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Finance Working Paper N° 774/2021
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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 behavior is driven by institutional investors' ability to monitor funds votes, and to discipline funds with lower inflows when they provide low average support for ES proposals. 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.

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

JEL Classifications: G11, G30, K22, M14

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

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

1 Introduction

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

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

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.[1] This might create 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, they vote against ES proposals in a manner consistent with family preferences.

The evidence we find suggests that ES funds in non-ES families use this voting strategy. In particular, ES funds in non-ES families are relatively supportive of ES proposals that pass or fail by large margins but unsupportive of proposals that end up close to the majority threshold. In Figure 3, we examine the support for ES proposals for different voting outcomes for each type of fund. First, it shows that ES funds are more supportive of ES proposals than non-ES funds, on average. The differential support is approximately 25% higher within both ES and non-ES families. Second, and more importantly, it shows that ES funds in non-ES families depicts a U-shape centered around the 50% approval threshold. 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 family preferences. The graphical evidence, which is also supported by the empirical specification explained below, is consistent with ES funds in non-ES families trying to accommodate family preferences opposing ES proposals when their votes might be pivotal while showing a pro-ES approach expected by their investors, supporting uncontested

[1] Although shareholder proposals are advisory in nature, directors are discontinuously more likely to implement proposals that pass (Flammer, 2015) due to career concerns (Ertimur, Ferri, and Stubben, 2010; Ertimur, Ferri, and Oesch, 2018).

proposals, i.e., greenwashing their votes. Furthermore, we find that ES funds desire to show high support for ES proposals and at the same time satisfy family ideology concentrates in ES funds that cater to institutions, who are more likely to monitor funds average support. Importantly, we find that ES funds that do not follow this strategy experience lower inflows.

To identify ES 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 to be those whose name contains an ES-related string such as sustainab, green, impact or climate. We also read the prospectuses of all ES funds and a sample of non-ES funds to ensure accurate classification. We categorize fund families using two proxies based on the preferences revealed by their past votes. First, we estimate fund family ideology over ES using the W-NOMINATE algorithm (Poole and Rosenthal, 1985; McCarty, Poole, and Rosenthal, 1997) following Bolton, Li, Ravina, and Rosenthal (2020). Second, we categorize fund families into ES and non-ES based on their average past support for ES proposals over all their funds. 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%. We further find, consistent with the notion of ideology, that it is highly autocorrelated and that families rarely change their ideology over the eleven-year sample period.

Our empirical specification 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 support of 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 21.5% more likely to support an uncontested proposal than non-ES funds but that the difference drops by 13.1% for contested proposals, i.e., a 60% decrease in support. Perhaps even more telling, our results are economically and statistically significant when we exploit variation in support for the same proposal by funds of the same family (using proposal-by-family fixed

effects). This specification provides further evidence that ES and non-ES funds of the same family vote differently, and that ES funds support proposals in which the probability of being pivotal is lower, but their votes are more aligned with non-ES funds for proposals that end up close to the majority threshold.[2] This finding indicates that when their votes matter the most, ES funds show a lower ES orientation, consistent with family preferences and against their shareholders' interests.

We zoom in on strategic behavior of ES funds in non-ES families by analyzing how they 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 indicate that when two ES proposals are cast at the same meeting, ES funds in non-ES families are relatively more likely to support the proposal that is unlikely to be close to the majority threshold (relative to non-ES funds of the same families), 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., reports on climate change) in contested and uncontested proposals by including fund-by-proposal-type fixed effects, following Calluzzo and Kedia (2019). The results suggest that ES funds in non-ES families are more likely to support the same type of proposal in shareholder meetings in which the proposal is less likely to be contested while opposing the same proposal type on contested ones. These results highlight an additional relevant aspect of funds' behavior: these 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.

The strategic voting behavior documented above only makes sense if investors hold mutual funds accountable for their votes. Monitoring mutual fund votes is complex because votes are only disclosed once a year in overwhelmingly long forms without a clear identifica-

[2]By looking at how funds of the same family vote on exactly the same proposal, we are able to control for sponsor and proposal quality, suggesting that these confounding factors that do not vary at the proposal level cannot explain our results.

tion of proxy voting matters and categories.[3] While monitoring votes might not be feasible for unsophisticated investors, prior literature suggests that institutional funds have more resources and ability to exercise market governance than retail funds (Del Guercio and Tkac, 2002; Evans and Fahlenbrach, 2012), and we therefore expect strategic voting to be driven by institutional funds. We rerun our main specifications in the subsamples of institutional and retail funds and find that non-ES families do not have a differentiated voting policy for retail ES funds. That is, retail ES funds and non-ES funds are equally (un)supportive of ES proposals, both in contested and uncontested ones. The strategic voting behavior of ES funds in non-ES families is explained by institutional funds only. Moreover, we find that institutional ES funds that provide little support for ES proposals on average experience lower flows than non-ES funds, consistent with institutional investors monitoring fund votes. However, retail fund flows do not react to low support for ES proposals.

Existing research documents that ties between fund families and their portfolio companies can lead to funds being more supportive of management with their votes (Cvijanović, Dasgupta, and Zachariadis, 2016; Calluzzo and Kedia, 2019). 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. 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, and reinforces the interpretation that the strategic voting of ES funds in non-ES families is unique to ES proposals, related to fund family ideology, and is unlikely to be driven by other omitted variables.

We also examine whether this strategic behavior by ES funds is common to all types of ES funds, regardless of their family type. To this end, we use ES funds in ES families as the

[3]See "SEC Proposes to Enhance Proxy Voting Disclosure by Investment Funds and Require Disclosure of Say-on-Pay Votes for Institutional Investment Managers." September 29, 2021. Available here (Accessed October 14, 2022).

control group. Our results indicate that ES funds in non-ES families reduce their support for ES proposals by 11.3% in contested proposals relative to ES funds in ES families. 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. 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.

Finally, we conduct over half a dozen interviews with mutual fund managers, proxy solicitors and industry experts to ensure that our assumption regarding the predictability of the voting outcome is accurate. These experts argue that voting outcomes can be anticipated reasonably well based on publicly available information including the proposal sponsor, previous support for the same type of proposal, firm characteristics (in particular, in relation to peers) and proxy advisor recommendations.[4] This is also consistent with existing empirical evidence (Cvijanović et al., 2016; Zachariadis, Cvijanovic, and Groen-Xu, 2020).

Two contemporaneous papers by Curtis, Fisch, and Robertson (2021) and Dikolli, Frank, Guo, and Lynch (2022) conclude that ES funds deliver on their promises, as ES funds' support for ES proposals is higher than the support provided by non-ES funds. Our paper shows that the reality is more nuanced. First, for ES funds in non-ES families, the higher support is partially explained by ES funds inflating their voting records in uncontested proposals. Second, the differential support is driven by institutional funds that have the ability to monitor fund votes, but this is not the case for retail funds. Therefore, our paper shows that both funds' stated objective and family preferences influence fund votes, adding to the literature on the determinants of mutual fund votes in general (Matvos and Ostrovsky, 2010; Iliev and Lowry, 2015; Larcker, McCall, and Ormazabal, 2015; Calluzzo and Kedia, 2019; Bolton et al., 2020; Bubb and Catan, 2022; Heath, Macciocchi, Michaely, and Ringgenberg,

[4]We provide a comprehensive review in Section E of the Internet Appendix.

2022) and ES votes in particular, which have received less attention in the literature. Hence, we also uncover a form of greenwashing, adding to other papers that find evidence of deceiving ES-related practices (Gibson Brandon, Glossner, Krueger, Matos, and Steffen, 2022) and to the call for further research in this area (Edmans and Kacperczyk, 2022). Our paper also adds to prior studies examining conflicts of interest between funds of the same family. These studies document the use of cross-subsidization via cross-trading (Gaspar, Massa, and Matos, 2006; Eisele, Nefedova, Parise, and Peijnenburg, 2020) and investment (Bhattacharya, Lee, and Pool, 2013). We show that those conflicts can also translate into transfers of votes in the interest of the family. Finally, our study uncovers new determinants of votes in contested proposals. While Cvijanović et al. (2016) document that firm managers may exploit business ties and Bach and Metzger (2019) find that firm managers may persuade friendly voters when voting outcomes are expected to be close, we find that mutual fund family preferences influence fund voting in contested proposals.

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). This is particularly acute for retail investors, with limited ability and resources to parse these voluminous forms. If funds' transparency and adherence to their stated objectives are important, then monitoring and perhaps publishing their voting records on contested votes might be useful. For investors, we show that while a fund's stated ES objectives affect its average voting pattern, the preferences toward ES of the family to which it belongs are also important. In fact, 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 2021. This dataset provides voting records for funds filing SEC form N-PX. To estimate the voting outcome, we supplement our voting data with the Company Voting Results dataset, which includes ISS voting recommendations, vote cast for each proposal, voting bases and voting requirements. For each shareholder proposal, we collect information on the firm in which the proposal was made, meeting date, mutual fund name, family to which the mutual fund belongs, type of proposal (ES or governance), and the fund's vote (for, against or abstain) for each proposal.[5] We collect information on proposal type from the ISS Shareholder Proposals dataset. We exclude proposals with supermajority rules (these represent 1.5% of ES proposals and 2% of governance proposals). Further data on mutual fund characteristics, such as total net assets, expense ratio and portfolio holdings, are retrieved from CRSP Mutual Fund.[6] 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-

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

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

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 proposals as either "socially responsible investment" or "governance."[7] In our main tests, we use this classification to sort ES and GOV proposals. We further check the accuracy of this categorization and find that in some cases, a proposal cannot be unambiguously classified into one category (Morgan, Poulsen, Wolf, and Yang, 2011). In robustness tests, we reclassify some governance proposals that align management and shareholders' preferences along the ES dimensions as ES. 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 prior literature, all ES proposals are sponsored by shareholders (e.g., Calluzzo and Kedia, 2019; Bolton et al., 2020; He et al., 2021).[8] Our sample contains 1,866 distinct ES proposals made at 420 unique firms between 2011 and 2021, in line with prior papers (e.g., He et al., 2021). In the same sample period, 3,398 GOV proposals were made at 842 firms.

We also collect information from ISS on the total number of votes for, against and abstentions to determine the voting outcome and management recommendations for each proposal. Figure 1b illustrates the support received by ES and GOV proposals between 2011 and 2021. The figure plots the number of ES and GOV proposals against the voting outcome. Almost 30% of ES proposals received less than 10% support, and only 4.2% passed (78 proposals) during our sample period. The scant support received by ES proposals in our sample is

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

[8]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. There are only two management-sponsored ES proposals (at S&P Global Inc. and Moody's Corporation), both submitted in 2021, related to decarbonization. We do not include them in our sample.

consistent with existing research (Flammer, 2015; Cao et al., 2019; He et al., 2021). This contrasts with shareholder-sponsored governance proposals, of which 22.3% passed in the same period. Notably, nine ES proposals had a favorable recommendation from firm management, and they all received over 79% support. The low managerial support for shareholder proposals is consistent with Cvijanović et al. (2016) and Bolton et al. (2020).

Similar to Cvijanović et al. (2016), our approach relies on identifying proposals that may appear contested and thus on which fund managers may decide to vote strategically. We define a proposal as contested (Contested = 1) if the final voting outcome is in the 45% to 55% range. The proposal is uncontested (Contested = 0) if it receives support in the interval [20%, 45%) or (55%, 80%].[9] Different from Cvijanović et al. (2016), we drop proposals that receive very little support or received very high support. In our main empirical specification, we focus on proposals in the interval [20%,80%] because they are more homogeneous ex ante: almost all receive a favorable ISS recommendation and all but one receive a negative management recommendation. Furthermore, by dropping proposals with below average support, we expect to compare proposals of similar (and relatively high) quality (Gantchev and Giannetti, 2021). Importantly, mutual funds have the right and the obligation to vote proxies relating to the fund's portfolio securities (SEC, 2003, p.3); therefore, mutual funds cannot op-out of voting on proposals that are less likely to be contested. In untabulated results, we find that voter turnout is approximately 75% for all ES proposals for all voting outcomes.

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.[10] Moreover, empirical evidence shows that investors often

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

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

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.[11] Accordingly, other papers use funds' names to identify their investment styles, such as index and passive (Gaspar et al., 2006), or, as we do, an ES orientation (Curtis et al., 2021; He et al., 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"*, *"sustainable growth"*, and *"sustainable momentum"*), *social* (excluding *"social media"*), *esg, pax, responsib, clean, impact, sri, environm, green, catholic, parnassus, aquina, women, alternative energy, equality, wind energy, fossil, low carbon, amana, eco or ecolog, epiphany, solar, climate, better world, energy solutions, gender,* and *just*. Similar to Renneboog, Ter Horst, and Zhang (2011), we include funds with religious values in our main tests, but our results are qualitatively similar when we exclude them. Non-ES funds are funds that do not include any of those strings in their names.

We verify the accuracy of our classification of funds manually by reading the prospectuses of all 321 ES funds in our sample and a random subsample of 200 non-ES funds. We find that the statements about the principal investment strategies of funds that we categorize as ES do include ES criteria, i.e., they claim to be ES-oriented funds. For instance, the prospectus of BlackRock Impact U.S. Equity Fund states that the fund seeks *"to provide total return by investing in a portfolio of equity securities of companies with positive aggregate societal impact outcomes."*[12] There are only two exceptions, "First Trust Nasdaq(R) Clean Edge(R) Smart Grid Infrastructure Index Fund" and "SoFi Social 50 ETF." We reclassify these funds as non-ES.

Within the random subsample of funds classified as non-ES, we find three funds (1.5%) with investment strategies that align with ES objectives even though their name does not

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

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

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 B of the Internet Appendix). We find that 12 of the 128 funds (9.4%) that appear both in our sample and in Morningstar (2019) as of 2018 are classified as sustainable by Morningstar, but we tag them as non-ES. Notably, all these funds belong to families that traditionally align with ES objectives and that we consistently classify as ES. In our main tests, we consider funds from non-ES families, and hence, this misclassification is not problematic. We explain how we address this issue in Section 3.6 when we use funds in ES families as alternative control groups.

Table 1a shows that on average, mutual funds classified as ES are supportive of ES proposals, voting in favor 59.35% of the time. Funds classified as non-ES support ES proposals in only 27.32% of the cases. Consistent with their stated objectives, ES funds have a more favorable approach toward ES agenda items when they are on the ballot, which suggests that ES funds take voting accountability into consideration when casting their votes, consistent with Dikolli et al. (2022) and Curtis et al. (2021). This finding further validates our fund classification. Overall support for ES proposals by all funds in our sample is 28.39%. This value is close to the average support of non-ES funds given that ES funds account for only 3.4% of the votes in our sample period.

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 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.[13] 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 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.[14]

The ideology on ES is estimated for each family as the W-NOMINATE score from the previous calendar year. Figure 2a plots the histogram of ideal points for calendar year 2012, the only year considered in Bolton et al. (2020).[15] Families that are closer to one extreme of

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

[14]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.

[15]In Section C.2 of the Internet Appendix we present family classification for the most recent year in our sample.

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) (see Figure 2A, p.331), which also includes governance and management proposals.[16] Some differences are nonetheless noticeable. For instance, some families, such as DFA, are at the ideological center when considering governance and management proposals but are on the very right for ES proposals only. Calvert and ISS are also at the center in Bolton et al. (2020), but we find that they have a strong ES ideology (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 (results are robust to alternative cutoffs; see Section G of the Internet Appendix). We find that the unconditional support for ES proposals among funds that belong to ES families is 43.01% over the full sample period, while support among non-ES families is 8.06% (see 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 some advantages. First, it is simple, intuitive 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.

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

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

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 0.967, and it ranges from 0.966 to 0.984 for our entire sample period. Hence, the two proxies for ES preferences yield very similar rankings.

We classify families based on their average support using the procedure applied to the ideology proxy. We split our sample with a cutoff that leaves roughly half of the votes on each side. This results in 30% of the families classified as non-ES and the rest as ES. Under this classification, the unconditional support for ES proposals by funds that belong to ES families is 42.81% for the full sample period, while support by non-ES families is 6.87% (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 shareholder 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 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 92.4% chance of remaining in the same category in year t+1. When families are classified by average support rates, the probability is 93.4%.[17] 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 et al. (2022) find evidence of greenwashing among U.S. investors. They show that the ESG footprints of U.S.-based signatories of the Principles for Responsible Investment (PRI) tend to be no better than those of non-PRI signatories. Meanwhile, Couvert (2020) finds that while voting policies are a major predictor of funds' voting behavior in general, this is not the case for ES (compliance with voting policies that support ES issues is less than 50%).

2.2.4 Other fund characteristics

Table 3 reports summary statistics on important fund characteristics that we use as control variables in our main specification. The results are reported for the sample of all ES proposals (full sample) and the sample of ES proposals with a voting outcome between 20% and 80% (main sample). The latter contains 479,862 votes on 1,067 ES proposals from 7,851 distinct mutual funds distributed across 329 families. We estimate our regressions at the fund-vote level (similar to Iliev and Lowry (2015)); therefore, summary statistics are also presented at this level. The summary statistics presented in Table 3 show that on average, each fund owns a small fraction of total shares outstanding, 0.043%, and the mean firm

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

represents approximately 1.175% of funds' total net assets in the main sample.[18] The mean (median) size of the assets under management by each fund is 5,473 (515) million, and the mean (median) family size is 265 (37) billion dollars. Approximately 40% of the votes in our sample are cast by institutional funds. Summary statistics for all ES proposals and the main sample look economically similar, suggesting that mutual fund voting on proposals close to the majority threshold is similar to mutual fund voting on proposals that are further away. 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 [20%,80%] 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 (Flammer, 2015; He et al., 2021). These results are presented in Section D of the Internet Appendix.

3 Results

3.1 Funds' support for ES proposals

Each fund in our sample is classified as ES or non-ES based on its stated goal. Each fund belongs to a family, classified as ES or non-ES based on their ideology (W-NOMINATE) or average support for ES proposals in the prior year. Our classification yields four categories of funds: (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 28.39% of votes in favor. As one

[18]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.

may expect, ES funds in ES families provide the highest support on average (71.50%), and non-ES funds in non-ES families provide the lowest (7.47%). Regarding ES funds, 62% of the votes are cast by ES funds in ES families, and the remaining 38% by ES funds in non-ES families. Consistent with Eccles and Klimenko (2019), we find that many mutual fund families now offer ES investment products, irrespective of whether they have a wider ES approach: the number of fund families offering ES funds tripled between 2011 and 2021.

A comparison of the average support rates across fund categories provides two relevant observations. First, ES funds, on average, vote in favor of ES proposals more than non-ES funds, regardless of family ideology. In particular, for both ES and non-ES families, ES funds are approximately 25% to 30% more supportive of ES proposals (p-value < 0.01 in both cases) using either of our two proxies for their preferences, consistent with recent anecdotal evidence (Cook and Hale, 2020) and empirical evidence (Curtis et al., 2021; Dikolli et al., 2022). This result indicates that although fund families often cast all their funds' votes homogeneously (Cvijanović et al., 2016; Lipton, 2017; Bolton et al., 2020), there is variation at the family level 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.[19] 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 in non-ES families might be

[19]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.

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. 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 (Cvijanović et al., 2016; Zachariadis et al., 2020). We further check the plausibility that mutual funds anticipate whether a proposal is contested in a series of informal meetings with industry practitioners including mutual fund managers, proxy solicitors, and industry experts. We learn that publicly available information from previous years (e.g., voting support for similar proposals), information about the proposal itself (e.g., proposal sponsor, proposal text, management and proxy advisor recommendations) and firm-specific information (e.g., insider ownership, firm disclosure and performance on the proposal topic relative to peers) provide a good indication of the upcoming voting outcome (see Section E of the Internet Appendix for a more comprehensive review). Consistently, we also find public statements of prominent mutual fund families that explicitly recognize strategies based on predictions over the probability of their votes being pivotal.[20]

We argue that ES funds in non-ES families have incentives to be more supportive of ES 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 ES funds in non-ES families can accommodate the interests of their families by

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

opposing contested ES proposals.

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

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

The graphical evidence suggests that ES funds in non-ES families might vote strategically, changing the sign of their vote in response to the expected voting outcome. 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:

$$Pr(Vote\ For) = \beta_0 Contested \times ES(non-ES) + \beta_1 Contested + \beta_2 ES(non-ES) + \delta Controls + Fixed\ Effects + \epsilon \quad (1)$$

where *Pr(Vote For)* 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 [45%,55%] interval and zero if the voting outcome is in the ranges [20%,45%) or (55%,80%]. We focus on ES proposals in the [20%,80%] interval because this sample is relatively more homogeneous. These are proposals that receive above average support, and most of them turn out to have a favorable ISS recommendation, which are good indicators of shareholders' expectations about the net benefits of the proposal (Gantchev and Giannetti, 2021). Moreover, all but one of these proposals have an unfavorable management recommendation.

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

This specification allows us to control for time-varying determinants of support for ES proposals, *Controls*, 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). We also control for time-invariant determinants of support for ES proposals, such as 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 meeting fixed effects.[21] Hence, we compare fund votes within the same meeting, so any variable that does not vary within meeting cannot explain our results. We also control for proposal type.[22] In alternative specifications, we use family-by-proposal fixed

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

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

effects; that is, we exploit variation in support within funds of the same family voting on the same proposal at the same company at the same point in time.

The choice of counterfactual is important. We argue that non-ES funds in non-ES families are the most natural. First, comparing the votes of funds in the same type of family diminishes the probability that our results are driven by family-specific omitted variables such as business ties (Cvijanović et al., 2016) and engagement (Azar, Duro, Kadach, and Ormazabal, 2021). Second, conditioning our analysis on family category mitigates concerns that variations in support for ES proposals are explained by the classification of families, which is based on (past) votes. Finally, while our classification of funds into ES and non-ES is likely to misclassify some funds from ES families, misclassification is less likely in non-ES families (see Section 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 fund family ideology as a proxy for family preferences toward ES; Panel B shows the results using average family support for ES proposals as a proxy. The main coefficient of interest, β_0, is negative and statistically significant in all specifications, consistent with the graphical intuition (Figure 3). That is, ES funds in non-ES families are less likely to support ES proposals when the proposal is more likely to be contested, and therefore, their vote is more likely to be pivotal.

The coefficient on $ES(non-ES)$ in Columns (1) and (3) further confirms that ES funds are more likely to vote for ES proposals, even after we control for fund and family characteristics. The results in Column (1) of Panel A indicate that the probability of voting in favor of ES proposals is 21.7% higher for ES funds relative to that of non-ES funds in non-ES families when the proposal is not contested. This difference shrinks by 13.2% when proposals are contested. The result is quantitatively similar when we use family-by-proposal fixed effects (Column (3)) or the alternative proxies for family preferences (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). There are two forces that, combined, explain our results. First, ES funds are more supportive of ES proposals than non-ES funds of the same family type, which contributes to compliance with their fiduciary responsibilities. Second, the votes of ES and non-ES funds 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 Further evidence on strategic voting using tighter subsamples

Our identification has thus far relied on saturating the regression with a wide set of fixed effects that rule out the impact of potentially omitted variables that do not vary within firm-meeting, family, fund or proposal. We conduct additional tests that 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 and uncontested proposals. We present the results in Column (1) of Table 5. The interaction term is negative and statistically significant despite the smaller sample size – by construction, our sample here is restricted to firms for which multiple ES proposals were voted on the same meeting. Notably, the economic impact is larger than the impact that we find absent the meeting-by-fund fixed effects (Column (2) of Table 4) and robust to the alternative proxies for family preferences (Panel A presents the results using ideology, and Panel B presents the results using average family support for ES proposals). This suggests that if omitted variables had an impact on our main specification estimates, it would be to bias our coefficients downward.

Second, we compare support for the same proposal type by the same mutual fund when the proposal is contested and when it is not by including proposal type-by-fund fixed effects in the main specification. The results, presented in Column (2) of Table 5, remain negative and statistically significant, providing further evidence that 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. These results further show that ES funds in non-ES families do not vote in a one-size-fits-all manner based on the proposal type, without considering firm-specific factors (Calluzzo and Kedia, 2019). Rather, for the same resolution, they are more likely to support it when their vote is less likely to matter.

3.4 Retail vs institutional funds

Mutual funds have incentives to engage in strategic voting if investors monitor their votes and are able to impose some discipline. Meanwhile, monitoring should focus on aggregate support rates for ES proposals and not be sophisticated enough to detect changes in voting patterns around the majority threshold. This section sheds light on the drivers of our results.

We discuss the current disclosure framework and study the differences in voting patterns between retail and institutional funds to exploit their differences in monitoring capacity and incentives. Furthermore, we look into how ES fund flows respond to fund support for ES proposals to identify whether investors hold funds accountable for their votes.

Since 2003, mutual funds are required to disclose their voting records for the 12-month period ending in June 30, by no later than August 31, using Form N-PX. This regulation is intended to discourage voting that is inconsistent with fund investors' best interests. However, there are several reasons to believe that Form N-PX is not optimally designed given its objectives. These forms can be excessively long due to the number of voting matters (sometimes exceeding 1,000 pages) and the number of funds included in the reports. Forms N-PX are not filed in a machine readable language, and they often contain unclear and inconsistent descriptions of voting matters. This means that finding a particular fund's voting record or a specific vote might be particularly hard for fund investors.[23] In addition, Form N-PX does not provide the voting outcome for each proposal, but only the vote cast by the filling fund as well as the management recommendation. As noted by the former Acting Chair of the SEC A.H. Lee, "Its hard to see how retail investors can formulate an accurate and reliable picture of how a fund votes on ESG issues when they are forced to parse voluminous forms that often use bespoke shorthand for shareholder proposals" (March 17, 2021).

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

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

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

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

Columns (4) to (6) show that both the coefficient on $ES(non-ES)$ and the interaction term $ES(non-ES) \times Contested$ are statistically equal to zero and economically small. This means that retail ES and non-ES funds in non-ES families are equally supportive of ES proposals both in contested and uncontested proposals, i.e., retail ES funds in non-ES families do not follow a differentiated voting strategy relative to non-ES funds. This is in line with retail fund investors having little capacity to monitor their funds' votes. When fund investors cannot hold funds accountable for their votes, funds do not need to engage in strategic voting to mask their lack of support for ES proposals. Prior evidence documents that ES funds vote in a way consistent with their stated objectives (Curtis et al., 2021; Dikolli et al., 2022) and conclude that "Our empirical results provide no justification for regulatory invention" (Curtis et al., 2021, p.450). In contrast, our results suggest that retail ES funds in non-ES families do not vote differently from non-ES funds and therefore might not reflect their investor preferences in voting.

3.4.1 ES fund support for ES proposals and fund flows

An interesting aspect not yet explored is whether one can empirically detect funds' gains from this strategic behavior. One such aspect is fund flows. We would expect this type of attempt to increase the average ES support by ES funds to be associated with increased fund flows. To this end, we study mutual fund flows after the disclosure of voting records (at the end of August each year). We aggregate ES votes for the entire proxy season at the fund level, and study the association between average support for ES proposals and fund flows over different time windows (3, 6, 9 and 12 months) after the publication of Form NP-X. Following prior literature, we control for fund assets, age, expense ratio, turnover, risk-adjusted performance and lagged flows (Cooper et al., 2005; Couvert, 2020). Finally, we include year and family fixed effects in all our specifications.[24]

We present the results in Table 7. Columns (1) to (4) present the results for institutional funds, and Columns (5) to (8) for retail funds. *Low_Support* is a dummy equal to one if the fund supports less than 30% of ES proposals during the proxy season (this value is similar to the mean support for ES proposals in our sample); *ES_Fund* is a dummy equal to one if the fund is ES. The main coefficient of interest is the interaction of $Low\_Support \times ES\_Fund$, which indicates the sensitivity of fund flows to low support for ES proposals for ES funds.[25]

The negative coefficients on the interaction terms in Columns (1) to (4) indicate that low average support for ES proposals by institutional ES funds is associated with lower fund flows. The results are statistically and economically stronger when considering longer event windows. The interaction term in Columns (5) to (8), on the other hand, shows that retail ES fund flows are not significantly associated with the support for ES proposals provided by these funds during the proxy season. These results suggest that mutual funds have incentives to engage in strategic voting to inflate average support for ES proposals when fund investors

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

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

have the ability to monitor fund voting records and discipline fund managers by withdrawing funds. We also find that non-ES fund flows do not react to ES votes (for institutional or retail funds), consistent with prior literature showing little sensitivity of funds flows to the disclosure of voting records (Iliev and Lowry, 2015; Couvert, 2020).

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

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 proposal. Previous evidence shows that managers can exploit business ties with funds (Cvijanović et al., 2016) or persuade friendly voters to vote in line with their recommendations (Bach and Metzger, 2019). In this section, we perform additional tests that further contribute to ruling out alternative explanations of our results related to funds' friendliness toward firm management.

We run 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). Recall that management almost always recommends voting against shareholder proposals. Hence, voting in favor of these proposals is equivalent to voting against management. For consistency with our prior analyses, we drop governance proposals that received favorable management recommendations.

Table 8 presents the results. Columns (1) and (2) present the results for all governance proposals, and Columns (3) and (4) present the resultsfor the subsample of firm meetings that received at least one ES proposal. The latter account for the fact that firms with governance proposals are different on observable characteristics from firms with ES proposals (see Section D of the Internet Appendix). In Columns (1) and (3), we control for meeting, proposal type, family and fund fixed effects. The interaction term, i.e. the main coefficient of interest, is statistically indistinguishable from zero and economically small, suggesting that ES funds in non-ES families do not vote strategically on governance proposals. These results hold for both proxies of family ideology (Panels A and B).

In Columns (2) and (4) we include proposal-by-family fixed effects to compare support for the same proposal by funds of the same family. The coefficient of interest even changes sign and becomes positive, again indicating that the strategic behavior is specific to ES proposals and reinforcing the interpretation of our results based on conflicts between family preferences and funds' fiduciary duty. Our results are also consistent across different subsamples, i.e., when using all proposals or when restricting the sample to firms in which at least one ES proposal was cast. Overall, 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. We test this possibility using 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 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 using ES funds in ES families as the counterfactual in Table 9, and non-ES funds in ES families in Table 10. Column (1) reports the results for all funds together; in Columns (2) and (3), we present the results for institutional and retail funds, respectively. In Column (4), we address the potential misclassification of non-ES funds in ES families. In Panel A, we use investor ideology to classify families, and in Panel B, we use average support rates. In all cases, we include meeting, proposal type, family and fund fixed effects and control for time-varying fund and family characteristics, in line with our main specification.

The results in Table 9 show that the interaction term remains negative when we use ES funds in ES families as the control group, regardless of how the family is defined (Column (1)). The results are economically and statistically significant for institutional funds only (Column (2)) but not for retail funds (Column (3)), consistent with the idea that monitoring of votes is more likely among more sophisticated fund investors (see also Section 3.4). The coefficient in Column (1) of Panel A in Table 9 means that the probability of voting in favor of the proposal drops by 11.3% relative to that of ES funds in ES families when the proposal is contested. These results indicate that the strategic voting documented in the previous sections is not common to all ES funds regardless of their family preferences 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, Sautner, and Starks, 2016) or

to "trade votes" in exchange for actions to address issues such as carbon emissions (Azar et al., 2021). Not only is this unlikely given that we do not find a similar result for governance proposals, but this explanation falls short in that we do not find results consistent with it when we use ES funds in ES families as a control group, since these funds could use similar strategies to make real changes.

The results in Table 10 indicate that the coefficient on the interaction term also remains negative and significant when we use non-ES funds in ES families as the counterfactual, regardless of the family definition (Column (1)). The coefficient in Panel A means that the probability of voting in favor of the proposal drops by 19.8% when we use non-ES funds in ES families as the control group. The results are economically and statistically stronger when we consider institutional funds only (Column (2)). These results, together with the results presented in Table 9, 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). In particular, some ES funds are incorrectly excluded from the control group of ES funds in ES families, and some ES funds are incorrectly considered non-ES in the control group of non-ES funds in ES families. To address this potential concern, we rely on Morningstar (2019) to identify families that broadly incorporate ES into their products and assign *all* their funds to the ES category.[26] The results are reported in Column (4) of Tables 9 and 10 for ES funds in ES families and non-ES funds in ES families, respectively. Unsurprisingly, the results obtained are quantitatively very similar.

3.7 Additional analyses and robustness tests

In additional analyses we investigate which proposals are driving the results. Nearly 50% of the votes in our main specifications are related to political contributions and lobbying

[26]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.

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

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

In our main specifications we use a 70% threshold to separate ES and non-ES families. In Table IA.4 in Section G of the Internet Appendix, we use two alternative thresholds: in columns (1) and (2) we use 80%, and in columns Columns (3) and (4) we consider 60%. Overall, the results are consistent with those presented in the benchmark analysis.

We also conduct several robustness tests to the definition of 'contested' proposal, and to the interval around the approval threshold considered in our main tests. These results

are presented in Table IA.5 in Section G of the Internet Appendix. In particular, we replace *Contested* with the distance from the 50% voting outcome as a continuous variable (Columns (1) and (2)), we consider as *Contested* those proposals in the [40%,60%] interval (Columns (3) and (4)), we consider a subsample of proposals that are closer to the threshold and are arguably more comparable, i.e., proposals in the interval [30%, 70%] (Columns (5) and (6)), and consider the tighter interval of proposals with the wider definition of *Contested* (Columns (7) and (8)). All results are consistent with our main specification, suggesting that our results are not driven by the subsample of proposals used in the main specification or the definition of *Contested*. Finally, in untabulated results, we exclude funds with strings related to religious values, and our results remain unchanged.

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; Krueger, Sautner, and Starks, 2020; Azar et al., 2021; Bolton and Kacperczyk, 2021; Gibson Brandon et al., 2022; Heath, Macciocchi, Michaely, and Ringgenberg, 2023). 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 fraction 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., 2023), 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-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 institutional funds, whose investors have the capacity and incentives to monitor average support for ES proposals, and penalize funds with lower flows when average support for ES proposals is low.

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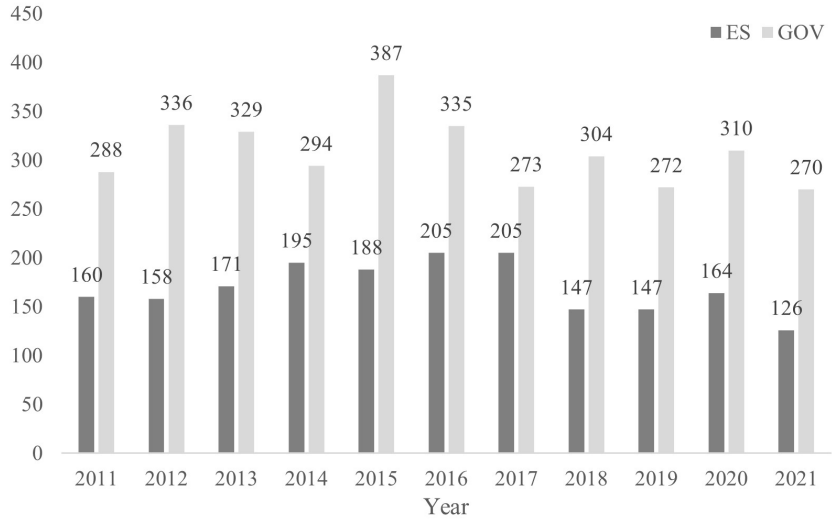
Figure 1. Environmental and social, and governance proposals, by year and voting outcome. This figure plots the number of environmental and social (ES) and governance proposals (GOV) at annual shareholder meetings distributed by year (Figure 1a) and by voting outcome in 10% intervals (Figure 1b). The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

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



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

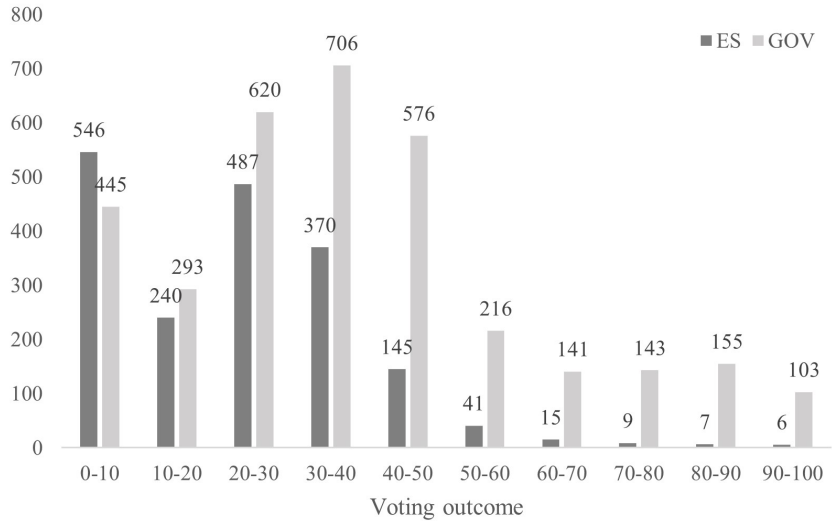
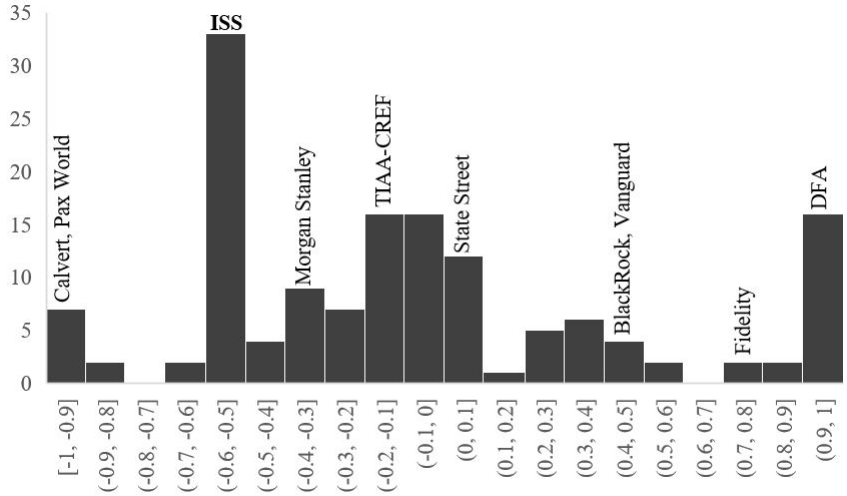


Figure 2. Fund family preferences. This figure plots histograms of the distribution of fund family preferences according to our two estimation criteria for the year 2012, for comparability with Bolton et al. (2020). Figure 2a reports the distribution of families by ES ideology estimated using W-NOMINATE.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

(a) W-NOMINATE



(b) Average support

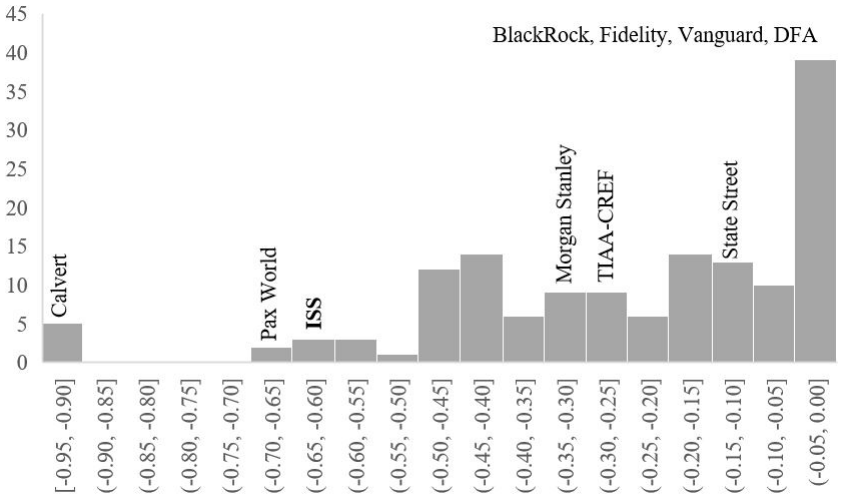


Figure 3. Support for ES proposals by fund-family categories. This figure plots the average fraction of votes in favor of ES proposals by funds within the four fund-family categories against the voting outcome of the proposals. ES families are plotted in gray and non-ES families in orange. ES funds are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

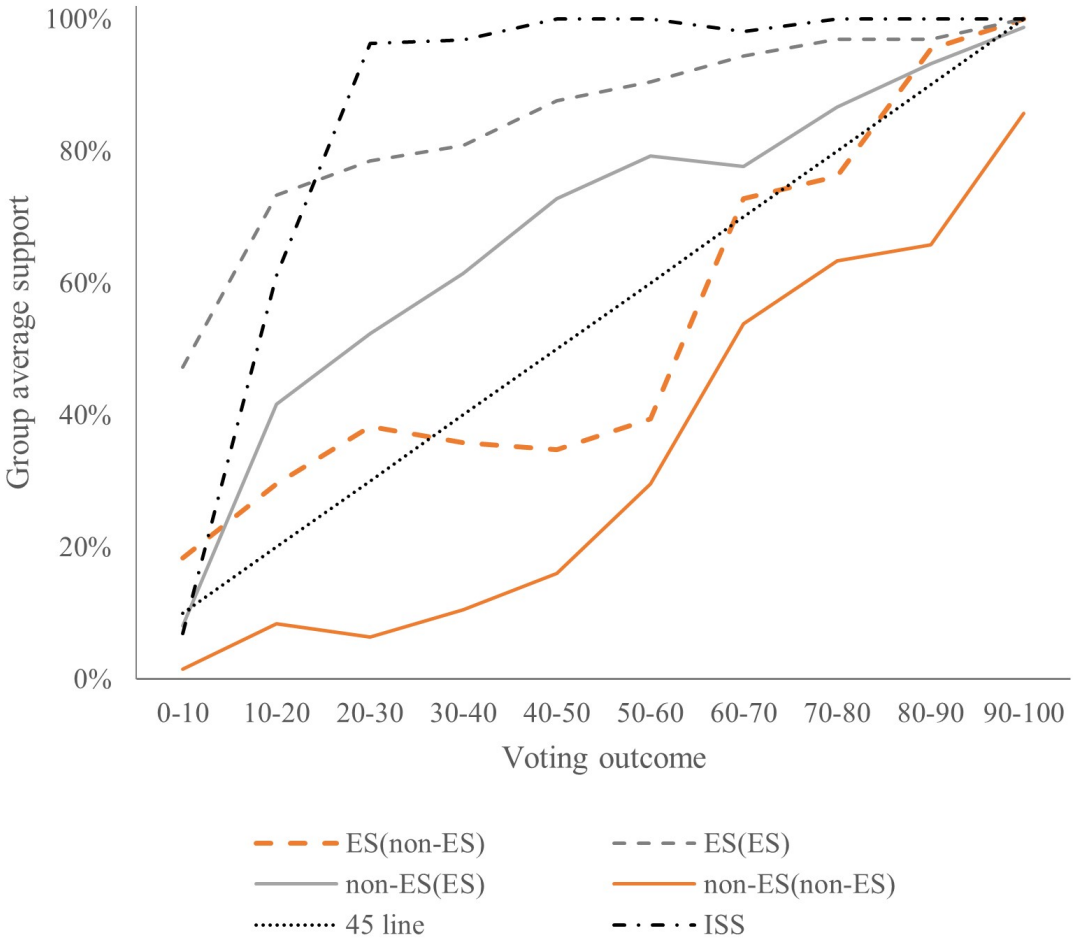


Table 1. Average support for ES proposals by fund and family category. This table reports the average support for ES proposals of each fund and family category. Table 1a reports the percentage of votes in favor of ES proposals of each fund category (rows) and each family category (columns) based on the 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)	(non-ES)	
Fund	ES	71.50%	31.57%	59.35%
	non-ES	41.82%	7.47%	27.32%
		43.01%	8.06%	28.39%

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

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

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

(a) Family category based on W-NOMINATE scores

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

(b) Family category based on average support rates

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

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

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

Table 4. Evidence from contested proposals. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls (see Eq. 1). *Contested* is a dummy equal to one if the proposal outcome is between [45% and 55%] and zero if it is in the interval [20% and 45%) or (55% and 80%]. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is a non-ES fund from a non-ES family. 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	-0.132***	-0.088**	-0.115***
	(-3.198)	(-2.369)	(-2.832)
ES(non-ES)	0.217***		0.208***
	(3.272)		(2.936)
Contested	0.069***	0.067***	
	(4.983)	(4.878)	
Observations	123,515	123,328	117,239
Adjusted R-squared	0.339	0.449	0.800
Panel B: Average support			
ES(non-ES) x Contested	-0.150***	-0.101***	-0.129***
	(-3.356)	(-2.668)	(-2.896)
ES(non-ES)	0.238***		0.228***
	(3.395)		(3.039)
Contested	0.072***	0.070***	
	(4.927)	(4.827)	
Observations	122,620	122,434	116,312
Adjusted R-squared	0.290	0.391	0.800
Meeting FE	Y	Y	
Proposal type FE	Y	Y	
Family FE	Y	Y	
Fund FE		Y	
Family x Proposal FE			Y

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

	Pr(Vote for)	
	(1)	(2)
Panel A: W-NOMINATE		
ES(non-ES) x Contested	-0.152**	-0.098**
	(-2.183)	(-2.342)
Contested	0.070***	0.051***
	(4.983)	(3.669)
Observations	53,706	116,825
Adjusted R-squared	0.558	0.558
Panel B: Average support		
ES(non-ES) x Contested	-0.147*	-0.109**
	(-1.947)	(-2.501)
Contested	0.072***	0.057***
	(4.882)	(3.814)
Observations	53,151	116,149
Adjusted R-squared	0.484	0.512
Meeting x Fund FE	Y	
Proposal type x Fund FE		Y

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

	Pr(Vote for)					
	Institutional funds			Retail funds		
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: W-NOMINATE						
ES(non-ES) x Contested	-0.156***	-0.116***	-0.151***	-0.010	-0.003	0.002
	(-3.207)	(-2.599)	(-3.099)	(-0.259)	(-0.089)	(0.102)
ES(non-ES)	0.285***		0.283***	0.049		0.020
	(3.578)		(3.453)	(1.578)		(1.138)
Contested	0.032*	0.030*		0.102***	0.101***	
	(1.958)	(1.844)		(4.740)	(4.734)	
Observations	50,293	50,225	47,962	73,221	73,101	67,827
Adjusted R-squared	0.400	0.511	0.743	0.345	0.436	0.866
Panel B: Average support						
ES(non-ES) x Contested	-0.194***	-0.137***	-0.187***	-0.007	-0.014	0.007
	(-4.111)	(-2.993)	(-3.998)	(-0.178)	(-0.471)	(0.378)
ES(non-ES)	0.337***		0.331***	0.033		0.016
	(4.367)		(4.178)	(1.444)		(0.991)
Contested	0.031*	0.028		0.106***	0.106***	
	(1.739)	(1.603)		(4.826)	(4.834)	
Observations	47,936	47,868	45,573	74,683	74,562	69,383
Adjusted R-squared	0.379	0.473	0.747	0.290	0.374	0.866
Meeting FE	Y	Y		Y	Y	
Proposal type FE	Y	Y		Y	Y	
Family FE	Y	Y		Y	Y	
Fund FE		Y			Y	
Family x Proposal FE			Y			Y

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

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

Table 8. Family ideology vs friendliness toward firm management. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls. Columns (1) and (2) report the results for all governance proposals, and Columns (3) and (4) present the results for governance proposals cast in meetings that also have ES proposals. The reported t-statistics are clustered at the fund level. Panel A presents the results using W-NOMINATE to measure family preferences toward ES, while in Panel B, we present the results using average support for ES proposals (both measured at *t-1*). Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

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

Table 9. ES funds in ES families as control group. This table reports the results from a linear probability model that regresses an indicator for voting in favor of an ES proposal on *Contested*, *ES(non-ES)*, the interaction between these variables, and other controls. *ES(non-ES)* equals 1 if the fund is ES from a non-ES family and 0 if it is an ES fund from an ES family. Column (1) presents the results for all funds, and Columns (2) and (3) present the estimates for institutional and retail funds, respectively. In Column (4), we use an alternative ES fund definition that relies on Morningstar (2019) to identify families that incorporate ES criteria in all their funds. Panel A presents the results using W-NOMINATE to measure family preferences toward ES, while in Panel B, we present the results using average support for ES proposals (both measured at t-1). The reported t-statistics are clustered at the fund level. Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels.

	Pr(Vote for)			
	(1)	(2)	(3)	(4)
Panel A: W-NOMINATE				
ES(non-ES) x Contested	-0.113***	-0.184***	0.022	-0.146***
	(-2.887)	(-4.862)	(0.936)	(-4.335)
Contested	0.161***	0.178***	0.151**	0.062**
	(3.584)	(2.868)	(2.373)	(2.283)
Observations	12,746	6,756	5,917	23,960
Adjusted R-squared	0.606	0.565	0.671	0.582
Panel B: Average support				
ES(non-ES) x Contested	-0.116***	-0.190***	0.028	-0.145***
	(-2.881)	(-5.019)	(1.196)	(-4.222)
Contested	0.158***	0.171***	0.149**	0.060**
	(3.533)	(2.743)	(2.348)	(2.194)
Observations	12,746	6,756	5,917	23,960
Adjusted R-squared	0.606	0.565	0.673	0.582
Funds	All	Institutional	Retail	All
ES Funds	S	S	S	S+M
Meeting FE	Y	Y	Y	Y
Proposal type FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y

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

	Pr(Vote for)			
	(1)	(2)	(3)	(4)
Panel A: W-NOMINATE				
ES(non-ES) x Contested	-0.198***	-0.249***	-0.079***	-0.200***
	(-5.255)	(-5.605)	(-2.864)	(-5.268)
Contested	0.197***	0.193***	0.199***	0.213***
	(17.864)	(11.024)	(14.361)	(18.623)
Observations	195,122	76,204	118,904	183,923
Adjusted R-squared	0.511	0.512	0.526	0.515
Panel B: Average support				
ES(non-ES) x Contested	-0.200***	-0.258***	-0.076***	-0.202***
	(-5.089)	(-5.752)	(-2.787)	(-5.101)
Contested	0.194***	0.188***	0.196***	0.209***
	(17.844)	(11.037)	(14.289)	(18.586)
Observations	195,036	77,650	117,371	183,837
Adjusted R-squared	0.507	0.518	0.514	0.511
Funds	All	Institutional	Retail	All
ES Funds	S	S	S	S+M
Meeting FE	Y	Y	Y	Y
Proposal type FE	Y	Y	Y	Y
Family FE	Y	Y	Y	Y
Fund FE	Y	Y	Y	Y

Internet Appendix

Mutual funds' strategic voting on environmental and social issues

A. Merging ISS and CRSP

We merge ISS and CRSP databases using the following procedure. First, we retrieve N-PX forms from the SEC Electronic Data Gathering, Analysis, and Retrieval (EDGAR) from 2010 until 2021. N-PX files include fund names and tickers, which allow us to merge with CRSP. Using the ISS accession number for the N-PX files provided by ISS, we merge SEC data by accession number and fund name. Because fund names do not match perfectly in general, we use a fuzzy matching with a similarity score of at least 99%, and keep the fund with the largest similarity score on name (conditional on perfect matching on accession number). About 40% of our fund-years match using this procedure.

However, not all funds have a ticker in CRSP or SEC, so in a second step, we merge on fund name, family name and year. Again, because names rarely match perfectly, we impose a minimum similarity score of 99% for both variables (and perfect match on year), and keep the match with the highest similarity score. About 50% of the fund-years match using this procedure.

Finally, we hand collect data for unmatched funds. These are cases in which due to the use of abbreviations, or some additional information included in the name in ISS,[1] the similarity score would end up below 99% and therefore, do not match in previous steps. We make use of fund and family names to match these funds. These account for about 1.7% of the fund-years.

Finally, we complete gaps in the linking table for funds with the same matching fund in t+1 and t-1 but for which we have no match in t. These cases account for the remaining fund-years.

[1]For instance, sometimes the fund name includes the previous name of the fund (UBS U.S. SUSTAINABLE EQUITY FUND(F/K/A UBS U.S. LARGE CAP EQUITY FUND)), the ticker and/or family name (AMANA MUTUAL FUNDS TRUST, DEVELOPING WORLD FUND (AMDWX, AMIDX)), or sub-adviser name (FIDELITY U.S. SUSTAINABILITY INDEX FUND - SUB-ADVISER: GEODE), among others.

B. 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 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 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.[2] 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 orientation 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 ESG 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*, and Calvert investors can arguably expect that all its products are ES sensitive.[3] 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

[2]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.

[3]See https://www.calvert.com/ (Accessed May 11, 2021).

approach *focuses on integrating ESG risk and opportunity factors into investment decisions* at the family level.[4]

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.[5] 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). In the report, John Hale, director of Sustainability Investing Research at Morningstar, argues 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 3,323 non-ES funds in our sample for 2018 (2,003 in ES families and 1,320 in non-ES families), the 12 misclassified funds are not expected to significantly affect our results.

[4]See https://www.invesco.com/corporate/about-us/esg (Accessed May 11, 2021).

[5]There are 81 ESG Consideration funds in Morningstar (2019), and 25 of them appear in our sample.

C. Fund family ideology

B.1. Example W-NOMINATE

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.

0.00	0.04	0.36
0.04	0.00	0.64
0.36	0.64	0.00

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.

0.02	0.04	-0.06
0.04	0.11	-0.16
-0.06	-0.16	0.22

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.

0.13	0.13	-0.13
0.33	0.33	-0.33
-0.47	-0.47	0.47

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

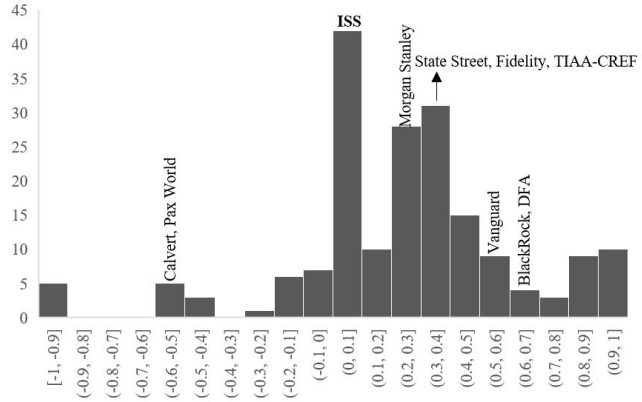
estimate the coordinates for the families and the outcomes based on actual votes (Poole and Rosenthal, 1985).

B.2. Fund family ideology in 2020

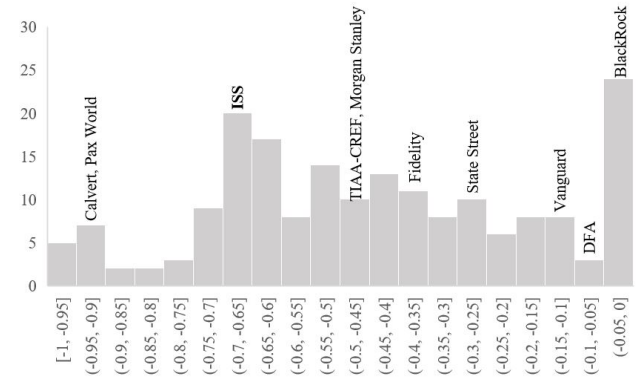
The figure below shows the distribution of fund family ideology on 2020, the last year for which we estimate ideology in our sample.

Figure IA.1. Fund family preferences. This figure plots histograms of the distribution of fund family preferences according to our two estimation criteria for the year 2020. Figure IA.1a presents the distribution of families by ES ideology estimated using W-NOMINATE. Figure IA.1b shows the distribution of families by their mean proportion of votes in favor of ES proposals relative to their total number of votes. Average support is multiplied by -1 to preserve the order from left (more supportive) to right (less supportive).

(a) W-NOMINATE



(b) Average support



D. 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 $45 billion vs. $6.2 billion for the average Compustat firm). These firms are more profitable, have a higher market share, pay higher dividends and hold less cash. These figures are consistent with Flammer (2015) and 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 2021. 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. 1182)			Firm-years with ≥ 1 Shareholder proposal (# Obs. 2,898)			All Compustat firms (# Obs. 67,978)		
	Mean	S.D.	Mdn	Mean	S.D.	Mdn	Mean	S.D.	Mdn
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
MktValue	45095	38920	28458	31511	35126	15219	6200	16000	759
Size	10.39	1.66	10.47	9.65	1.91	9.71	6.898	2.423	6.958
ROA	0.145	0.103	0.13	0.131	0.136	0.128	0.027	0.368	0.081
Mkt_to_Book	3.651	8.668	2.236	3.684	8.316	2.281	2.860	7.576	1.638
Sales_growth	0.044	0.155	0.019	0.045	0.152	0.02	0.068	0.255	0.016
Dividends	0.023	0.021	0.021	0.02	0.021	0.018	0.021	0.033	0.006
Cash	0.12	0.128	0.076	0.133	0.146	0.084	0.186	0.231	0.089
Mkt_Share	0.053	0.06	0.028	0.04	0.056	0.013	0.009	0.027	0.001
InstOwn	0.769	0.159	0.772	0.786	0.175	0.81	0.684	0.358	0.842
InstOwn_HHI	0.042	0.025	0.038	0.048	0.037	0.04	0.185	0.254	0.073
# Inst Owners	982.1	638.9	818.0	749.7	589.7	564.0	198.9	290.8	116.0
# Blockowners	2.606	1.348	3.000	2.85	1.399	3.000	2.318	1.952	2.000

E. Predictability of voting outcomes

To inform our study, we had a series of informal conversations with senior members of responsible investment and stewardship teams at BlackRock, Vanguard and Pax World, three prominent asset management companies included in our analysis; with members of the ESG advisory team at Georgeson, a distinguished proxy solicitation company; with executives and directors at Ceres and the Sustainable Investments Institute, two leading NGOs pushing agendas on sustainable investment and shareholder empowerment; and with a senior member of the Investment Stewardship Research Team at Morningstar. This Appendix summarises our most relevant takeaways regarding the predictability of voting outcomes.

We ask asset managers and practitioners whether they can anticipate, to some extent, whether the voting outcome of a proposal will be close to the majority threshold. We learn that voting outcome projections are a regular exercise for different market participants, with distinct degrees of precision and sophistication. For instance, these projections are a key service offered by proxy solicitors, and their predictions can be highly accurate. Proxy solicitors exploit this information to advise companies on how to respond and manage shareholders pressure. Predictions of voting outcomes are based on a combination of quantitative and qualitative information. This information relates to the proposal being voted, firm characteristics, industry peers, and management and proxy advisors recommendations. We describe some of the most relevant issues identified in these conversations as useful for predicting support for a proposal.

When considering the expected voting outcome of a proposal, a key variable is the support that it has received in the past, in the same company or in other companies. The sponsors of these proposals often engage in conversations with the shareholder base to understand which changes could generate additional support, and then amend the proposals accordingly. As a result, subsequent versions of the same proposal generally receive higher support, and proposals gain traction over time.

The sponsor of a proposal and the proposal type are also important determinants of sup-

port. Numerous sponsors put forward blanket proposals every year, in several companies. Consequently, market participants develop priors over proposals based on their sponsor, and sponsor reputation plays a relevant role in determining support (see Gantchev and Giannetti (2021) for consistent empirical evidence).

The type of proposal also matters significantly. It has been frequently mentioned during these conversations that asset managers are more likely to support proposals requiring enhanced disclosure on ES issues than proposals pursuing actions that can interfere directly with the business plan (e.g. a limit on scope 3 carbon emissions). The latter are typically considered aggressive proposals, more likely to compromise shareholder value. Consistently, about 65% of ES votes in our main sample relate to increased disclosure on ES matters (first four proposal types by order of frequency as shown in Table IA.2).

Firm-specific factors can also help asset managers determining whether a voting outcome will be close. For example, a proposal is likely to receive relatively high support when the target firm is an industry laggard on the issue being addressed. Conversely, such high support is not expected when the companys policy is aligned with industry peers. Relatedly, the response of a firm to a specific proposal often determines the support in future iterations of the same proposal. In particular, failure to address the issues that are being raised typically leads to increased support in subsequent years.

Information about the shareholder base of the company is also relevant in determining whether the voting outcome will be close. For instance, it has been noticed in multiple meetings that the fraction of stock owned by corporate insiders is key to understand the extent of support that a shareholder proposal may receive. The higher this fraction is, the lower the support that the proposal is expected to receive as insiders typically vote with management. Another relevant piece of information is the announcement of some shareholder about their voting intentions. Some investors, including a number of asset managers, publicise their voting intentions seeking both to increase transparency and to influence the votes of other shareholders. Relatedly, Principles for Responsible Investment (PRI) pro-

vides a platform facilitating the declaration and collection of proxy voting intentions, hence easing the prediction of voting outcomes for certain resolutions. While proxy advisors recommendations are also useful signals to predict voting outcomes in general (see e.g., Larcker et al., 2015; Ertimur et al., 2018), the extent to which an asset managers follows their voting recommendations also helps to predict shareholder base support for a resolution ahead of the meeting. Numerous institutional investors have a history of consistently following these recommendations, making it relatively easy to predict their vote.

It was also mentioned that management recommendation for the proposal also matters, as proposals with a favourable recommendation will typically receive very high support, consistent with our summary statistics. We have also been advised that the extent of media coverage of a particular issue generally correlates positively with the support received by related proposals.

Importantly, firms can gain access to preliminary voting results before the final voting outcome is revealed (Bach and Metzger, 2019), which allows them to communicate this information to friendly shareholders to seek their support. Firm managers, often guided by proxy solicitors, engage in conversations with their largest shareholders when they expect to receive little support from the shareholder base. Hence, it is possible that information about the voting outcome is not directly predicted by the mutual fund, but rather, that this information is gathered through direct communication with the portfolio company.

To conclude, while there is uncertainty about the expected support that a proposal might receive in a coming meeting, mutual funds can make educated guesses based on publicly available information or conversations with their portfolio companies, which allows them to vote strategically.

F. 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, Ozbas, and Yi, 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 provides details on the proposals in our main specifications with voting outcomes within the [20%,80%] interval, sorted by the number of votes that each received. We also classify the proposals into social and environmental. About 50% of the votes in our main specifications are related to political contributions and lobbying disclosures. Proposals requiring firms to report on climate change, sustainability, equal employment opportunities (EEO) or greenhouse gas (GHG) emissions contribute nearly 25% of the votes. Together, these five categories of ES proposals account for 75% of the votes in our sample. The remaining votes are spread across 24 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 (Columns (1) and (2)), social proposals that are not related to political contributions and lobbying disclosures (Columns (3) and (4)), and environmental proposals (Columns (5) and (6)), separately. We find that the interaction term is negative and statistically significant in almost all subsamples, suggesting that strategic voting is not unique to one proposal type, but it is rather pervasive.

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. Panel (a) shows the proposal types that receive support in the [20%,80%] interval, their weight in our main specifications, and their designation as either social or environmental proposals. Panel (b) reports the results of estimating Equation 1 for the subsample of social proposals (Columns (1) and (2)), social proposals excluding political contributions and lobbying disclosure (Columns (3) and (4)) and environmental (Columns (5) and (6)), 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

issagendaitemid	N. Votes	Percent	Resolution	E or S
S0807	30,699	24.89	Political contributions disclosure	S
S0808	30,554	24.77	Political lobbying disclosure	S
S0743	9,241	7.49	GHG emissions	E
S0742	8,184	6.64	Report on climate change	E
S0812	7,145	5.79	Report on EEO	S
S0777	6,254	5.07	Report on sustainability	E
S0731	3,882	3.15	Community- environmental impact	E
S0817	3,580	2.90	Gender pay gap	S
S0412	3,244	2.63	Human rights risk assessment	S
S0781	2,800	2.27	Recycling	E
S0999	2,705	2.19	Social proposal	S
S0744	2,081	1.69	Hydraulic fracturing	E
S0779	1,895	1.54	Renewable energy	E
S0811	1,559	1.26	Adopt sexual orientation anti-bias policy	S
S0414	1,429	1.16	Improve human rights standards or policies	S
S0427	1,230	1.00	Data security, privacy, and internet issues	S
S0738	1,220	0.99	Product safety	S
S0815	1,133	0.92	Labor issues - discrimination and miscellaneous	S
S0423	1,117	0.91	Operations in high risk countries	S
S0809	878	0.71	Political activities and action	S
S0735	599	0.49	Health care - related	S
S0729	403	0.33	Review drug pricing or distribution	S
S0748	343	0.28	Non-binding advisory vote on climate plan	E
S0710	287	0.23	Facility safety	S
S0782	251	0.20	Publish two degree scenario analysis	E
S0704	220	0.18	Tobacco - related - prepare report	S
S0819	146	0.12	Workplace sexual harassment	S
S0911	117	0.09	Miscellaneous – environmental & social	
S0890	96	0.08	Animal welfare	S
S0725	36	0.03	Weapons - related	S

(b) Environmental vs. social proposals

	Pr(Vote for)					
	(1)	(2)	(3)	(4)	(5)	(6)
Panel A: W-NOMINATE						
ES(non-ES) x Contested	-0.091**	-0.123***	-0.076	-0.056**	-0.087**	-0.110*
	(-2.245)	(-2.840)	(-1.325)	(-1.963)	(-2.018)	(-1.728)
ES(non-ES)		0.181***		0.141***		0.288**
		(2.653)		(3.026)		(2.492)
Contested	0.147***				-0.099***	
	(7.854)				(-2.837)	
Observations	88,321	84,045	26,020	24,971	34,715	33,194
Adjusted R-squared	0.465	0.793	0.462	0.852	0.484	0.811
Panel B: W-NOMINATE						
ES(non-ES) x Contested	-0.106***	-0.139***	-0.100**	-0.061*	-0.094*	-0.120**
	(-2.605)	(-2.912)	(-2.167)	(-1.937)	(-1.919)	(-1.995)
ES(non-ES)		0.201***		0.153***		0.315***
		(2.764)		(3.001)		(2.987)
Contested	0.155***				-0.109***	
	(8.038)				(-2.943)	
Observations	88,026	83,713	25,880	24,850	34,138	32,599
Adjusted R-squared	0.402	0.790	0.415	0.853	0.433	0.817
Proposals type	S	S	S-Political	S-Political	E	E
Meeting FE	Y		Y		Y	
Proposal type FE	Y		Y		Y	
Family FE	Y		Y		Y	
Fund FE	Y		Y		Y	
Family x Proposal FE		Y		Y		Y

G. Additional analyses and 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 first include governance proposals that could arguably be considered ES, and examine the role of abstentions. In Section 2.2.1, we argue that there are some types of proposals that ISS classifies as GOV but that could arguably be considered ES (Morgan et al., 2011): (i) board diversity, (ii) linking of executive pay to social criteria, (iii) reporting on pay disparities, (iv) limiting executive compensation, (v) limiting/prohibiting executive stock-based awards, (vi) establish environmental/social issue board committee, and (vi) require environmental/social issue qualification for director nominees. These are directed at limiting executive compensation or linking it to social criteria, or requiring environmental and social qualifications for directors. There are 214 of these proposals in our sample, but only 13 of them received support in the interval [20%,80%]. All of them received a favorable recommendation from ISS. In Columns (1) and (2) of Table IA.3 we present the results after including these proposals in our main sample, and show that our results remain unaffected. This is somehow expected as they only account for a few votes. 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 Columns (3) and (4) 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 de definition of 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 Table IA.4 we show robustness to this definition using an 80% threshold (Columns (1) and (2)), and a 60% threshold (Columns (3) and (4)). 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.

We further consider alternative definitions of *Contested* and the range of proposals included in our specification. We present these results in Table IA.5. The baseline specification defines *Contested* as a dummy variable equal to one if the voting outcome is between 45% and 55% and zero when it is within [20%, 45%) or (55%, 80%]. Columns (1) and (2) present 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 [20%,80%], 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). We also change the definition of *Contested* to include those in the [40%,60%] interval (Columns (3) and (4)). If there is high uncertainty about the outcome of the proposal, ES funds in non-ES families might behave strategically for proposals with voting outcomes relatively far away from the majority threshold. In addition, we consider a subsample of proposals that are closer to the threshold and are arguably more comparable, i.e., proposals in the [30%, 70%] (Columns (5) and (6)). Finally, in Columns (8) and (9) we combine the tighter interval of proposals with the wider definition of *Contested*. All the

results are consistent with our main specification, suggesting that our results are not driven by the subsample of proposals used in the main specification or the definition of *Contested*.

Finally, 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 0.1% of the votes.

Table IA.3. Robustness tests to definition of ES proposal and Vote for. This table reports robustness tests related to our definitions of *ES Proposal* (Columns (1) and (2)), and *Vote for* (Columns (3) and (4)). In Columns (1) and (2), we include GOV proposals that can be considered ES, in Columns (3) and (4), we consider only votes cast for or against (i.e., excluding abstentions). 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 Contested	-0.085**	-0.107***	-0.090**	-0.121***
	(-2.307)	(-2.758)	(-2.461)	(-2.933)
ES(non-ES)		0.200***		0.213***
		(2.940)		(2.974)
Observations	130,096	123,666	106,403	100,599
Adjusted R-squared	0.447	0.801	0.467	0.813
Panel B: Average support				
ES(non-ES) x Contested	-0.099***	-0.120***	-0.104***	-0.137***
	(-2.624)	(-2.808)	(-2.771)	(-3.079)
ES(non-ES)		0.219***		0.236***
		(3.038)		(3.124)
Observations	129,126	122,675	104,051	98,235
Adjusted R-squared	0.389	0.801	0.415	0.819
Abstaintions included	Y	Y	N	N
Meeting FE	Y		Y	
Proposal type FE	Y		Y	
Family FE	Y		Y	
Fund FE	Y		Y	
Family x Proposal FE		Y		Y

Table IA.4. Robustness to threshold to separate families. This table reports robustness tests related to the thresholds to separate ES and non-ES families. In Columns (1)-(2) and (3)-(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 Contested	-0.082**	-0.137***	-0.060	-0.099***
	(-2.144)	(-3.191)	(-1.555)	(-2.675)
ES(non-ES)		0.235***		0.177***
		(3.136)		(2.993)
Observations	84,270	80,297	160,535	151,624
Adjusted R-squared	0.464	0.769	0.418	0.790
Panel B: Average support				
ES(non-ES) x Contested	-0.086***	-0.090***	-0.060	-0.101***
	(-2.739)	(-2.748)	(-1.428)	(-2.650)
ES(non-ES)		0.141***		0.178***
		(2.777)		(2.994)
Observations	76,671	72,649	161,877	152,999
Adjusted R-squared	0.423	0.854	0.419	0.797
Threshold Family	80	80	60	60
Meeting FE	Y		Y	
Proposal type FE	Y		Y	
Family FE	Y		Y	
Fund FE	Y		Y	
Family x Proposal FE		Y		Y

Table IA.5. Robustness tests. This table reports robustness tests related to the range of proposals considered in our main specification (Interval), and the definition of Contested. In Columns (1) and (2), we keep the 20-80% interval used in the main specification and change the definition of Contested, using a continuous variable equal to the absolute value of 50-Voting Outcome. In Columns (3) and (4), we define as Contested those proposals with voting outcome between 40 and 60%. In Columns (5)-(6) and (7)-(8), we consider as Contested those proposals with voting outcome between 45 and 55% and 40 to 60% respectively, using the Interval of 30% to 70%. 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)				Pr(Vote for)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Panel A: W-NOMINATE								
ES(non-ES) x Contested	-0.006***	-0.007**	-0.070**	-0.109***	-0.059**	-0.076***	-0.043*	-0.072***
	(-3.069)	(-2.489)	(-2.228)	(-2.729)	(-1.962)	(-2.888)	(-1.694)	(-2.770)
ES(non-ES)		0.073*		0.218***		0.169***		0.181***
		(1.907)		(2.941)		(2.939)		(2.950)
Observations	123,328	117,239	123,328	117,239	63,700	60,476	63,700	60,476
Adjusted R-squared	0.451	0.800	0.449	0.800	0.437	0.826	0.437	0.826
Panel B: Average support								
ES(non-ES) x Contested	-0.006***	-0.008***	-0.082**	-0.123***	-0.073**	-0.085***	-0.056**	-0.081***
	(-2.979)	(-2.598)	(-2.358)	(-2.806)	(-2.387)	(-2.853)	(-2.054)	(-2.880)
ES(non-ES)		0.077*		0.240***		0.184***		0.197***
		(1.847)		(3.043)		(2.999)		(3.012)
Observations	122,434	116,312	122,434	116,312	62,783	59,616	62,783	59,616
Adjusted R-squared	0.394	0.800	0.391	0.800	0.392	0.829	0.392	0.830
Interval	20-80	20-80	20-80	20-80	30-70	30-70	30-70	30-70
Contested=1			40-60	40-60	45-55	45-55	40-60	40-60
Meeting FE	Y		Y		Y		Y	
Proposal type FE	Y		Y		Y		Y	
Family FE	Y		Y		Y		Y	
Fund FE	Y		Y		Y		Y	
Family x Proposal FE		Y		Y		Y		Y

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