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

JEL Classifications: G11, G30, K22, M14

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Abstract

Environmental and social (ES) funds in non-ES families must balance incorporating the stakeholder's 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, consistent with greenwashing. This strategic voting is not exhibited in governance proposals, 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.

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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; Broccardo, Hart, and Zingales, 2021; Matos, 2020; Oehmke and Opp, 2020). 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 investors 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.

It is well documented that ES proposals rarely pass (Flammer, 2015; Cao, Liang, and Zhan, 2019; He, Kahraman, and Lowry, 2021). Therefore, whether ES funds support or oppose ES proposals might generally create little tension within non-ES families, as the fund

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vote is unlikely to be pivotal. This might not be true for proposals with support close to the majority threshold as the chance that the ES proposal passes increases and conflicts between ES and non-ES funds become more salient. We argue that this creates incentives for ES funds in non-ES families to support ES proposals that fail or pass by large margins while withholding their support in contested proposals. This strategic voting pattern, akin to greenwashing votes, allows funds to exhibit high average support for ES proposals, consistent with their stated goals, while at the same time, when their votes truly count, voting against ES proposals in a manner consistent with family preferences.

We find evidence consistent with this argument. We show that ES funds are more supportive of ES proposals than non-ES funds, on average. The differential support is 30% higher within both ES and non-ES families. However, we find that ES funds from 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. These results hold when using highly saturated fixed effect regressions including meeting, proposal type, fund and family fixed effects. This strategic voting is consistent with ES funds from non-ES families trying to accommodate family preferences while showing a pro-ES approach expected by their investors. As we discuss in more detail below, we find that this voting pattern is driven by actively managed funds, as opposed to index funds.

Given the objective of this study, the categorization of both funds and their families into ES and non-ES is critical. For the categorization of funds, we rely on funds' 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 those whose name contains an ES-related string such as sustainab, green, impact or climate. More systematically, we read the prospectuses of all ES funds and verify that the ES funds identified using this set of strings incorporate ES-related goals into their investment objectives or principal investment strategy.

The categorization of fund families into ES and non-ES is also important given the evi-

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dence that fund family preferences play an important role in fund voting (Cvijanović, Dasgupta, and Zachariadis, 2016; Bolton, Li, Ravina, and Rosenthal, 2020). We categorize fund families based on the preferences revealed by their past votes using two proxies. First, we estimate fund family ideology over ES following Bolton et al. (2020). The W-NOMINATE algorithm (Poole and Rosenthal, 1985; McCarty, Poole, and Rosenthal, 1997) provides a spatial representation of family ES preferences over a straight line; the closer two families are on this line, the closer their ideologies. The classification reveals large variation in family preferences toward ES: while some families are very ES friendly, other families systematically oppose ES proposals. Bolton et al. (2020) suggest that non-ES (or money-conscious) families are more prompted to oppose proposals that could be costly for investors, i.e., that they believe are not consistent with shareholder value maximization (see also Amel-Zadeh and Serafeim (2018)).

Our second proxy categorizes fund families into ES and non-ES based on their average past support for ES proposals over all their funds. Interestingly, we find that the relative preferences of families toward ES obtained using our two proxies are highly related, with an average annual correlation of over 96%. As a byproduct, since we are able to calculate the W-NOMINATE algorithm for each year in the sample (Bolton et al. use 2012 alone), we are also able to observe the dynamics of the measure over time. We find, consistent with the notion of ideology, that it is highly autocorrelated and that families rarely change their ideology over the eight-year sample period.

For each type of fund, we first examine the support for ES proposals for different voting outcomes (Figure 3). The support of ES funds in non-ES families depicts a U-shape centered around the 50% approval threshold. The support of these funds increases with the voting outcome when the outcome is below 30%, but it decreases when the outcome is between 30% and 50%. After the majority threshold is passed, the support of these funds increases again with the voting outcome. 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

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family preferences. The graphical evidence is consistent with ES funds in non-ES families behaving strategically to show high average support while opposing ES proposals close to the majority threshold, i.e., greenwashing their votes.

These results are supported by an empirical specification that explicitly 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 the support of ES funds in non-ES families with the non-ES funds that belong to the same family type in contested and uncontested proposals. We find that within non-ES families, their ES funds are 36.9% more likely to support an uncontested proposal than non-ES funds but that the difference drops by 9.9% for contested proposals, i.e., a 26.8% decrease in support. This finding indicates that ES and non-ES funds vote differently on proposals in which the probability of being pivotal is lower, but their votes are more aligned for proposals that end up close to the majority threshold. That is, when their votes matter the most, ES funds show a lower ES orientation, consistent with family preferences and against their shareholders' interests.

The strategic voting that we document is unlikely to be explained by omitted factors. First, our main specifications include meeting fixed effects, exploiting variation in support for ES proposals within a specific meeting for a given firm at a given point in time. That is, our results cannot be explained by any firm-specific variables that do not vary within a specific meeting. Furthermore, we control for fund and family determinants of active voting, such as ownership, size, expenses and turnover (Iliev and Lowry, 2015). The use of fund and family fixed effects alleviates concerns that fund and family characteristics might bias our results. We also include proposal-type fixed effects to account for the fact that some proposal types might be systematically more supported than others.

Previous empirical evidence finds that active fund managers behave strategically when casting their votes and assessing proposals individually. Meanwhile, index funds are more likely to minimize their voting effort by simply voting with management (Heath, Macciocchi, Michaely, and Ringgenberg, 2022), outsourcing voting to proxy advisors or voting in

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a one-size-fits-all manner (i.e., always voting for or against certain issues without taking firm-specific factors into account) (Iliev and Lowry, 2015; Larcker, McCall, and Ormazabal, 2015; Iliev, Kalodimos, and Lowry, 2020). We therefore expect active funds to be key drivers of our results because they have more incentives and resources to predict proposals' voting outcomes and adjust their vote accordingly. Consistent with our prediction, we find that the strategic voting pattern of ES funds in non-ES families is predominantly explained by actively managed funds, as opposed to index funds. Notably, active ES funds in non-ES families are 24.7% more supportive of ES proposals than non-ES funds in the same family type when the proposal is uncontested. The difference drops by 14.6% for contested proposals –almost 60% relative to uncontested proposals – and support for ES proposals by active ES funds (in non-ES families) is very close to that of non-ES funds of the same families.

We zoom in on strategic behavior using more saturated specifications to analyze how ES funds in non-ES families vote within meetings and within the same types of proposals as a function of the voting outcome. First, we change the baseline specification to include fund-by-meeting fixed effects to exploit variation in support for ES proposals by the same fund voting at the same shareholder meeting in contested and uncontested proposals. The results are economically stronger in this specification, which suggests that strategic voting takes place within meetings. We then examine differential support by the same fund for the same type of ES proposal (e.g., political contribution disclosures, reports on climate change) in contested and uncontested proposals by including fund-by-proposal-type fixed effects, following Calluzzo and Kedia (2019). The results are also economically and statistically significant in this specification, suggesting that ES funds' strategic behavior also occurs among funds supporting a given type of proposal when the outcome is less likely to be contested while opposing contested ones. These results highlight an additional relevant aspect of funds' behavior: these active funds do not follow one-size-fits-all voting policies on ES issues but rather change their support for the same type of proposal as a function of the voting outcome.

Existing research documents that ties between fund families and their portfolio companies

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can lead to funds being more supportive of management with their votes (Cvijanović et al., 2016; Calluzzo and Kedia, 2019). ES proposals are shareholder sponsored and almost always opposed by management (Cvijanović et al., 2016; Bolton et al., 2020). We therefore examine whether business ties can explain the strategic opposition of ES proposals by ES funds in non-ES families. First, we add meeting-by-family fixed effects to our main specification, which allows us to control for variables that are fixed within firm and family at the time of the meeting, such as business ties or direct engagement with management. The results from this specification consistently show that ES funds in non-ES families vote strategically. Second, if strategic voting on ES proposals were 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. These findings reinforce 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 business ties or engagement between fund families and firms.

We also examine whether this strategic behavior by ES funds is common to all types of ES funds (i.e., both those that belong to ES families and those that belong to non-ES families). To this end, we use ES funds in ES families as the control group. Our results indicate that ES funds in non-ES families reduce their support for ES proposals by 9.2% in contested proposals relative to ES funds in ES families. The findings are consistent with the graphical evidence in Figure 3 and show that the drop 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 those of non-ES funds in ES families as a third control group. Taken together, these additional analyses further reinforce the explanation that strategic voting is driven by conflicts of interest between funds and families over ES matters. 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 makes several contributions. First, we add to the literature studying conflicts

of interest within fund families. Several papers document tensions between funds and families manifesting as cross-subsidization of funds via cross-trading (Gaspar, Massa, and Matos, 2006; Eisele, Nefedova, Parise, and Peijnenburg, 2020) and investment (Bhattacharya, Lee, and Pool, 2013). We show that those conflicts can also translate into transfers of votes in the interest of the family. Second, our results show that funds' goals affect average support for ES proposals but that the fund family also influences fund votes, thus adding to the literature on the determinants of mutual fund votes in general (Matvos and Ostrovsky, 2010; Iliev and Lowry, 2015; Larcker et al., 2015; Calluzzo and Kedia, 2019; Bolton et al., 2020; Bubb and Catan, 2021; Heath et al., 2022) and ES votes in particular, which have received less attention in the literature. Finally, our findings add to the literature on contested proposals. While prior studies document the role of firm managers exploiting business ties (Cvijanović et al., 2016) or persuading friendly voters (Bach and Metzger, 2019) in close elections, our results uncover the role of tensions within the family in fund voting.

The results of our study have implications relevant for regulators and investors alike. For regulators, the results of this study suggest that the current regulatory framework requiring 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). 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 fund stated ES objectives affect its average voting pattern, the preferences toward ES of the family to which it belongs are equally important. In fact, on ES votes that matter the most, fund family ideology is more important. ES funds of non-ES families are able to look good on average while not following their stated objective when it counts. This is clearly relevant to investors who care about investing responsibly and improving the ES policies of the firms in which they invest.

2 Data and variable definitions

2.1 Data

We gather fund voting data on shareholder proposals at annual shareholder meetings from Institutional Shareholder Services (ISS) Voting Analytics from 2011 to 2018. 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, votes for and against, abstentions for each proposal, and voting bases. 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), description of the resolution, and the fund's vote (for, against or abstain) for each proposal.[1] We collect information on voting requirements, sponsor name and 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, expense ratio and portfolio holdings, are retrieved from CRSP. We merge the CRSP and ISS Voting Analytics data by fund name. Finally, firms' financials are computed from Compustat Annual, and institutional ownership information is taken from Thomson Reuters.

2.2 Variable definitions

2.2.1 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). Accordingly, papers that study the monitoring and disciplining incentives of mutual funds typically examine support for governance pro-

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

posals 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.

ISS classifies most proposals as either "socially responsible investment" or "governance." A fraction of the proposals (12%) in our sample are unclassified. To maximize the number of observations in our tests, we read the resolution description to classify the proposals that have a missing value in this category using a set of keywords to assign them to either the ES or governance (GOV) proposal.[2] 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. Similar to Morgan, Poulsen, Wolf, and Yang (2011), we find that there are five resolution types that are described as GOV but that could well be classified as ES: (i) board diversity, (ii) linking of executive pay to social criteria, (iii) reporting on pay disparities, (iv) limiting executive compensation, and (v) limiting/prohibiting executive stock-based awards. In robustness tests, we reclassify compensation proposals directed at limiting executive compensation or linking it to social criteria as ES proposals because they further align management and shareholders' preferences along the ES dimensions. We discuss these results in Section 3.7.

Figure 1a plots the number of shareholder-sponsored ES and GOV proposals voted on every year in our sample. Consistent with the existing literature, all ES proposals are sponsored by shareholders (e.g., Calluzzo and Kedia, 2019; Bolton et al., 2020; He et al., 2021).[3]

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[2]We classify a proposal with missing resolution type as ES if the resolution description includes one of the following keywords: climate change, gender, holy land, human rights, labor, lobby, social, two-degree scenario. We classify a proposal as GOV if the resolution description includes one of the following keywords: buybacks, repurchase, bonus, amend, recapitalization, director, auditor, proxy, voting.

[3]This is unsurprising given that most ES issues are related to the ordinary business of the firm and managers do not require shareholder approval to implement them. In other countries, such as the United Kingdom, managers need shareholder authorization before making certain expenditures (e.g., political contributions), and it is therefore more common to observe management-sponsored ES proposals.

Over the sample period, there is an increase in the fraction of ES proposals: they represent 35% of all shareholder proposals in 2011 and more than 45% in 2016 and 2017. Our sample contains 1,390 distinct ES proposals made at 319 unique firms between 2011 and 2018, in line with prior papers (e.g., He et al., 2021). In the same sample period, 2,104 GOV proposals were made at 705 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 2018. The figure plots the number of ES and GOV proposals against the voting outcome. Almost 35% of ES proposals received less than 10% support, and only 1.7% passed (23 proposals) during our sample period. The scant support received by ES proposals in our sample is consistent with existing research (Flammer, 2015; Cao et al., 2019; He et al., 2021). This contrasts with shareholder-sponsored governance proposals, of which 24% passed in the same period. Notably, only the two ES proposals that received over 90% support had a favorable recommendation from firm management. 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), we define a proposal as contested (Contested = 1) if the final voting outcome is in the 40% to 60% range. The proposal is uncontested (Contested = 0) if it receives support in the interval [30%, 40%) or (60%, 70%]. Our approach relies on identifying proposals that may appear contested and thus on which fund managers may decide to vote strategically (Cvijanović et al., 2016). The full sample of ES proposals contains 46 different proposal types. However, only 21 of those proposals reach a voting outcome of at least 30% to be included in our main sample.[4]

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[4]Examples of proposals that receive at least 30% support in our sample include those related to political contribution disclosures, reporting on sustainability or the gender pay gap (see also Section D of the Internet Appendix). Examples of proposals that always receive less than 30% support include proposals related to animal testing, the Holy Land Principles or charitable contributions.

2.2.2 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. 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.[5] 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 (He et al., 2021).

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"*), *social* (excluding *"social media"*), *esg, pax, responsib, clean, impact, water, 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 solutions, gender,* and *just.* Similar to Renneboog, Ter Horst, and Zhang (2011), we include funds with religious values in our main tests. In robustness tests, we find that our results are qualitatively similar when we exclude funds with faith-related strings. 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 manually by reading the prospectuses of all 224 ES funds in our sample and a random subsample of 200 non-ES funds. We find that the principal investment strategies of all 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."*[6]

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

[6]https://www.sec.gov/Archives/edgar/data/844779/000119312515337400/

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 of 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 (a detailed description is provided in Section A 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 further discuss this issue and robustness tests in Section 3.7.

Table 1a shows that on average, mutual funds classified as ES are supportive of ES proposals, voting in favor 55.28% of the time. Funds classified as non-ES support ES proposals in only 22.95% 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. This finding further validates our fund classification. Overall support for ES proposals in our sample is 23.83%. This value is close to the average support of non-ES funds given that ES funds account for only 2.7% of the votes in our sample period.

2.2.3 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

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`d28867d497k.htm` (Accessed May 11, 2021).

and Rosenthal assume that legislators have single-peaked preferences and use their votes to represent their ideology over a Euclidean space. The higher 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.[7] 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 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.

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., 2021; 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 (G) 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.[8]

The ideology on ES is estimated for each family as the lag of the W-NOMINATE score, that is, the score from the previous calendar year. Figure 2a plots the histogram of ideal points for calendar year 2012, the only year considered in Bolton et al. (2020). Families that

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

[8]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.

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 ES. Our distribution based on ES proposals is similar to (Bolton et al., 2020, Figure 2A, 331), which also includes governance and management proposals.[9] Some differences are nonetheless noticeable. For instance, some families, such as DFA, are at the ideological center when considering governance and management proposals (Bolton et al., 2020) 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 (placed on the left).

In our main tests, we separate our sample of votes into approximately half of the votes in each family category. This results in 30% of the families being classified as non-ES and the rest as ES (the results are not sensitive to this cutoff; see Section E of the Internet Appendix). We find that the unconditional support for ES proposals among funds that belong to ES families is 38.41% over the full sample period, while support among non-ES families is 5.73% (see Table 1a). 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 and easy to estimate. Second, it does not require aggregation of fund votes into a majority vote and therefore allows more variation at the family level. Consider, for example, a family with 45% of funds that consistently support ES proposals and the remaining 55% that oppose them. Aggregating

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

votes at the family level would most likely lead to this family being classified as non-ES even though almost half of its funds are ES supporters. In terms of conflicts of interest between non-ES families and ES funds, tensions in these non-ES families are likely to be less salient than those in non-ES families with a larger proportion of non-ES funds.

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 toward ES proxied by their ideology and by the average support rate using the Spearman correlation. We find that for 2012, the correlation coefficient is 0.966, and it ranges from 0.963 and 0.981 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 37.69% for the full sample period, while support by non-ES families is 4.53% (Table 1b).

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 shareholders returns, as they would be supporting these proposals otherwise. The survey evidence in Amel-Zadeh and Serafeim (2018) also suggests that some investors are reluctant

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to incorporate ES issues into their investment decisions because they do not consider them to be consistent with clients' best interests or would be 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. Tables 2a and 2b examine this characteristic of our proxies 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. Table 2a presents the results using the ideology proxy, and 2b 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 92.2% chance of remaining in the same category in year t+1. When families are classified by average support rates, the probability is 93.4%.[10] Hence, our two family classifications based on proxies for preferences toward ES 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 over ES-related policies are often vague, and there is little accountability. Gibson Brandon, Glossner, Krueger, Matos, and Steffen (2021) 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%).

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[10]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 is 90.7% using the ideology proxy and 91.9% when classified by average support (untabulated).

2.2.4 Other fund characteristics

Table 3 reports summary statistics on important fund characteristics that we use as control variables in our main estimation. The results are reported for the sample of all ES proposals (full sample) and the sample of ES proposals with a voting outcome between 30% and 70% (main sample). The latter contains 105,727 votes on 335 ES proposals from 4,975 distinct mutual funds distributed across 273 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, 0.04%, and the mean firm represents approximately 1.1% of funds' total net assets in the main sample.[11] The mean (median) size of the assets under management by each fund is 4,631 (524) million, and the mean (median) family size is 253 (39) billion dollars. Approximately one-third of the votes in our sample are cast by index funds. 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 in proposals that are further away. Likewise, 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 [30%,70%] interval, which indicates that ES funds or ES families are not selectively investing in firms in which 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 (He et al., 2021). These results are presented in Section C of the Internet Appendix.

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[11]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.

3 Results

3.1 Funds' support for ES proposals

Each fund in our sample is classified as ES or non-ES based on its investment objective. Each fund belongs to a family, and we classify each family as ES or non-ES based on their ideology (W-NOMINATE) or rate of support for ES proposals in the prior year. Our classification yields four categories of funds: (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.

Table 1a provides average support rates for fund, family, and fund-family categories based on their ideology. A representative ES proposal obtains 23.83% of votes in favor. As one may expect, ES funds in ES families provide the highest support on average (68.73%), and non-ES funds in non-ES families provide the lowest (5.03%). Note that family support rates are very similar to those of their non-ES funds, consistent with the high representation of these funds in the full sample. ES funds represent 2.7% of the votes in the full sample;[12] 39% of these votes are cast by ES funds in non-ES families, and the remaining 61% are cast by ES funds in 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 more than doubled between 2011 and 2018.

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 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). 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

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[12]This fraction has been increasing over time. In 2011 they represented 1.76% of the votes, and as of 2018, they account for 4.68%.

is variation at the family level in regard to ES and non-ES funds. This suggests that voting accountability matters.

Second, the average support for ES proposals by non-ES funds belonging to ES families is significantly higher than the support of ES funds belonging to non-ES families (p-value < 0.01). This relation suggests that family preferences are a strong driver of funds' votes on ES proposals.[13] 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 is consistent with prior evidence documenting the significance of fund families on fund votes. Importantly, it raises concerns about potential breaches of fiduciary duties of managers of ES funds in families that are relatively opposed to ES proposals (Lipton, 2017; Hirst, 2018).

From the two observations above, it follows that ES funds belonging to 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. Conversely, voting in favor of such proposals is likely to be aligned with the fund's fiduciary duties but against its family ideology.

We hypothesize that the conflicts of interest that affect ES funds in non-ES families generate incentives for strategic voting and that this affects their voting pattern on ES proposals. Existing evidence shows that institutional investors often take into consideration the probability of their vote being pivotal in their voting decisions (Aggarwal, Saffi, and Sturgess, 2015; Iliev and Lowry, 2015; Zachariadis, Cvijanovic, and Groen-Xu, 2020). Furthermore, Cvijanović et al. (2016) find that mutual funds may even change the direction of their vote when the proposal is contested.

We argue that ES funds in non-ES families have incentives to be more supportive of ES

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[13]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.

Electronic copy available at: https://ssrn.com/abstract=3884917

proposals that they expect to receive very little or very high overall support and therefore for which their vote is less likely to be pivotal. This type of strategic voting provides an opportunity for ES funds in non-ES families to exhibit relatively high support for ES proposals on average, hence appearing to comply with their fiduciary duty regarding voting. Meanwhile, these mutual funds can accommodate the interests of most funds within their families by opposing contested ES proposals. We investigate this hypothesis formally in the next section.

3.2 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 suggests that ES funds in ES families provide higher support for ES proposals for all possible voting outcomes, while non-ES funds in non-ES families provide the lowest support. Notably, ES funds in non-ES families vote in favor of ES proposals above average (45-degree line) when overall support is under 30%, but their rate of favorable votes falls below average for proposals with higher support. Furthermore, the plot for this category reveals a U-shaped relationship centered around the 50% approval rate, consistent with our hypothesis. ES funds in non-ES families vote for ES proposals relatively more often when overall support is either low or high. Conversely, they appear to vote for ES proposals relatively less when the probability of being pivotal is higher. 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, measured by the proportion of favorable voting recommendations, which existing research finds to significantly influence voting outcomes (Larcker et al., 2015; Malenko and Shen, 2016). Notably, ISS recommends voting in favor of all proposals that receive overall support above 30%, and it is generally very supportive of ES proposals. For our sample period, ISS recommends voting for 64.4% 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. We test this formally by comparing the votes of ES funds in non-ES families with 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:

$$Pr(Votefor) = \beta_0 Contested \times ES(non-ES) + \beta_1 Contested + \beta_2 ES(non-ES) \\ + \delta Controls + ProposalFE + MeetingFE + FamilyFE + FundFE + \epsilon \quad (1)$$

where $Pr(Votefor)$ is equal to one if the fund votes in favor of the proposal and zero otherwise. $Contested$ is equal to one if the proposal receives support in the [40%,60%] interval and zero if the voting outcome is in the ranges [30%,40%) or (60%,70%]. We focus on ES proposals in the [30%,70%] interval because this sample is relatively more homogeneous. These are proposals that receive high support (above the median for ES proposals), and all 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).[14]

$ES(non-ES)$ 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, such as fund and family size, fund's stock holdings in the firm in which the proposal is voted, fund turnover, and expense ratio (Iliev and Lowry, 2015), and time-invariant determinants, such as proposal type; we further include family and fund fixed effects to alleviate concerns that fund and family characteristics might bias our results (Hong and Kostovetsky, 2012; Cvijanović et al., 2016; Bolton et al., 2020). All our regressions include

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[14]In addition, none of the proposals were sponsored by any of the top 10 individual sponsors identified by Gantchev and Giannetti (2021) as likely to submit value-destroying proposals.

meeting fixed effects.[15] Hence, we compare fund votes within the same meeting, so any variable that does not vary within meeting cannot explain our results.

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, we do not find evidence of misclassified funds in non-ES families (see Section 2.2.2 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 possible control groups (i.e., ES funds in ES families and non-ES funds in ES families) in Section 3.6.

The results when non-ES funds in non-ES families serve as the control group are presented in Table 4. Panel A shows the results using investor ideology as a proxy for family preferences toward ES; Panel B shows the results using average family support for ES proposals as a proxy. Columns (1) to (3) progressively add controls for fund and family time-variant characteristics and family and fund fixed effects. The main coefficient of interest, β_0, is negative and statistically significant in all the 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, and therefore, their vote is more likely to be pivotal.

The results in Columns (1) and (2) further confirm that ES funds are more likely to vote for ES proposals, even after we control for fund and family characteristics. The coefficient on ES funds in non-ES families, ES(non-ES), in Column (2) of Panel A (after inclusion of family fixed effects), indicates that the probability of voting in favor of ES proposals is 36.9% higher for ES funds relative to that of non-ES funds in non-ES families when the proposal

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[15]Meeting is a unique identifier for a given meeting in a given firm at a given point in time.

is not contested. This difference shrinks by 27% when proposals are contested. The result is quantitatively similar when we use the alternative proxies for family preferences (Panel B). These findings suggest that funds tend to align their votes with family preferences when they matter the most. 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 social and environmental 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 in regard to 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). In addition, we provide two rationales for the heterogeneity of voting policies on ES proposals. 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 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.

3.3 Active vs index funds

The results presented above include both active and index funds. In this section, we study whether index funds differ from actively managed funds in the strategic voting behavior uncovered in our previous analysis. A recent stream of literature suggests differences in the engagement and governance of active and index funds (Bebchuk, Cohen, and Hirst, 2017; Edmans, Levit, and Reilly, 2019; Heath et al., 2022). More specifically, Iliev and Lowry (2015) show that active fund managers adopt strategic considerations when casting their votes and researching items up for a vote when the net benefits of doing so are higher, and Heath et al. (2022) show that active funds are less likely to simply vote with management. However, these authors do not find a similar result for index funds. Other papers also show that index funds are more likely to minimize voting effort by simply voting with management, outsourcing voting to proxy advisors or voting in a one-size-fits-all manner (Larcker et al., 2015; Iliev et al., 2020; Heath et al., 2022). Moreover, recent reports suggest that passive funds maintain more family-centralized voting administration by their stewardship teams, whereas active fund managers may vote independently (Morningstar, 2017). These stewardship teams generally lack both the resources and the incentives to develop fund-specific voting policies (Lund, 2018). Hence, actively managed funds appear to be in a better position to pursue voting policies that differ from those of most other funds in their family.

The strategy of ES funds in non-ES families that we identify requires adopting a proposal-specific approach to voting, distinguishing between ES proposals that are likely to be contested and those that are not. The costs associated with this strategy also suggest that actively managed funds are more likely to engage in this type of strategic voting. Specifically, Iliev et al. (2020) find that passive funds have fewer incentives to engage in governance-related research and resources to spend on it, showing, in line with Heath et al. (2022), that the level of fund fees, which are higher in actively managed funds than in index funds, is related to how active their approach to governance is.

Altogether, the empirical and anecdotal evidence suggests that active funds are more

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likely to drive the previous results. We test this prediction formally by estimating our main specification (Equation (1)) separately for the two groups, active and index funds. Table 5 presents the results for active funds (Columns (1) to (3)) and index funds (Columns (4) to (6)). 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 as the proxy.

Consistent with our hypothesis, the results indicate that the strategic voting behavior documented above is prevalent among active funds but not among index funds. The interaction terms are statistically significant for active funds (Columns (1) to (3)) but statistically indistinguishable from zero for index funds (Columns (4) to (6)). The economic impact is also stronger when we consider active funds only, as opposed to the entire sample. Column (2) shows that consistent with our main specification, ES funds are more supportive than non-ES funds in non-ES families on average after we include family fixed effects. Quite remarkably, for active ES funds (in non-ES families), the drop of support in contested proposal represents a decrease of 60% relative to uncontested proposals when using investor ideology to proxy for family preferences toward ES. Using average support, the drop is to the extent that the difference in support between the ES and non-ES funds ($\beta_0 + \beta_2$) becomes statistically indistinguishable from zero. This result provides further evidence of strategic behavior in which family preferences prevail over funds' stated goals when it matters the most. For index funds, the differences in support between ES and non-ES funds are larger, but they are statistically the same for different voting outcomes. The results in Panels A and B are qualitatively the same, suggesting that our findings are robust to the definition of family preferences.

Our results are in line with evidence that active funds have more voting discretion than index funds and that they also have better incentives and more resources to engage in costly strategic voting (Iliev and Lowry, 2015; Heath et al., 2022; Iliev et al., 2020). Unlike previous papers, we focus here on incentive problems between fund investors and fund families. We find that the greater incentives for engagement that presumably make active funds better monitors (Bebchuk et al., 2017; Edmans et al., 2019) may also facilitate voting strategies

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to deceive their own investors and minimize conflicts of interest with other funds within the family.

3.4   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, proposal type or year. Focusing on active funds, we conduct additional tests that tighten our identification further 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 proposals than the funds voting on uncontested proposals. (By construction, our sample here is restricted to firms for which multiple ES proposals were voted in the same meeting.)

We present the results in Column (1) of Table 6. The interaction term is negative and statistically significant despite the smaller sample size. Notably, the economic impact is two to three times larger than the impact that we find absent the meeting-by-fund fixed effects (Column (3) 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.

Focusing on the same fund's votes at the same meeting allows us to rule out alternative explanations based on factors that do not vary at the proposal level. Note that both ISS and management recommendations are invariant across all proposals in our sample and therefore cannot drive our findings. One potential source of variation is the proposal sponsor. Existing research finds that the nature and identity of the shareholder sponsoring a proposal

can contribute to explaining the support that it receives (Matsusaka, Ozbas, and Yi, 2019; Gantchev and Giannetti, 2021). In untabulated results, we find that the results indicating strategic voting by active ES funds in non-ES families remain unchanged after we control for sponsor type (e.g., individual, fund, union) or identity (e.g., CalSTRS, Benedictine Sisters, Domini Social Investments).[16]

Second, we compare support for the same proposal type (e.g., political contributions disclosures, sustainability reporting) 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. Mutual funds might have voting policies that are specific to certain subjects and vote in a one-size-fits-all manner based on the proposal type, without considering firm-specific factors (Calluzzo and Kedia, 2019). The results, presented in Column (2) of Table 6, remain negative and statistically significant, providing further evidence that active ES funds in non-ES families do vote strategically and that they are less likely to support the same proposal type if they expect it to be contested.[17]

3.5 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 the strategic behavior suggests that pressures to oppose a contested proposal come from firm managers wary of losing a vote and persuading voters to oppose the contested ES 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,

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[16]These results are estimated over the set of proposals for which we have sufficient information to identify their sponsor. As pointed out by Gantchev and Giannetti (2021), ISS does not provide a complete identifier.

[17]In untabulated results, we find that the results are similar after we control for sponsor type or identity.

2019). Note that the results presented in Table 5 suggest that this alternative explanation is less likely to hold because if voting behavior comes down to management influence, we should observe a similar (if not stronger) pattern for index funds. Nevertheless, we perform two tests that further contribute to ruling out alternative explanations related to funds' friendliness toward firm management.

Business ties and engagement are generally determined at the family level (Cvijanović et al., 2016; McCahery, Sautner, and Starks, 2016; Azar et al., 2021; Krueger, Sautner, and Starks, 2020). Hence, we exploit variation in support for ES proposals within the same family at the same meeting (by including family-by-meeting fixed effects) to test whether our results can be explained by relations between specific fund families and their portfolio firms at a certain point in time. The results presented in Column (3) of Table 6 show that the interaction term remains negative and statistically significant. Even though the coefficient is smaller than that in our main specification, the economic impact is sizeable: a 21.4% drop in support relative to the unconditional mean. That is, ES funds are less likely to support ES proposals than other non-ES funds in the same family voting on the same proposal at the same firm meeting when the outcome is contested. These results contribute to rejecting the alternative explanation that our findings are driven by unobserved links between fund families and their portfolio companies.

Our second test is a placebo test for which we use the sample of shareholder-sponsored governance proposals, as opposed to ES proposals. Formally, we estimate Equation (1), controlling for the ISS recommendation using a dummy equal to 1 if ISS recommended voting in favor and zero otherwise (ISS_for).[18] Recall that management almost always recommends voting against shareholder proposals. Hence, voting in favor of these proposals is equivalent to voting against management. We perform this test on the subsample of firms that received at least one ES proposal to account for the fact that firms with governance proposals are different on observable characteristics from firms with ES proposals (see Section

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[18]ISS support for governance proposals is also very high, at 97.5%, but there is still some variation, which allows us to include it in the specification.

C of the Internet Appendix). Finally, we drop governance proposals that received favorable management recommendations.[19]

Column (4) of Table 6 presents the results. The coefficient of interest is statistically indistinguishable from zero in Panel A under the ideology proxy for family preferences toward ES, and it even becomes positive in Panel B under the alternative proxy. These results suggest that strategic behavior is specific to ES proposals and lend further support to our interpretation related to conflicts between family preferences and funds' fiduciary duty to their clients. Moreover, these results support the idea that ES and governance proposals differ 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).

3.6 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. If this were the case, the interaction term, our main coefficient of interest, would be statistically and economically insignificant when we use ES funds in ES families as a control group. This would likely invalidate our interpretation that the results are explained by a conflict between funds' advertised goals and family preferences. Therefore, we can use ES funds in ES families as an alternative control group to 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 the support for ES proposals of non-ES funds in non-ES families, as opposed to a decrease in support of ES funds in non-ES families, as we claim. We show in Figure 3 that ES funds in ES families are very supportive of ES proposals with relatively low voting outcomes and

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[19]Recall that none of the ES proposals in the [30%,70%] interval received a favorable management recommendation.

quickly reach the 100% support mark. Hence, mechanically, their slopes become flat around the 20% threshold. In contrast, non-ES funds of non-ES families provide very low support for most voting outcomes, but the slope becomes steeper for proposals with support above 60%. We use alternative control groups (ES and non-ES funds in ES families) to show that our results are not driven by the selection of the counterfactual.

We present the results in Tables 7 and 8. In the former, we use ES funds in ES families as the counterfactual, and in the latter, we consider non-ES funds in ES families. Column (1) reports the results for active and index funds together; in Columns (2) and (3), we present the results for active and index funds, respectively. 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 7 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 active funds only (Column (2)) but not for index funds (Column (3)), consistent with the idea that active funds have more incentives and resources to engage in strategic voting (Iliev and Lowry, 2015; Iliev et al., 2020) (see also Section 3.3). The coefficient in Column (2) of Panel A in Table 7 means that the probability of voting in favor of the proposal drops by 9.2% 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 toward 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 et al., 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 8 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 results are economically and statistically stronger when we consider active funds only (Column (2)). The coefficient on the interaction term in Column (2) of Panel A in Table 8 means that the probability of voting in favor of the proposal drops by 9.2% when we use non-ES funds in ES families as the control group. These results, together with the results presented in Table 7, 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 2.2.2). The comparison with Morningstar (2019) reveals that 12 of the 128 funds 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, and they all belong to ES families. This means that some ES funds are incorrectly excluded from the control group of ES funds in ES families and that some ES funds are incorrectly considered non-ES in the control group of non-ES funds in ES families. Importantly, this misclassification is unlikely to affect our conclusions because our results hold independently for both control groups. Nonetheless, we address this issue formally. Specifically, we rely on Morningstar (2019) to identify families that broadly incorporate ES into their products and assign *all* their funds to the ES category.[20] The results are reported in Column (4) of Tables 7 and 8 for ES funds in ES families and non-ES funds in ES families, respectively. Unsurprisingly, the results obtained are quantitatively very similar.

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[20]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.

3.7 Additional analyses and robustness tests

In additional analyses we investigate which proposals are driving the results. More than 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, or greenhouse gas (GHG) emissions contribute nearly 26% of the votes. Together, these five categories of ES proposals account for 78.7% of the votes in our sample. We estimate our main specification for social proposals and environmental proposals separately and find that the interaction term is negative and statistically significant for both types of proposals (we present these results in Section D of the Internet Appendix). These results suggest that strategic voting is widespread and is not specific to the "E" or "S" dimension.

In robustness tests, we use alternative definitions of the main dependent and independent variables and find that the results are not sensitive to the choices made in the main analysis. In particular, we replace *Contested* with the distance from the 50% voting outcome as a continuous variable; we exclude abstentions following Bolton et al. (2020); we use alternative thresholds to separate ES from non-ES families; we include governance proposals that could arguably be considered ES, and we exclude funds with strings related to religious values. The results are presented in Section E of the Internet Appendix and show that the results are always consistent with the results presented in the benchmark analysis.

4 Concluding remarks

It is safe to suggest that 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; Gibson Brandon et al., 2021; Krueger et al., 2020; Heath, Macciocchi, Michaely, and Ringgenberg, 2021). The number of ES funds more than doubled over the past few years, and the amount invested through them grew even more. While they still account for a small frac-

tion of the total investment in financial markets, the role mutual funds play in this arena is of growing importance. 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., 2021), and the extent to which they "greenwash." For example, despite the growth in ES funds, the vast majority of ES proposals in U.S. firms are rejected, and ES funds have attracted high scrutiny from regulators after multiple reports suggesting that these funds systematically fail to support ES proposals in their portfolio companies. We study how U.S. mutual funds vote on ES proposals, with particular attention to ES funds. To better understand funds' incentives, we distinguish between those that belong to families with different preferences toward 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 non-ES funds, consistent with their stated objective and fiduciary duty toward their investors. However, we also show that fund family preferences are a strong determinant of fund votes and, consequently, ES funds in non-ES families face a conflict of incentives in representing the preferences of their investors and of their families.

Specifically, we find that ES funds that belong to non-ES families are, on average, less supportive of ES proposals than non-ES funds in ES families. Perhaps more 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. This strategic voting behavior allows ES funds in non-ES families to portray themselves as supporters of ES policies, on average, while they align with opposing family preferences when their support matters the most.

Our results are supported by a highly saturated empirical specification that explicitly controls for unobserved time-invariance, family and firm-meeting characteristics, and time-

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variant fund and family controls. In additional analyses, we find that the same ES fund voting on the same firm meeting is more likely to support an ES proposal that is further away from the majority threshold relative to a proposal that is likely to be contested. We also find that the same ES fund voting on the same type of ES proposal is more likely to support it in a firm meeting in which the outcome is likely to be uncontested relative to more contested ones. 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. Our results are driven by active funds, which have the incentives and ability to engage in strategic voting.

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 ought to be addressed to solve the problem and that ES-driven investors should pay particular attention to family-wide voting policies on ES matters.

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Figure 1. Environmental and social, and governance proposals, by year and voting outcome. This figure plots the number environmental and social (ES) and governance proposals 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. For proposals that are unclassified by ISS, we use keywords in their resolution description to manually assign a category. 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

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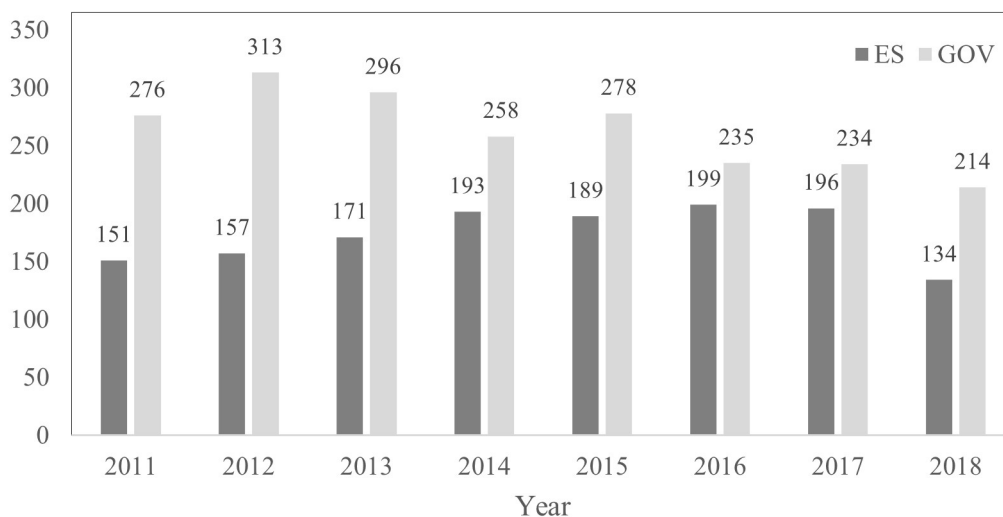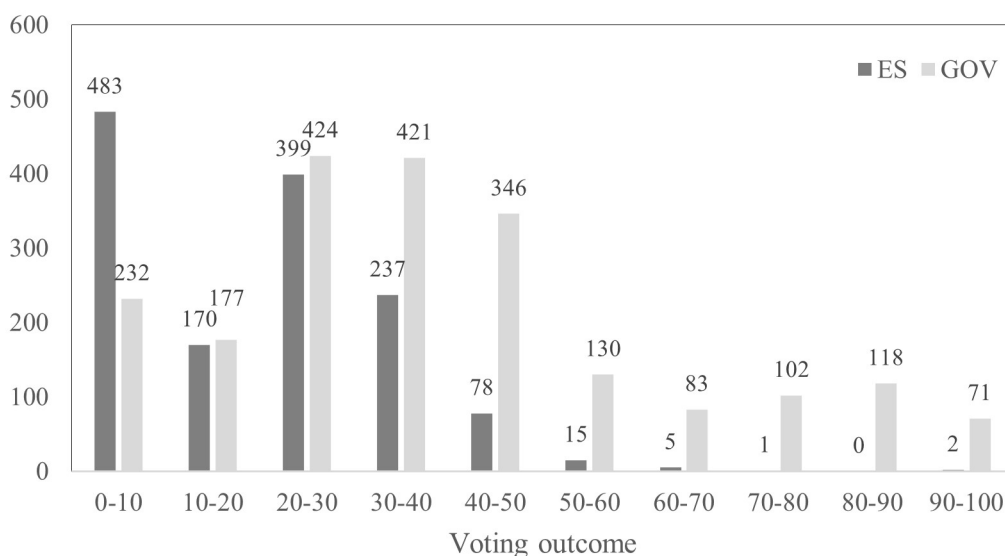
Figure 2. Environmental and social, and governance proposals, by year and voting outcome. This figure plots histograms of the distribution of fund family preferences according to our two estimation criteria for the year 2012 for comparability with Bolton et al. (2020). Figure 2a reports the distribution 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.

(a) Number of ES and governance proposals voted on each year
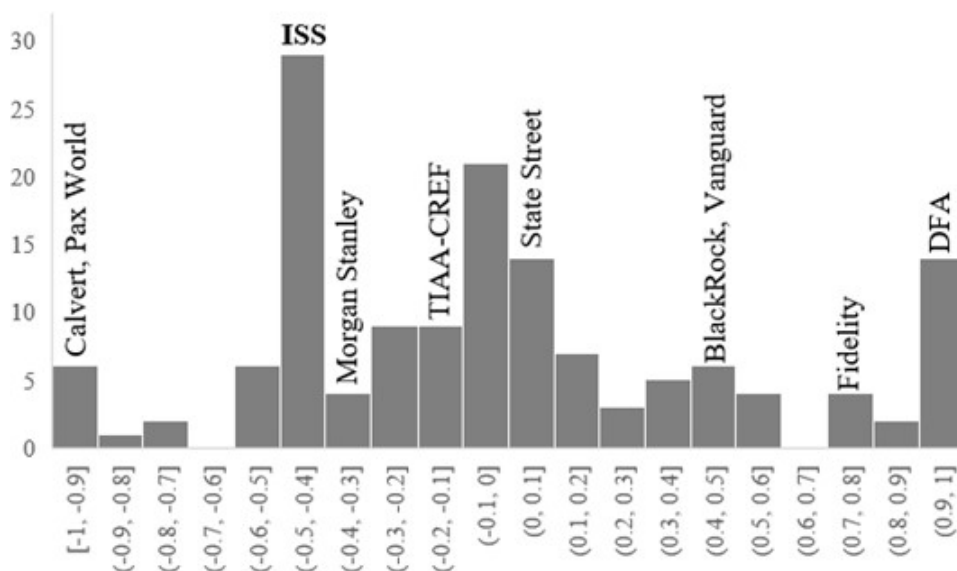
(b) Number of ES and governance proposals by voting outcome[a]

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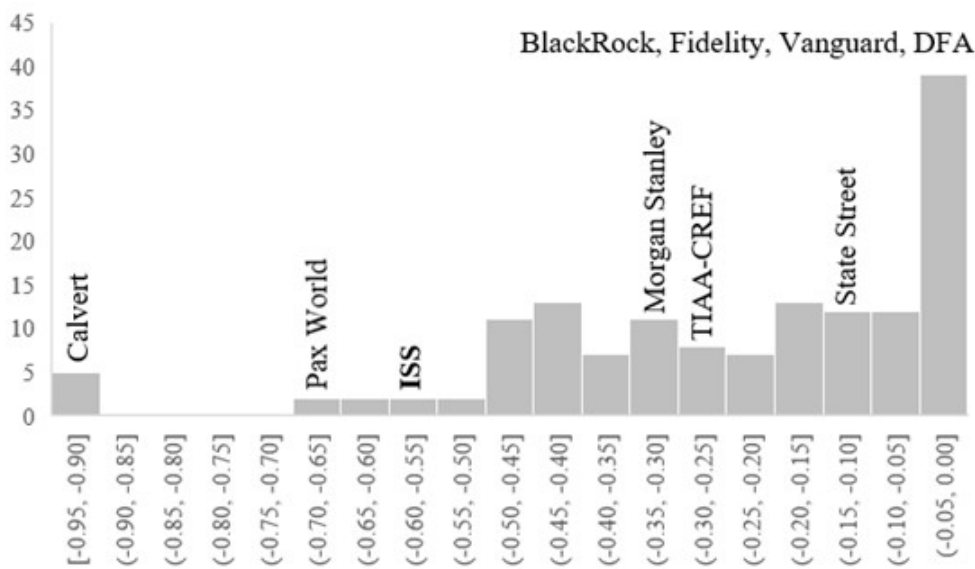
[a]Average support is multiplied by -1 to preserve the order from left (more supportive) to right (less supportive).

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Figure 3. Relative 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.
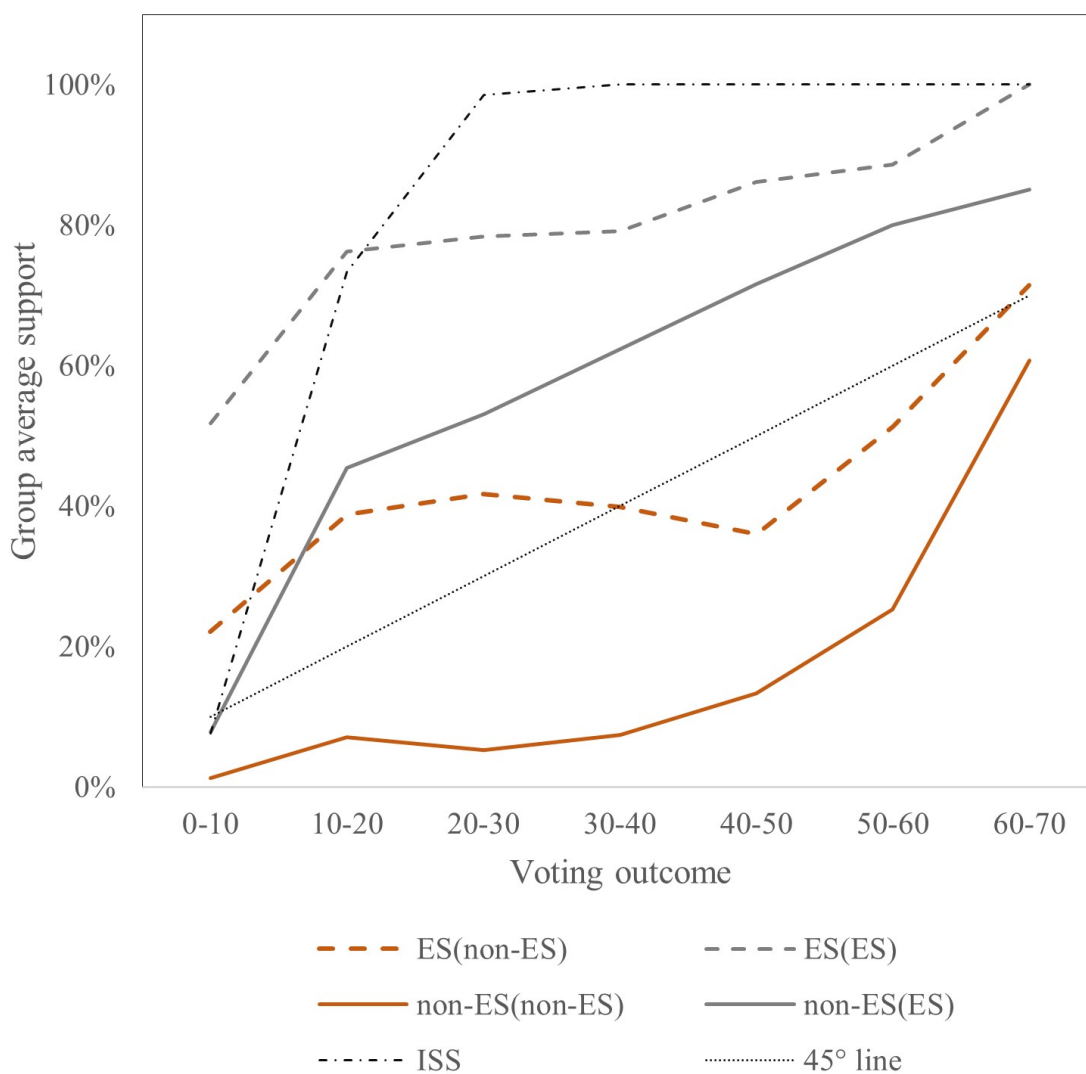
Table 1. Average support for ES proposals by fund and family category. This table reports the average support for ES proposals of each fund and family category. Table 1a reports the percentage of votes in favor of ES proposals of each fund category (rows) and each family category (columns) based on the 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. Table 1b reports the same information for the family classification based on average support rates.

(a) Support for ES proposals by fund and family types (W-NOMINATE)

		Family (ES)	Family (non-ES)	
Fund	ES	68.73%	34.25%	55.28%
	non-ES	37.47%	5.03%	22.95%
		38.41%	5.73%	23.83%

(b) Support for ES proposals by fund and family types (avg. support)

		Family (ES)	Family (non-ES)	
Fund	ES	64.54%	33.05%	55.28%
	non-ES	36.77%	3.98%	22.95%
		37.69%	4.53%	23.83%

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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. Table 2a reports the transition matrix for our classification based on W-NOMINATE scores. For each year, we classify the 70% of families with the strongest preferences toward ES as ES families and the remaining 30% as non-ES families. Our estimation of W-NOMINATE scores considers the vote of a family to be the vote of the majority of its funds. Our estimation includes ES shareholder proposals only and excludes proposals with fewer than 20 voters and institutions voting on fewer than 20 proposals. A family classified as ES for year *t* is classified as ES for the following year with a probability of 92.24% and as non-ES with a probability of 7.76%. Table 2b reports the transition matrix for our classification based on average support rates. For each year, we classify as ES families the 70% of families with the highest mean proportion of votes in favor of ES proposals relative to their total number of votes, and as non-ES families the remaining 30%. We use the same sample defined for the estimation of the W-NOMINATE scores. An ES family preserves its category the following year with probability 93.36%, and a non-ES family preserves its category with probability 85.29%.

(a) Family category based on W-NOMINATE scores

		t+1 (ES)	*t+1* (non-ES)	
t	(ES)	92.24%	7.76%	100%
	(non-ES)	15.06%	84.94%	100%
		69.58%	30.42%	100%

(b) Family category based on average support rates

		t+1 (ES)	*t+1* (non-ES)	
t	(ES)	93.36%	6.64%	100%
	(non-ES)	14.71%	85.29%	100%
		70.20%	29.80%	100%

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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 that were made. The last four columns report key statistics for the ES proposals that received aggregate support within the interval [30%,70%], which is the 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 WNOMINATE 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. *Index Fund* equals one if the fund is flagged "D" by the CRSP Mutual Fund database. *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 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. *Mgt_For* is a dummy variable equal to one if firm management recommended voting in favor of a proposal. *ISS_For* is a dummy variable equal to one if ISS recommended voting in favor of a proposal.

	All ES proposals				Voting outcome [30,70]			
	Obs	Mean	S.D.	Mdn	Obs	Mean	S.D.	Mdn
ES_Fund	508,797	0.027	0.163	0.000	105,727	0.029	0.169	0.000
ES_Family (W-N.)	508,797	0.554	0.497	1.000	105,727	0.558	0.497	1.000
ES_Family (Avg. S.)	508,797	0.582	0.493	1.000	105,727	0.590	0.492	1.000
Index fund	508,797	0.322	0.467	0.000	105,727	0.371	0.483	0.000
% Fund Own (SO)	508,797	0.040	0.126	0.004	105,727	0.050	0.145	0.006
% Fund Own (TNA)	508,797	1.086	1.407	0.582	105,727	0.780	1.161	0.332
Ln_Fund	508,797	6.214	2.142	6.262	105,727	6.241	2.191	6.314
Ln_Family	508,797	10.685	2.144	10.572	105,727	10.742	2.162	10.618
Turnover ratio	434,319	0.564	0.754	0.320	90,731	0.555	0.763	0.300
Expense ratio	434,209	0.007	0.005	0.006	90,689	0.006	0.005	0.006
Mgt_for	508,797	0.001	0.029	0.000	105,727	0.000	0.000	0.000
ISS_For	508,797	0.611	0.487	1.000	105,727	1.000	0.000	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 the distance to the majority threshold (*Contested*) and the fund type. *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. 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)
Panel A: W-NOMINATE			
ES(non-ES) x Contested	-0.100**	-0.099***	-0.045**
	(-2.562)	(-2.935)	(-2.215)
ES(non-ES)	0.289**	0.369***	
	(2.458)	(3.406)	
Contested	0.049***	0.049***	0.048***
	(4.277)	(4.280)	(4.179)
Observations	39,592	39,586	39,332
Adjusted R-squared	0.173	0.332	0.553
Panel B: Average support			
ES(non-ES) x Contested	-0.072**	-0.081**	-0.065**
	(-1.969)	(-2.262)	(-2.373)
ES(non-ES)	0.283**	0.366***	
	(2.528)	(3.301)	
Contested	0.049***	0.049***	0.049***
	(3.920)	(3.929)	(3.912)
Observations	37,849	37,842	37,620
Adjusted R-squared	0.195	0.308	0.489
Proposal FE	Y	Y	Y
Meeting FE	Y	Y	Y
Family FE	N	Y	Y
Fund FE	N	N	Y

Table 5. Active and index funds. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on the distance to the majority threshold (*Contested*) and the fund type. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is non-ES from a non-ES family. 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*). Columns (1) to (3) report the results for active funds, and Columns (4) to (6) present the results for index funds. The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

	Pr(Vote for)					
	Active funds			Index funds		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: W-NOMINATE						
ES(non-ES) x Contested	-0.156***	-0.146***	-0.068***	-0.013	-0.014	-0.018
	(-3.187)	(-3.953)	(-4.424)	(-0.209)	(-0.216)	(-0.339)
ES(non-ES)	0.154	0.247**		0.544***	0.571***	
	(1.177)	(2.194)		(2.923)	(2.878)	
Contested	0.104***	0.103***	0.100***	-0.027*	-0.027*	-0.027*
	(7.259)	(7.264)	(7.081)	(-1.713)	(-1.711)	(-1.711)
Observations	24,318	24,312	24,098	15,274	15,274	15,230
Adjusted R-squared	0.119	0.289	0.537	0.413	0.530	0.636
Panel B: Average support						
ES(non-ES) x Contested	-0.131***	-0.135***	-0.106***	-0.025	-0.017	-0.020
	(-3.138)	(-4.098)	(-6.549)	(-0.398)	(-0.275)	(-0.389)
ES(non-ES)	0.081	0.172**		0.558***	0.573***	
	(0.990)	(2.296)		(2.991)	(2.890)	
Contested	0.108***	0.108***	0.107***	-0.022	-0.022	-0.022
	(6.748)	(6.748)	(6.692)	(-1.308)	(-1.314)	(-1.314)
Observations	22,512	22,505	22,318	15,337	15,337	15,298
Adjusted R-squared	0.154	0.275	0.467	0.413	0.477	0.581
Proposal FE	Y	Y	Y	Y	Y	Y
Meeting FE	Y	Y	Y	Y	Y	Y
Family FE	N	Y	Y	N	Y	Y
Fund FE	N	N	Y	N	N	Y

Table 6. Additional analysis. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on the distance to the majority threshold (*Contested*) and the fund type. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is non-ES from a non-ES family. 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). Column (1) includes meeting-by-fund fixed effects, Column (2) includes proposal type-by-fund fixed effects, Column (3) includes meeting-by-family fixed effects, and Column (4) shows the results of the estimation of the main specification on the sample of governance proposals (with a control for ISS recommendations). 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	-0.169***	-0.037***	-0.025***	0.013
	(-2.835)	(-3.359)	(-2.591)	(0.730)
Contested	0.104***	0.085***	0.099***	0.064***
	(7.398)	(6.227)	(6.479)	(7.025)
Observations	7,048	20,994	22,456	34,758
Adjusted R-squared	0.581	0.700	0.758	0.542
Panel B: Average support				
ES(non-ES) x Contested	-0.276**	-0.055***	-0.061**	0.061***
	(-2.422)	(-3.966)	(-2.501)	(3.387)
Contested	0.111***	0.092***	0.106***	0.059***
	(7.060)	(5.921)	(6.187)	(6.396)
Observations	6,215	19,351	20,791	33,458
Adjusted R-squared	0.501	0.654	0.741	0.526
Proposals	ES	ES	ES	GOV
Proposal FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y
Meeting x Fund FE	Y	N	N	N
Proposal x Fund FE	N	Y	N	N
Meeting x Family FE	N	N	Y	N

Table 7. 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 the distance to the majority threshold (*Contested*) and the fund type. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is ES from an ES family. 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). Column (1) presents the results for all funds, and Columns (2) and (3) present the estimates for active and index 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. 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	-0.038	-0.092***	0.014	-0.084***
	(-1.034)	(-2.681)	(0.168)	(-3.268)
Contested	-0.020	-0.008	0.011	0.054
	(-0.436)	(-0.157)	(0.169)	(1.436)
Observations	2,862	1,726	1,095	2,753
Adjusted R-squared	0.733	0.750	0.625	0.680

Panel B: Average support

ES(non-ES) x Contested	-0.048	-0.140***	0.012	-0.138***
	(-1.240)	(-3.258)	(0.150)	(-3.541)
Contested	-0.024	-0.017	0.012	0.051
	(-0.609)	(-0.434)	(0.177)	(1.469)
Observations	2,862	1,726	1,095	2,753
Adjusted R-squared	0.733	0.751	0.625	0.681
Funds	All	Active	Index	Active
ES Funds	S	S	S	S+M
Meeting FE	Y	Y	Y	Y
Proposal FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y

Table 8. 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 the distance to the majority threshold (*Contested*) and the fund type. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is non-ES from an ES family. 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). Column (1) presents the results for all funds, and Columns (2) and (3) present the estimates for active and index 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. 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

	(1)	(2)	(3)	(4)
ES(non-ES) x Contested	-0.084***	-0.092***	-0.055	-0.092***
	(-3.451)	(-6.084)	(-0.860)	(-6.060)
Contested	0.123***	0.104***	0.161***	0.102***
	(9.406)	(8.428)	(5.577)	(8.132)
Observations	50,109	32,849	17,255	31,833
Adjusted R-squared	0.566	0.619	0.493	0.623

Panel B: Average support

	(1)	(2)	(3)	(4)
ES(non-ES) x Contested	-0.094***	-0.127***	-0.050	-0.127***
	(-2.844)	(-7.203)	(-0.777)	(-7.295)
Contested	0.116***	0.097***	0.156***	0.096***
	(9.294)	(8.442)	(5.386)	(8.158)
Observations	51,282	34,085	17,192	33,069
Adjusted R-squared	0.578	0.632	0.496	0.636
Funds	All	Active	Index	Active
ES Funds	S	S	S	S+M
Meeting FE	Y	Y	Y	Y
Proposal FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y

Internet Appendix

A. Fund classification

We compare our classification of funds with that of Morningstar (2019). This report provides the universe of sustainable funds in the U.S. in 2018 grouped according to Morningstar's criteria and further classifies them into four categories: (i) ESG Consideration, (ii) ESG Integration, (iii) Impact, and (iv) Sustainable Sector. According to Morningstar (2019), there were 270 funds with more comprehensive sustainability criteria in the U.S. at the end of 2018 (ESG Integration, Impact and Sustainable Sector), and 128 of them appear in our final sample for 2018.[1] From the comparison of our classification of ES funds with Morningstar's report, it follows that our string-based classification tags as non-ES 12 funds that, according to Morningstar, have a comprehensive ES strategy. These 12 funds belong to fund families that we systematically classify as ES for every year that they appear in our sample. This leads us to relate the absence of an ES string in their names to an overarching ES approach at the family level. More specifically, families advertising a general ES-sensitive approach may not need to use their funds' names to signal their ES approach because investors can take it for granted. Conversely, families that do not generally embrace ES strategies may need to signal the ES orientation of some of their funds by including related concepts in their names.

For instance, Calvert Equity is an integration fund (Morningstar 2019) with a name that does not contain any ES strings and is therefore classified as non-ES in our sample. This fund is offered by Calvert, an institution that is wholly oriented toward ES. Calvert's main site contains the slogan *"At the forefront of Responsible Investing + engagement"*,

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[1]There are four reasons why some funds do not appear in our sample: (i) many ES funds were launched in 2018, and they might not have voted on any ES proposals as of December 2018; (ii) some funds cannot be matched to the CRSP Mutual Funds dataset to obtain fund characteristics and ownership data; (iii) some funds might belong to families that do not vote on a sufficiently large number of ES proposals to estimate their ideology; and (iv) some funds invest primarily in bonds or non-U.S. companies, and therefore, they do not appear in ISS voting records.

and Calvert investors can arguably expect that all its products are ES sensitive.[2] Similarly, the fund Invesco WilderHill Progressive Energy ETF is classified as a Sustainable Sector fund by Morningstar (2019). Although the fund's name does not contain any ES strings, Invesco's approach *"focuses on integrating ESG risk and opportunity factors into investment decisions"* at the family level.[3]

The comparison also reveals that we do not tag as ES funds those that simply consider ES, i.e., ESG Consideration funds. That is, for 2018, none of those funds contain any of the strings that we use in our classification.[4] ESG Consideration funds use ESG information to help inform their investment decisions, and this is noted in the fund's prospectus. However, for these funds, ESG considerations generally do not come into play at the portfolio-construction stage, and they typically do not incorporate exclusionary screenings, impact analyses, or engagement as a formal part of their process (Morningstar, 2019). John Hale, director of Sustainability Investing Research at Morningstar, argues in Hale (2020) in regard to ESG Consideration funds that *"these are not what I consider to be fully-fledged sustainable investments. They are otherwise conventional funds that now say they consider ESG factors in their investment process."*

Overall, the comparison of our classification of ES funds with Morningstar's report reveals that we tag only those ES funds that have a marked ES-oriented strategy and that misclassified funds belong to ES families. Given that there are 2,612 non-ES funds in our sample for 2018 (1,605 in ES families and 1,007 in non-ES families), the 12 misclassified funds are not expected to significantly affect our results.

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[2]See https://www.calvert.com/ [accessed May 11, 2021].

[3]See https://www.invesco.com/corporate/about-us/esg [accessed May 11, 2021].

[4]There are 81 ESG Consideration funds in Morningstar, and 25 of them appear in our sample.

B. Fund family ideology

Suppose that there are three mutual fund families: Allianz (A), BlackRock (B), and Calvert (C). Assume that our three families voted on 100 distinct ES proposals as follows:

Number of proposals	Allianz	BlackRock	Calvert
10	For	For	For
10	For	Against	For
30	For	For	Against
0	For	Against	Against
10	Against	Against	Against
10	Against	For	Against
30	Against	Against	For
0	Against	For	For
100	AS(A,B)=0.8	AS(B,C)=0.2	AS(A,C)=0.4

Of the 100 proposals, on 10 proposals, all three funds voted "for" (first row), and there were zero proposals on which Allianz voted "for" and BlackRock and Calvert voted "against" (fourth row). The three families voted the same on 20 proposals (combining the first and sixth rows). For each pair of families, we estimate the agreement score (AS): the fraction of times that two families voted alike. These values are reported in the last row of the table, and they indicate that Allianz and BlackRock are closest to each other (AS(A,B) = 0.8) and that Allianz is closer to BlackRock than to Calvert (AS(A,B) = 0.8 compared to (AS(A,C) = 0.4).

We can then map the AS onto the ideology space. With one ideological dimension, we have a straight line that can be scaled over the interval [-1,1]. The corresponding score of each voter is called the ideal point. For each family, we compute a score that determines its position over the line and, therefore, its ideology following Poole (2005) four-step procedure.

The first step is to form an agreement score (AS) matrix for the fund families.

$$\begin{vmatrix} 1.00 & 0.80 & 0.40 \\ 0.80 & 1.00 & 0.20 \\ 0.40 & 0.20 & 1.00 \end{vmatrix}$$

The next step is to convert the AS matrix into a matrix of squared distances, subtracting the ASs from 1 and squaring them.

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$$\begin{vmatrix} 0.00 & 0.04 & 0.36 \\ 0.04 & 0.00 & 0.64 \\ 0.36 & 0.64 & 0.00 \end{vmatrix}$$

Then, we have to double-center the matrix of squared distances. That is, from each element of the matrix of squared distances, subtract the row mean, subtract the column mean, add the matrix mean, and divide by -2.

$$\begin{vmatrix} 0.02 & 0.04 & -0.06 \\ 0.04 & 0.11 & -0.16 \\ -0.06 & -0.16 & 0.22 \end{vmatrix}$$

Finally, take the square root of a diagonal element of the previous matrix and divide each element of the column by the square root of the diagonal element of that column.

$$\begin{vmatrix} 0.13 & 0.13 & -0.13 \\ 0.33 & 0.33 & -0.33 \\ -0.47 & -0.47 & 0.47 \end{vmatrix}$$

The coordinates for the fund family are 0.13, 0.33, and -0.47 for A, B, and C, respectively. Note that the mirror image of the recovered rank ordering (-0.13, -0.33, and 0.47) is also a solution (Poole, 2005). This mapping is agnostic about which investor is on the right and which is on the left. What matters is the relative position of a family on the scale and the relative distance.

The methodology developed by Poole and Rosenthal incorporates the fact that voters do not always vote according to their ideology (e.g., due to perceptual errors or omitted idiosyncratic reasons). Their methodology proposes a tractable solution to the estimation of ideal points by assuming that families vote for the outcome on a proposal that is closest to their ideology, with error. Using a nonlinear logit model on a spatial utility function, they estimate the coordinates for the families and the outcomes based on actual votes (Poole and Rosenthal, 1985).

4

C. Firm characteristics

To better understand the characteristics of firms with ES proposals, we compute firm-level variables using data from Compustat Annual and ownership variables from Thomson Reuters. All the variables are estimated at the end of the fiscal year prior to the annual meeting in which the proposal is cast. Table IA.1 shows firm characteristics for firm-years with ES proposals (Columns (1) to (3)), with any type of shareholder proposal (Columns (4) to (6)), and for firm-years in Compustat Annual (Columns (7) to (9)). Less than 2% of Compustat firm-years have ES proposals. Moreover, firms with ES proposals are different from a typical Compustat firm in several dimensions. In particular, firms with ES proposals are significantly larger (the average market capitalization is approximately $40.5 billion vs. $5.5 billion for the average Compustat firm). These firms are more profitable, have a higher market-to-book value, pay higher dividends and hold less cash. These figures are consistent with He et al. (2021). In terms of ownership structure, these firms have higher and more dispersed institutional ownership. On average, each firm in our sample (of firms with ES proposals) is held by 416 different funds. In most firms, there are both ES and non-ES funds casting their shares, i.e., there is a high overlap between the portfolio holdings of funds with different ES-related objectives.

Table IA.1. Firm characteristics. This table reports the characteristics of firms where an ES proposal was put up for a vote (Columns (1) to (3)), firms where a shareholder proposal was put up for a vote (Columns (4) to (6)), and firms in the Compustat universe (Columns (7) to (9)). The table reports the mean, standard deviation and median values of key firm characteristics for firm-year observations of the three samples from 2011 to 2018. The statistics are reported for the following variables. *MktValue* is market capitalization in millions of U.S. dollars; *Size* is defined as the natural logarithm of total assets; *ROA* is return on assets defined as EBITDA/assets; and *Mkt_to_Book* is the ratio of market value of equity to book value of equity, with book value defined as the book value of stockholders' equity minus the book value of preferred stock plus deferred taxes. *Sales_growth* is the annual change in sales relative to the previous fiscal year. *Dividends* is defined as common dividends plus preferred dividends normalized by the market value of common and preferred stock. *Cash* equals cash plus short-term investments relative to total assets, and *Mkt_share* is the ratio of firm sales to industry sales, with industry defined at the 2-digit SIC code level. *InstOwn* is the fraction of shares held by institutional investors, as reported by the Thomson Reuters Ownership Database. *InstOwn_HHI* is the Herfindahl-Hirschman index of institutional ownership. *# Inst Owners* is the number of institutional owners, and *# Block Owners* is the number of block owners, also as reported by the Thomson Reuters Ownership Database.

	Firm-years with ≥ 1 ES proposal (# Obs. 871)			Firm-years with ≥ 1 Shareholder proposal (# Obs. 2,079)			All Compustat firms (# Obs 57,608)		
	Mean (1)	S.D. (2)	Mdn (3)	Mean (4)	S.D. (5)	Mdn (6)	Mean (7)	S.D. (8)	Mdn (9)
MktValue	40,462	34,537	27,145	28,054	31,138	13,838	5,337	14,356	640
Size	10.30	1.66	10.45	9.61	1.84	9.66	6.771	2.416	6.801
ROA	0.148	0.103	0.134	0.136	0.129	0.132	0.041	0.358	0.088
Mkt_to_Book	3.282	6.758	2.18	3.282	6.878	2.163	2.599	6.871	1.591
Sales_growth	0.042	0.16	0.016	0.047	0.155	0.02	0.075	0.255	0.020
Dividends	0.023	0.019	0.021	0.02	0.021	0.018	0.021	0.036	0.006
Cash	0.121	0.129	0.081	0.128	0.135	0.086	0.179	0.223	0.086
Mkt_Share	0.05	0.057	0.026	0.039	0.052	0.013	0.009	0.026	0.001
InstOwn	0.751	0.162	0.761	0.772	0.172	0.798	0.526	0.346	0.583
InstOwn_HHI	0.04	0.029	0.034	0.045	0.035	0.037	0.189	0.261	0.073
# Inst Owners	865.7	526.1	740.0	667.8	490.7	521.0	174.5	243.2	105.0
# Blockowners	2.477	1.444	2.000	2.744	1.442	3.000	2.168	1.862	2.000

D. Which proposals drive the results?

Most shareholders can submit ES proposals at annual shareholder meetings at a relatively low cost. This might enable individual investors or organizations to demand corporate changes that advance their own agendas or that are not tailored to a firm's circumstances (Matsusaka et al., 2019; Gantchev and Giannetti, 2021). Moreover, as suggested by Flammer (2015), many ES proposals might be symbolic in nature, put forward by shareholders seeking to bring social issues to the attention of management and the public, not so much in the expectation that the proposals will pass.

Our empirical strategy relies on proposals with a relatively close outcome, so our findings are unlikely to be explained by symbolic proposals. Table IA.2a sheds further light on the type of proposals that drive our results. We provide details on the proposals in our main specifications with voting outcomes within the [30%,70%] interval, sorted by the number of votes that each received. We also classify the proposals into social and environmental. More than 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, or greenhouse gas (GHG) emissions contribute nearly 26% of the votes. Together, these five categories of ES proposals account for 78.7% of the votes in our sample. The remaining votes are spread across 16 other categories. Notably, political contributions and lobbying expenditures are very often directed toward blocking progress on environmental regulation (Schendler and Toffel, 2011). Proposals related to these issues are the most prominent in our sample and thus are highly relevant to explaining the strategic voting behavior of active ES funds in non-ES families. Table IA.2b presents the results obtained from estimating our main specification for social proposals (odd columns) and environmental proposals (even columns) separately. We find that the interaction term is negative and statistically significant for both types of proposals. Our estimate is larger for environmental proposals than for social proposals, but the economic magnitudes are very similar because environmental proposals receive higher unconditional support: relative to the unconditional mean, active

ES funds in non-ES families are at least 50% less likely to support contested environmental or social proposals than non-ES funds in non-ES families.

Table IA.2. Which proposals drive the results? This table provides information about the proposal types in our sample and their contribution to our results. Table IA.2a shows the proposal types that receive support in the [30%,70%] interval, their weight in our main specifications, and their designation as either social or environmental proposals. Table IA.2b reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on the distance to the majority threshold and the fund type for social (S) and environmental (E) proposals separately. The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

(a) ES Proposals

issagendaitem	N. Votes	Percent	Resolution	E or S
S0807	34616	32.74	Political contributions disclosure	S
S0808	21459	20.30	Political lobbying disclosure	S
S0742	9975	9.43	Report on climate change	E
S0777	9759	9.23	Report on sustainability	E
S0743	7416	7.01	GHG emissions	E
S0812	4006	3.79	Report on EEO	S
S0731	2897	2.74	Community- environmental impact	E
S0781	2795	2.64	Recycling	E
S0811	2260	2.14	Adopt sexual orientation anti-bias policy	S
S0744	2154	2.04	Hydraulic fracturing	E
S0412	1524	1.44	Human rights risk assessment	S
S0779	1361	1.29	Renewable energy	E
S0710	1155	1.09	Facility safety	S
S0817	1101	1.04	Gender pay gap	S
S0414	674	0.64	Improve human rights standards or policies	S
S0782	549	0.52	Publish two degree scenario analysis	E
S0427	540	0.51	Data security, privacy, and internet issues	S
S0735	487	0.46	Health care - related	S
S0999	472	0.45	Social proposal	S
S0738	358	0.34	Product safety	S
S0725	169	0.16	Weapons - related	S

(b) Environmental vs. social proposals

	Pr(Vote for)			
	(1)	(2)	(3)	(4)
ES(non-ES) x Contested	-0.048***	-0.076***	-0.049***	-0.159***
	(-4.060)	(-2.793)	(-2.771)	(-3.366)
Contested	0.019**	0.063**	0.021**	0.074**
	(2.496)	(2.309)	(2.397)	(2.218)
Proposals type	S	E	S	E
ES Family proxy	W-NOMINATE		Avg. support	
Observations	15,627	8,134	14,600	7,371
Adjusted R-squared	0.612	0.508	0.560	0.411
Meeting FE	Y	Y	Y	Y
Proposal FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y

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E. Robustness tests

We conduct several robustness tests focusing on the main variables in our analysis to verify that our results hold for alternative definitions of the dependent and explanatory variables. In particular, we measure the distance from the 50% voting outcome as a continuous variable; we examine the role of abstentions and the impact of changing the threshold that separates ES from non-ES families; we include governance proposals that could arguably be considered ES, and we exclude funds with strings related to religious values. The results are presented in Table IA.3.

The baseline specification defines *Contested* as a dummy variable equal to one if the voting outcome is between 40% and 60% and zero when it is within [30%, 40%) or (60%, 70%]. Column (1) presents the results obtained using the continuous variable $Distance\_to\_50$, defined as the absolute value of the difference between the voting outcome and 50% support, and restricting the sample to proposals in the interval [30%,70%], as in our main analysis. This specification provides more variation in the explanatory variable. A drawback is that it assumes that the relationship between voting outcomes and the probability of voting in favor of a proposal is linear and that the slope is the same on both sides of the 50% threshold. Note that in this case, we expect a positive coefficient on the interaction term, since ES funds in non-ES families are expected to provide more support for ES proposals that are further away from the majority threshold (i.e., for higher values of $Distance\_to\_50$). The results show that our previous findings are robust to using this alternative definition of Contested. Regarding the economic impact, ES funds in non-ES families are 1% more likely to support ES proposals when the distance to the majority threshold increases by 1% than non-ES funds in non-ES families.

The second robustness test relates to the definition of the explained variable. The literature on mutual fund voting lacks consensus on how to treat abstentions or votes that are neither in favor nor against. For instance, Bolton et al. (2020) argue that the number of abstentions is so small that it can be neglected; in Heath et al. (2022), abstentions play a

relevant role and have economic meaning. He et al. (2021) aggregate abstentions and votes against after showing that abstentions are not significantly different from votes against a proposal. While we follow the former approach in our main tests, in Column (2) of Table IA.3, we show that our results hold when we consider only votes in favor or against, as in Bolton et al. (2020), and the economic magnitude is also similar. Notably, the number of observations drops substantially. While there is high variation in abstentions at the family level, non-ES families abstain very frequently on ES proposals, especially for the earlier years of our sample.

We next test the robustness of the results when we change how we define ES families. Specifically, we modify the cutoff that separates ES from non-ES families. In the benchmark specification, we use a cutoff that leaves approximately half of the fund votes in each family category, which corresponds to approximately 70% of families being tagged as ES and the remaining as non-ES. In Column (3) of Table 11, we use 80%, while in Column (4), we consider a 60% threshold. The results are robust to using these alternative definitions of non-ES families, with both economic and statistical impacts that are similar to those in the benchmark specification.

In Section 2.b., we argue that there are five types of proposals directed at limiting executive compensation or linking it to social criteria as social proposals that ISS classifies as GOV but that could arguably be considered ES (Morgan et al., 2011). There are 96 of these proposals in our sample, but only 8 of them received support in the interval [30%,70%]. All of them are proposals promoting board diversity and received a favorable recommendation from ISS. The addition of these proposals is not expected to affect our conclusions given that they increase the sample size by only 1.2%. In untabulated results, we estimate our main specification including these proposals and find that all the results are quantitatively the same.

Finally, we rerun our main regressions excluding funds with strings related to religious values and find that our results are qualitatively similar (untabulated). This is unsurprising since these funds represent less than 1% of the votes.

Table IA.3. Robustness tests. This table reports robustness tests related to our definitions of *Contested* (Column (1)), *Vote for* (Column (2)), and the thresholds to separate ES and non-ES families (Columns (3) and (4)). In Column (1), we use the variable *Distance_to_50*, a continuous variable equal to the absolute value of the difference between 50 and the voting outcome. In Column (2), we consider only votes cast for or against. In Columns (3) and (4), we use thresholds of 80% and 60%, respectively, to separate ES and non-ES families. In Panel A, we use the W-NOMINATE score to define the family, and in Panel B, we use the average support. 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 Distance_to_50	0.009***			
	(8.637)			
ES(non-ES) x Contested		-0.076***	-0.071***	-0.073***
		(-5.028)	(-4.990)	(-4.554)
Distance_to_50	-0.009***			
	(-7.674)			
Contested		0.124***	0.061***	0.110***
		(6.932)	(3.241)	(8.076)
Observations	24,098	18,801	13,876	29,667
Adjusted R-squared	0.538	0.571	0.504	0.545
Panel B: Average support				
ES(non-ES) x Distance_to_50	0.011***			
	(6.482)			
ES(non-ES) x Contested		-0.113***	-0.047***	-0.066***
		(-5.741)	(-2.699)	(-4.167)
Distance_to_50	-0.010***			
	(-7.418)			
Contested		0.134***	0.022	0.120***
		(6.658)	(1.086)	(8.955)
Observations	22,318	16,986	11,164	28,602
Adjusted R-squared	0.467	0.515	0.344	0.511
Threshold Family	70	70	80	60
Abstentions included?	Y	N	Y	Y
Meeting FE	Y	Y	Y	Y
Proposal FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y

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The European Corporate Governance Institute has been established to improve *corporate governance through fostering independent scientific research and related activities.*

The ECGI will produce and disseminate high quality research while remaining close to the concerns and interests of corporate, financial and public policy makers. It will draw on the expertise of scholars from numerous countries and bring together a critical mass of expertise and interest to bear on this important subject.

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