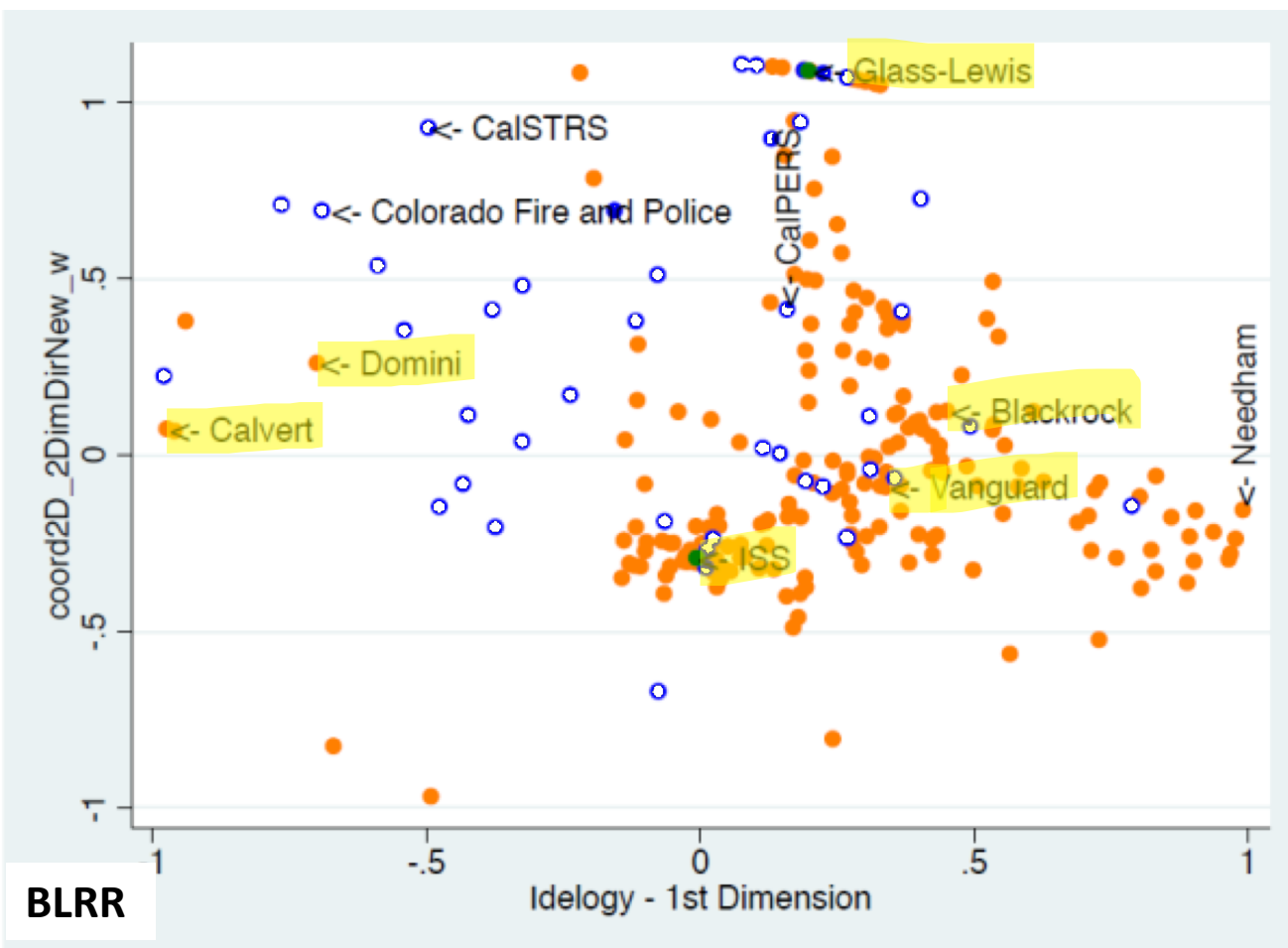
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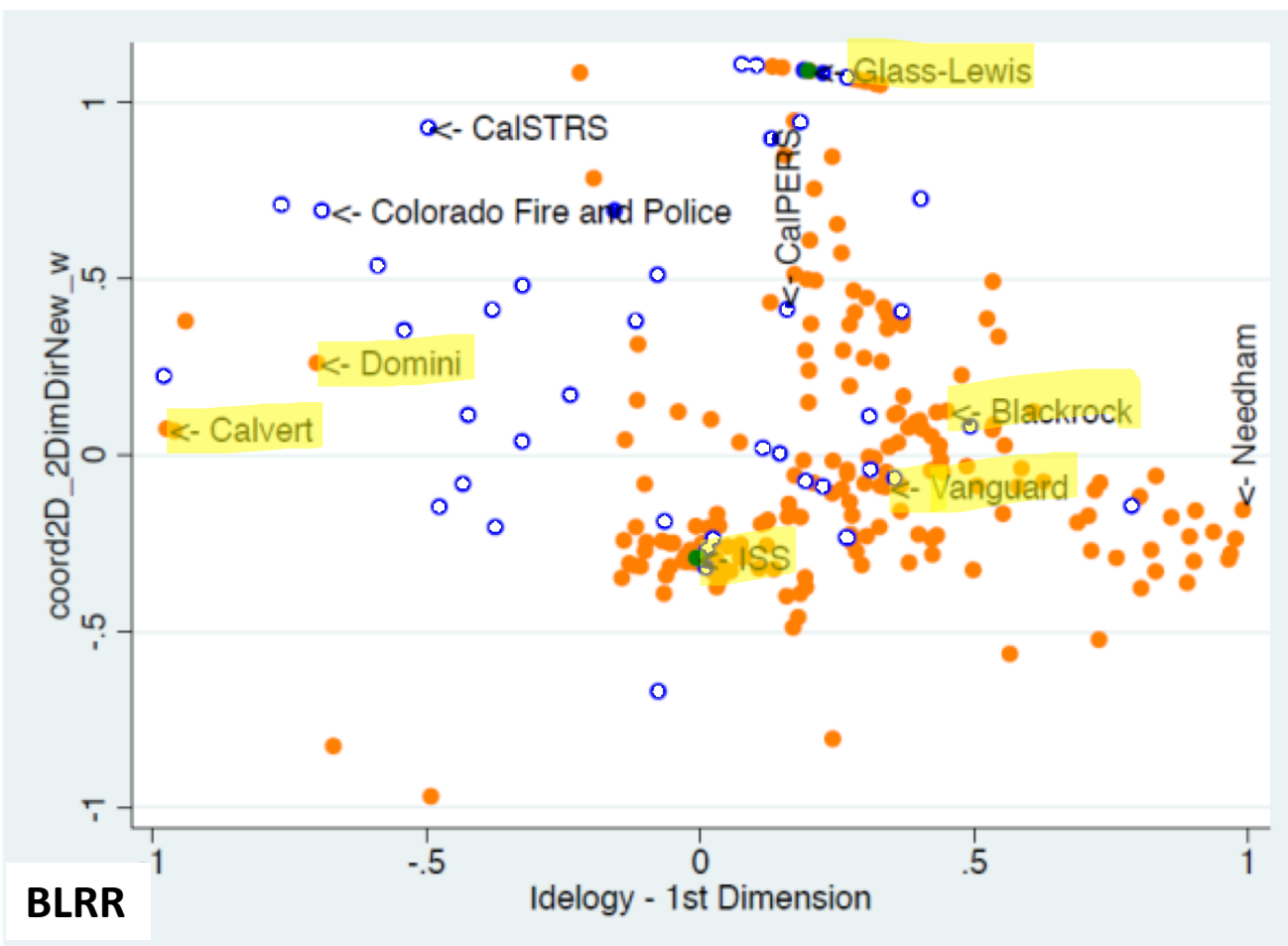
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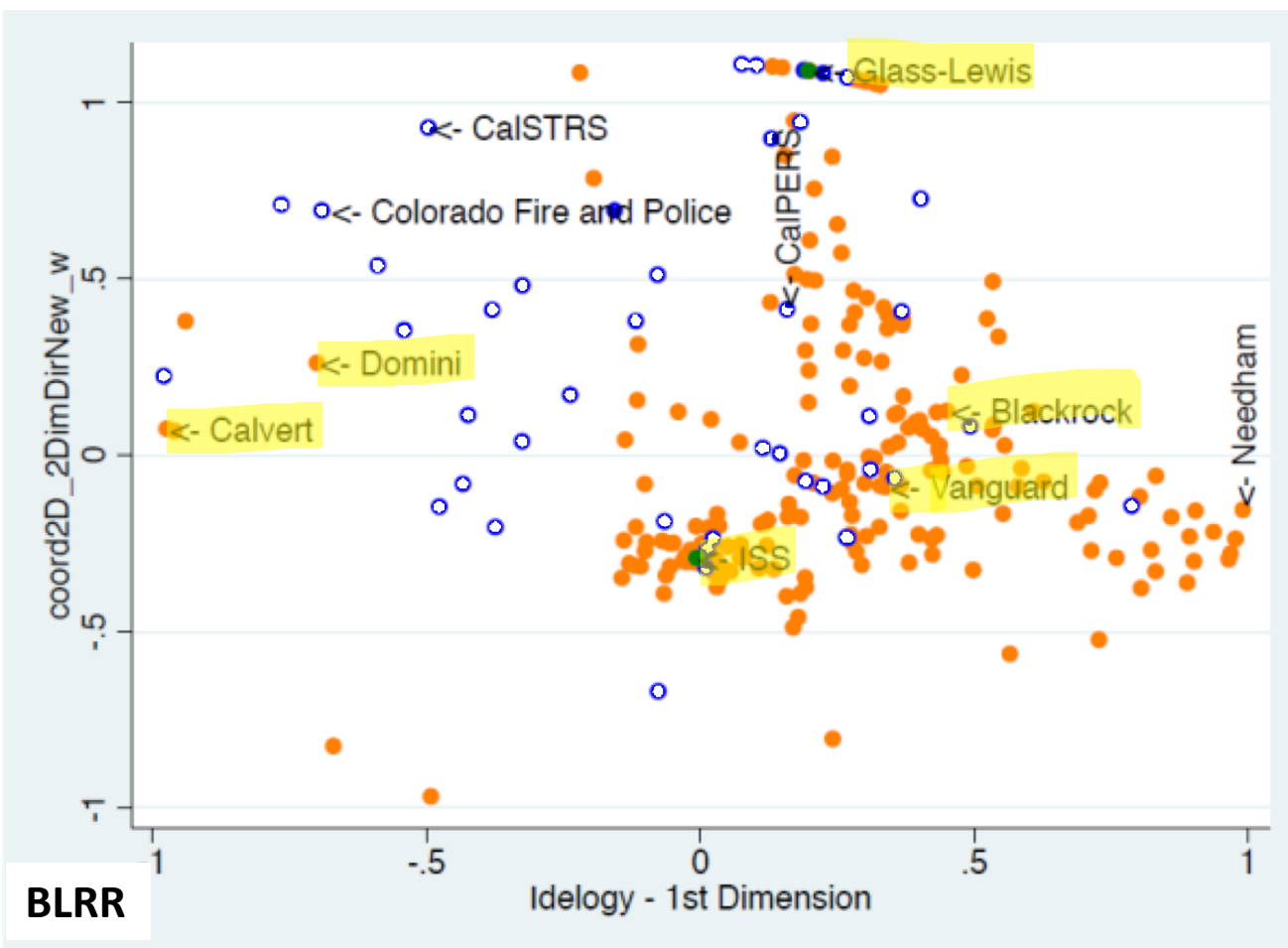
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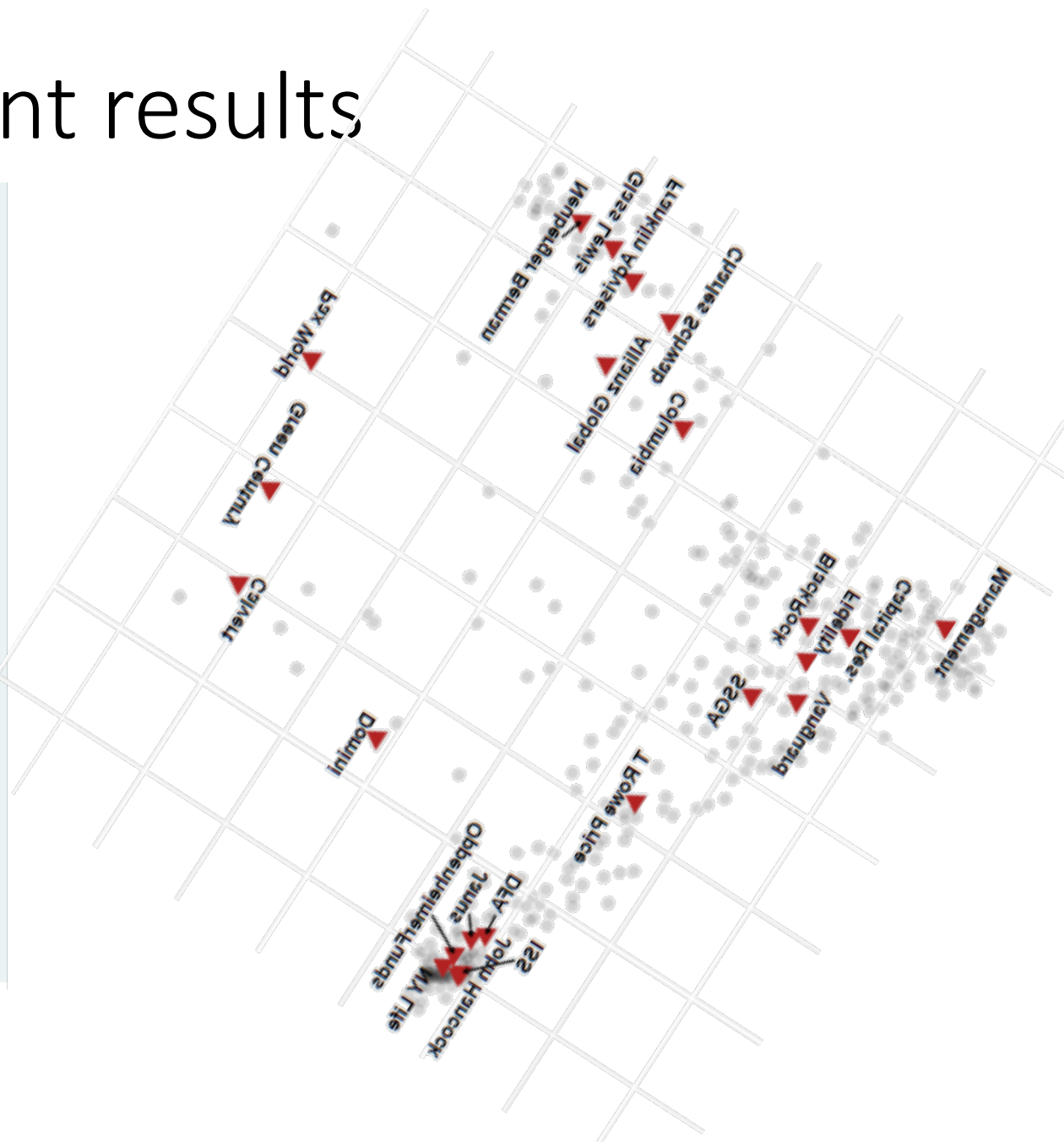
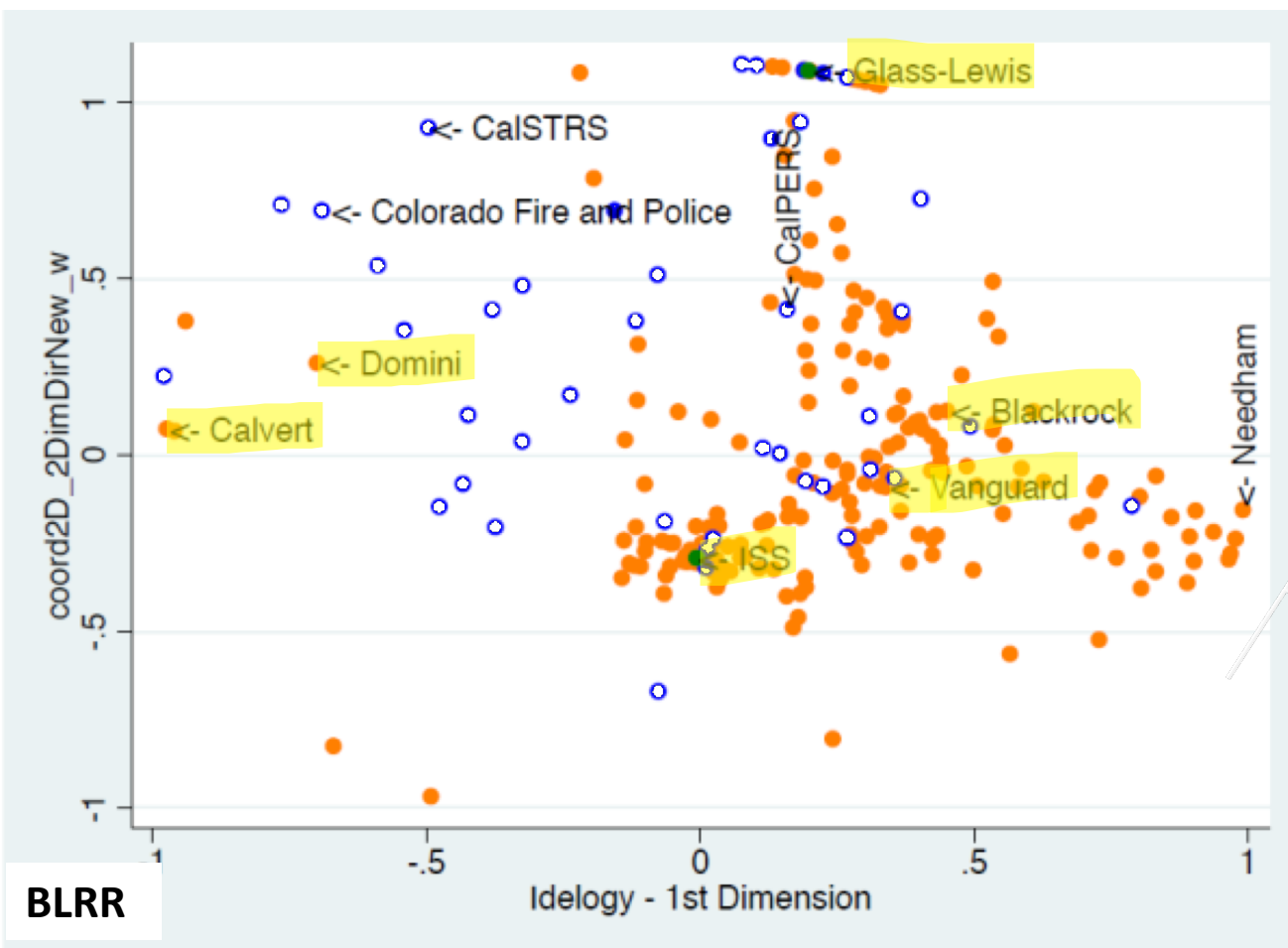
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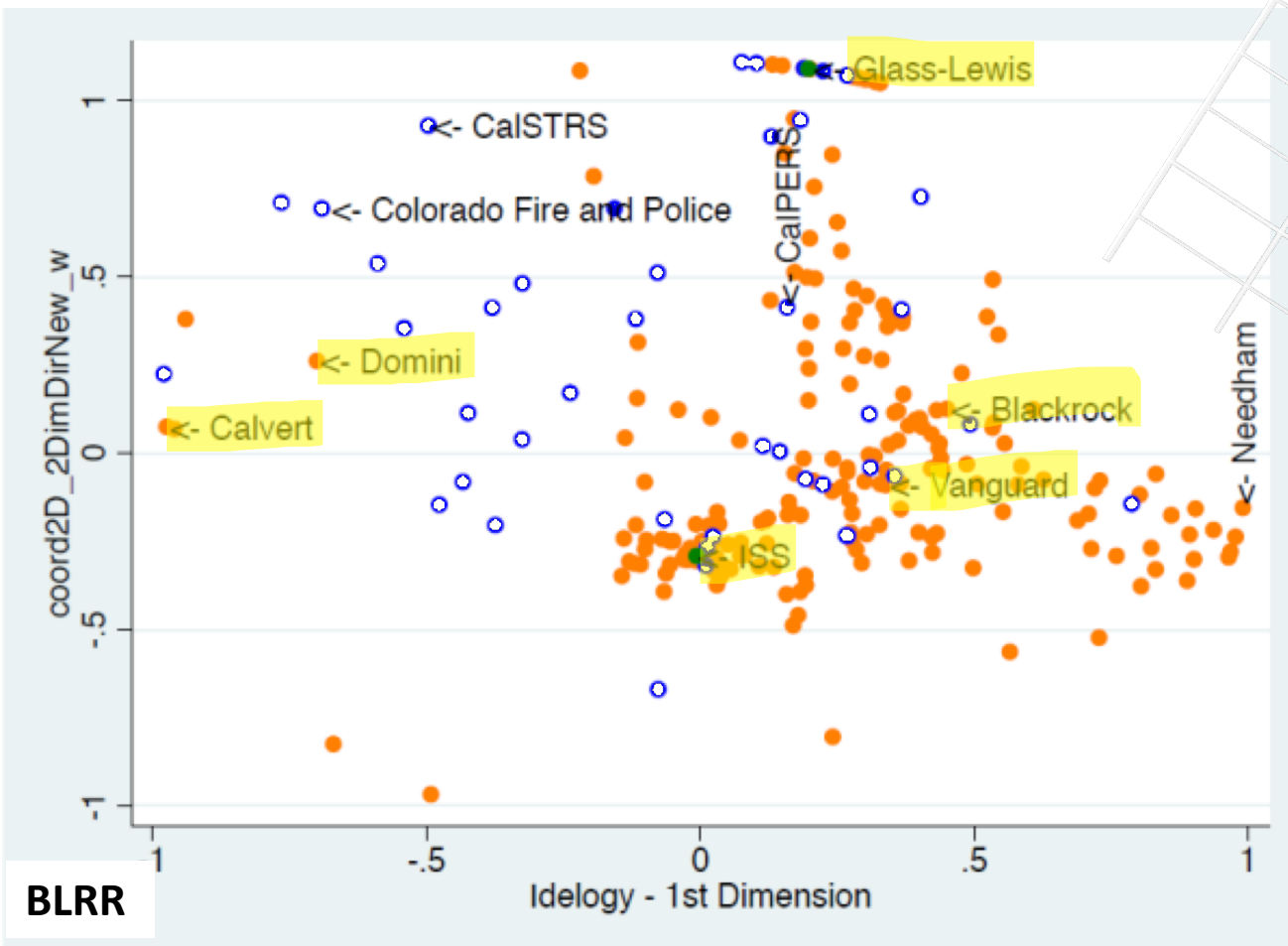
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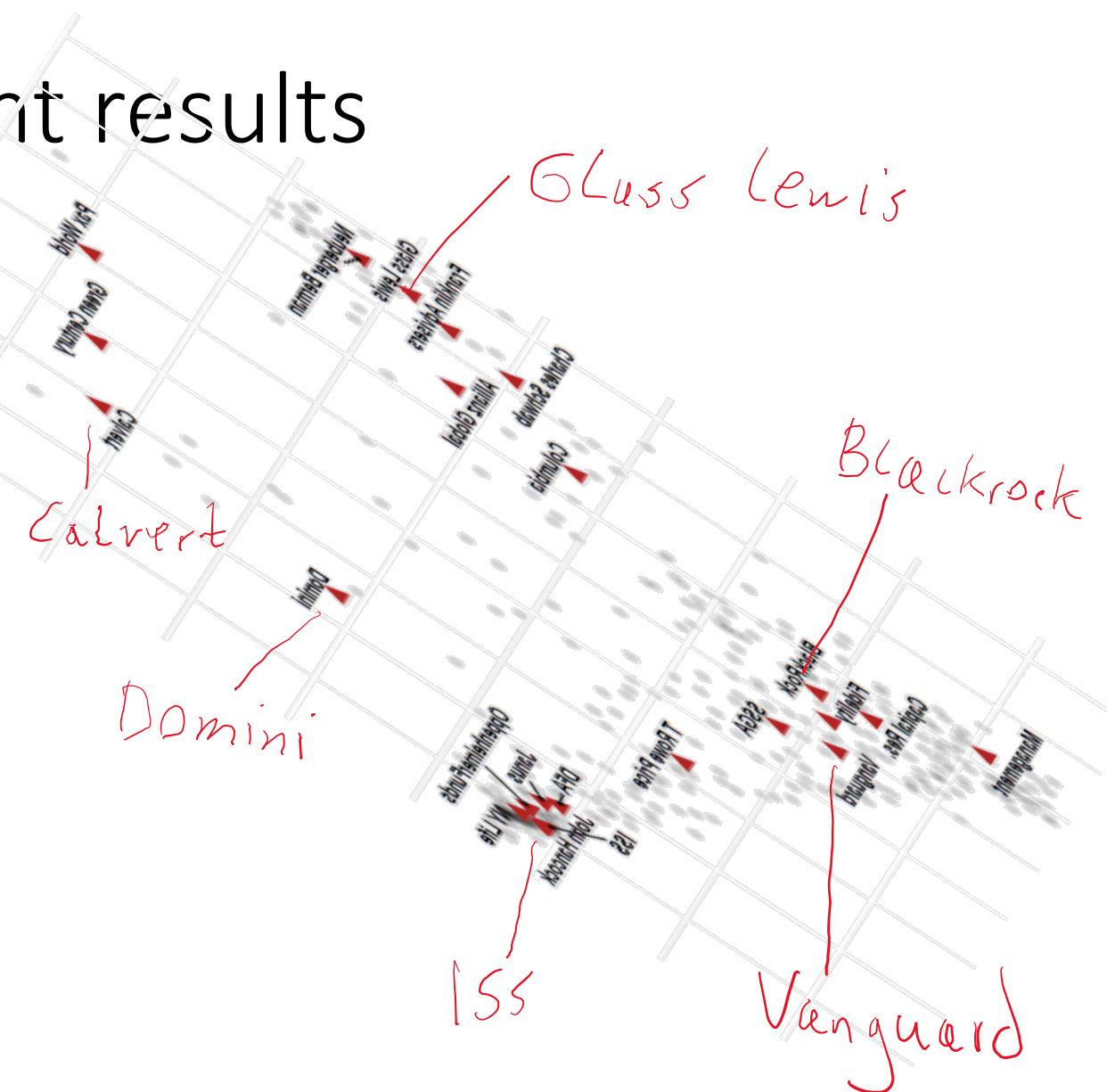
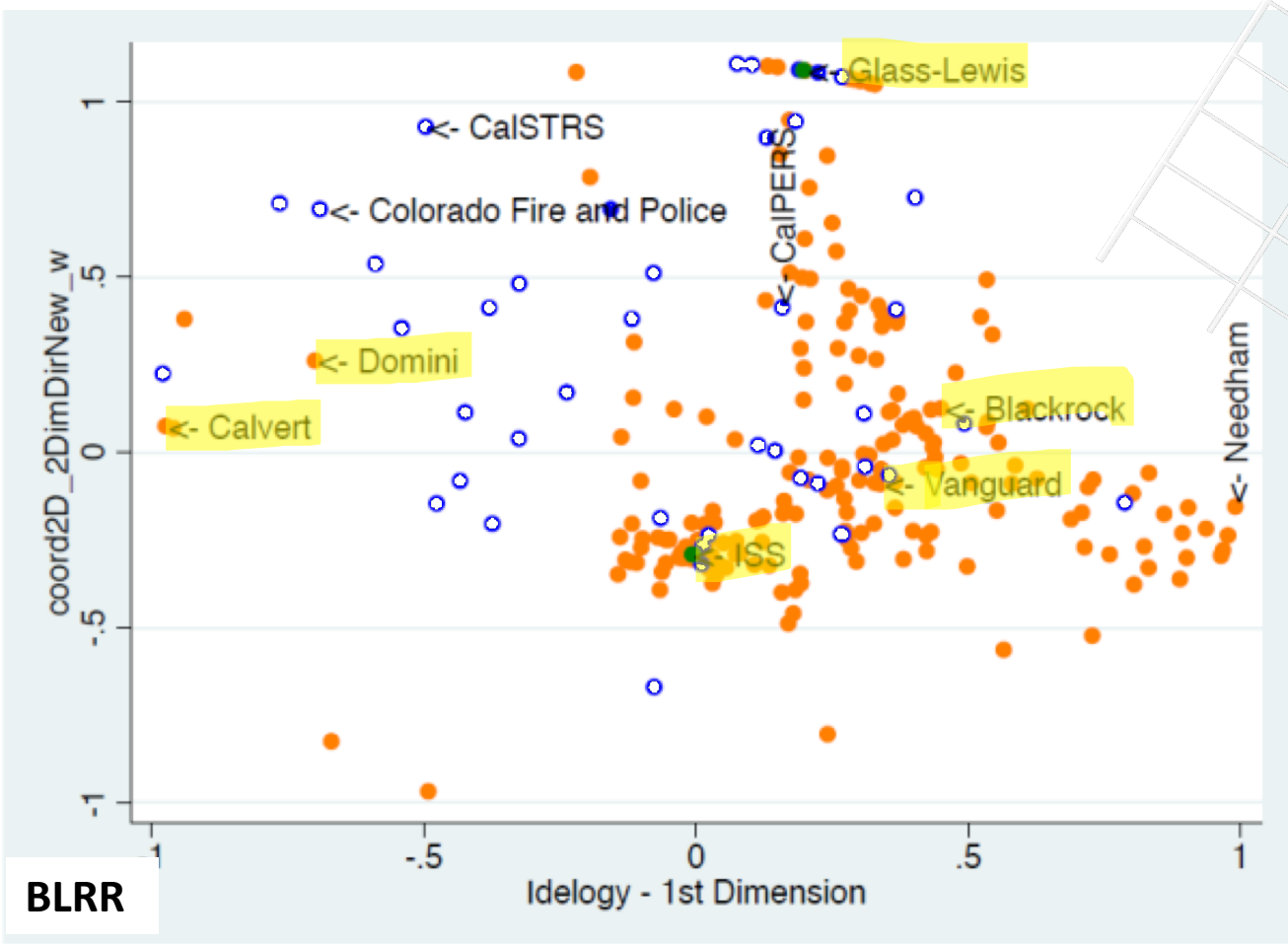


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# BLRR vs. BC: Prediction Accuracy

Criterion	BLRR	BC
Correct Classification Percentage	92%	89%
Average Proportional Reduction in Error	0.41	0.47

# BLRR vs. BC: Different Extensions

Correlates of different positions:

- **BLRR: firm/director** characteristics → vote position
- **BC: fund** characteristics → fund position
  - Plus: formal clustering of funds → “party structure”

Additional players: **BLRR** include **public pension funds**

**Different interpretations!**

## 2. Interpretation

# “Il votes are far from reflecting SH unanimity”

1. Yes – by construction!

- recall: dropped votes with <3% disagreement

2. Even so, 85% vote “*for*” on average (Table 1.B)

- NB: rate of *agreement* is presumably much higher than 85%
- Cf. “*Unlike Congress, where the midpoints are frequently at the center, many **midpoints** here are **at the extremes**, especially on the left*”

# “Ideology”: Dr. Jekyll ...

- “NOMINATE is **agnostic** as to where ideology comes from and what it represents”
  - “it does **not** per se make any substantive **interpretation** of ... ideology”
- “The choice of polarity [**left/right**] is **arbitrary**”
- “The meaning of ‘ideology’ here is in the sense of Converse (1964): voting behavior is ideological when voting across a wide set of different issues is **predictable**...”
  - “... presumably because an underlying **belief system** binds voting preferences over these issues together.”

# “Ideology”: ... and Mr. Hyde

- “**beyond pure shareholder value** considerations”
- “The left represents relatively **socially-oriented** investors, while the right represents more **money-oriented** investors”
- “**socially- vs. money-oriented** investment philosophies”
- “can be represented along a left-right spectrum **just like legislators’ ideologies**”
- “the left may be more open to lowering shareholder returns in ways that promote environmental and other social objectives.”

# “Ideology,” reconsidered, pt. 1: Evidence

- Public pension funds = “left” → “left” means political left?
  - “it is to be expected a priori that public pension funds have different ideologies from mutual funds because they may have a duty to vote in line with their members’ preferences”
  - No – trust fiduciary sole interest rule → maximize returns. Cf. Schanzenbach & Sitkoff 2018
- Does dimension 1 only predict political left/right choices?
  - No – it predicts everything, incl. director elections, governance, comp. (fig 8)
    - NB: governance – activist hedge funds would be on the “left”!

# “Ideology,” reconsidered, pt. 2: Interpretation

EVEN IF dimension 1 only predicted ESG, it needn't be social. It can be

- belief about financial value
  - **Domini** quote: “We apply [ESG] standards ... believing they help identify ... strong **financial rewards**”
  - **Calvert** quote: “the firm seeks to generate **favorable investment returns** for clients by allocation capital consistent with [ESG] best practices”
- marketing tool

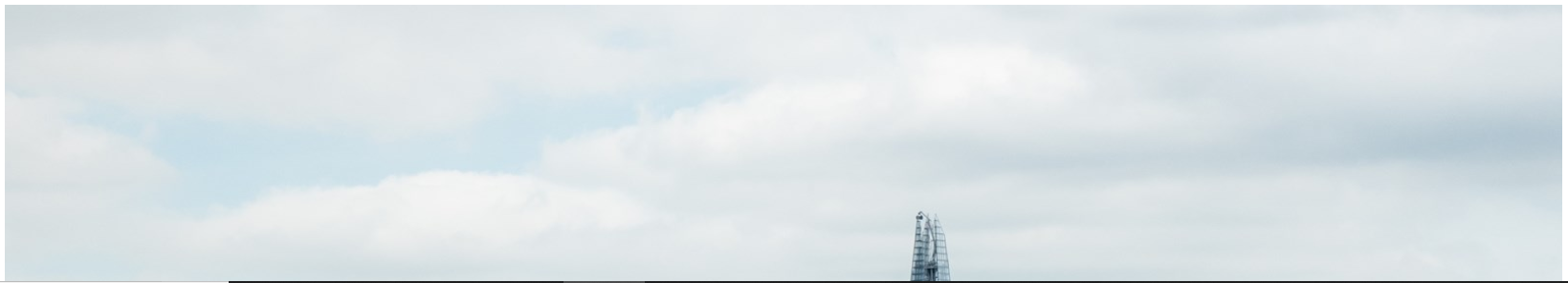




# LGIM votes against record number of companies in 2018

16 Apr 2019

Eighth Active Ownership annual report released highlights continued quality of engagement, with 52% of companies now based outside the UK.



### 3. Observations / Suggestions

# Observations / Suggestions

- “left” public pension funds → activist in other ways too (?)
  - E.g., AFSCME: named plaintiff
- “Our results differ somewhat from the proxy voting literature in that we do not find that large institutions follow the proxy advisers closely.”
  - But see, e.g., Choi et al. 2010

