U.S. Mutual Funds Critical Missing Link in Supporting Climate Change Shareholder Resolutions

New Data Shows None of Nation's 100 Largest Mutual Funds Supported Resolutions in 2006

U.S. mutual funds have been required since 2004 to disclose how they vote their proxies in the companies in which they invest. Prompted by corporate governance scandals and shareholder demands for greater transparency, these disclosure requirements are designed to show how fund managers are voting to protect shareholder interests and promote companies' long-term financial performance.

Addressing climate change is fast becoming a top priority of businesses and investors. Greenhouse gas emission (GHG) limits are now a reality among America's key trading partners and domestic pressure for action is building as well. More than a dozen states are taking steps to reduce greenhouse emissions and numerous bills are pending in Congress to do the same. Mindful of their fiduciary responsibilities, a growing number of institutional investors are filing shareholder resolutions with companies calling for deeper analysis and disclosure about the financial risks and opportunities they face from climate change, whether from regulatory changes, physical impacts or growing global demand for low-carbon products and technologies.

In just the past three years, investor participation in the Investor Network on Climate Risk (INCR) has grown from 10 members managing $600 billion in assets to more than 50 participants managing $3.7 trillion in assets. Many of the nation's largest public and private pension funds now routinely support climate change shareholder resolutions. This growing investor pressure – three-dozen climate resolutions were filed in 2006 – is prompting widespread improvements in climate governance practices at leading U.S. companies such as Chevron, Wells Fargo and Lowe's.

Mutual funds, however, are a critical missing link in this effort. Controlling upwards of one-quarter of the publicly traded equity in U.S. companies, mutual funds are uniquely positioned to encourage companies to evaluate and respond to climate change so that their long-term competitiveness and shareholder value are protected. But virtually all of the country's largest mutual fund companies have opted to ignore this responsibility. As a result, climate change remains largely hidden as an unexamined issue, with potentially enormous financial risks for their client base.

The data below, compiled by Institutional Shareholder Services (ISS) on behalf of Ceres, shows that none of the top 100 U.S. equity mutual funds are addressing climate change through affirmative proxy voting policies. Despite the rising financial

stakes and significant actions taken by other institutional investors, mutual funds have shown a near-universal lack of interest in supporting climate change resolutions since the proxy voting disclosure requirements went into effect three years ago.

At the 2006 corporate annual meetings, all 28 of the investment management companies responsible for the nation's 100 largest mutual funds –including industry giants such as Fidelity, Vanguard and American Funds, which manage 55 of the 100 largest funds – abstained or opposed all shareholder resolutions in 2006 seeking more corporate disclosure on the financial risks and opportunities posed by climate change. This universal lack of support stands in stark contrast to leading institutional investors such as TIAA-CREF, the nation's largest private pension fund with – billion in assets, and the California Public Employees Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS), the nation's two largest public pension funds, which supported numerous climate-related resolutions, including those with Dominion Resources and Standard Pacific which received 22.6 percent and 39.3 percent support, respectively.

For mutual funds that pride themselves on gaining in-depth knowledge of companies' financial goals and risk-management strategies, their resistance on climate change proposals is surprising. It runs counter to growing evidence that climate change is having far-reaching fiscal impacts on a wide range of business sectors, whether from carbon-emission regulations being adopted domestically and abroad or from rising insurance claims from stronger-than-ever hurricanes and other extreme weather events.

Table 1. Top 100 Mutual Fund Voting Results on 2006 Climate Change Resolutions

Mutual Fund Company	Top 100 Funds (#)	Top 100 Assets[1] ($Millions)	Votes on Web Site	Voting Results for Climate Change Resolutions
Allianz Global Investors	1	7,560.80	Yes	No holdings[2]
American Century	1	14,912.00	Yes	Did not vote[3]
American Funds	14	565,926.90	Yes	Against
Artisan	1	13,412.70	Yes	No holdings[2]
Bernstein Global Wealth	1	7,193.20	Yes	No holdings[2]
Calamos Investments	1	13,290.70	No	Against
Columbia	1	11,395.60	Yes	No holdings[2]
Davis Funds	1	22,272.40	Yes	Against
Dodge & Cox	3	103,135.10	Yes	Against
Fidelity	20	437,121.90	Yes	Against
First Eagle Funds	1	11,147.50	Yes	No holdings[2]
Franklin Templeton	5	80,057.90	Yes	Against
Harbor Fund	2	21,344.30	Yes	Against
Hartford Mutual Funds	1	8,089.30	No	Against
Janus	3	26,935.40	Yes	Abstain OR against
Julius Baer	1	8,467.00	Yes	No holdings[2]
Legg Mason	1	11,191.90	Yes	No holdings[2]
Longleaf Partners	1	9,503.00	Yes	Against
Lord Abbett	2	21,936.30	Yes	Against
MFS	1	7,099.50	Yes	Against
Oakmark	2	16,746.90	Yes	No holdings[2]
Oppenheimer	3	26,252.90	No	Abstain
Putnum	1	11,525.00	Yes	Against
T Rowe Price	6	69,587.40	Yes	Against
Third Avenue	1	8,371.40	Yes	No holdings[2]
Tweedy, Browne	1	7,525.80	No	No holdings[2]
Van Kampen	3	30,437.50	Yes	Against
Vanguard	21	336,948.50	Yes	Abstain

1. *Assets held in top 100 U.S. equity mutual funds as ranked by* BusinessWeek *(6/30/2006).*
2. *These firms held no stock in companies receiving 2006 climate change resolutions among their funds listed among the top 100 U.S. equity mutual funds.*
3. American Century did not vote on any agenda items at Whole Foods' annual meeting.

Source: Institutional Shareholder Services

(See Appendix for how these firms voted on specific climate change shareholder proposals in 2006, as well as their proxy voting policies on social and environmental issues.)

Table 2. Top 100 Mutual Fund Voting Policies on Social and Environmental Issues

Voting policy on social issue proposals	# of fund companies (2006)	Top 100 funds	Top 100 asset value	% of top 100 assets	# of fund companies (2005)	Top 100 funds	%of top 100 assets
Always against	11	46	$1,131,097	59.2%	15	46	52.7%
Usually against	10	23	$348,186	18.2%	10	18	13.6%
Always abstain	2	24	$363,201	19.0%	2	26	28.6%
Usually abstain	1	3	$26,935	1.4%	2	5	2.7%
Abstain or against	2	2	$20,484	1.1%	1	1	0.8%
For or against	2	2	$19,485	1.0%	2	4	1.5%

Table 3.

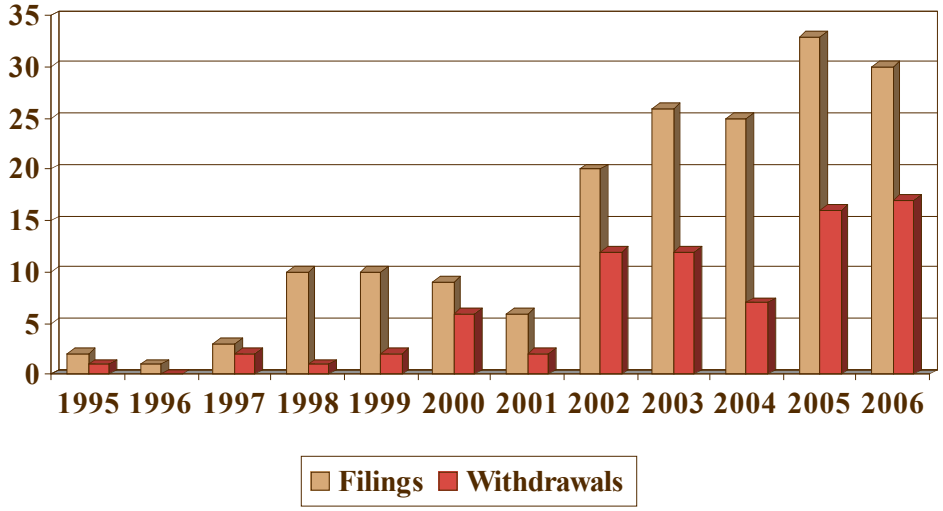
2006 Global Warming and Energy Efficiency Shareholder Proposals[1]

Company	Outcome	Company	Outcome
Alliant Energy	Withdrawn	Home Depot (efficiency)	Withdrawn
Anadarko Petroleum	Withdrawn	Liberty Property (efficiency)	Withdrawn
Bed Bath & Beyond (efficiency)	28.6%	Lowe's (efficiency)	Withdrawn
Centex (efficiency)	9.0%	MGE Energy	Withdrawn
Chubb (sustainability)	Withdrawn	Peabody Energy	Withdrawn
D.R. Horton (efficiency)	5.5%	Ryland Group (efficiency)	Omitted
Devon Energy	Withdrawn	Sempra Energy	Omitted
Dominion Resources	22.6%	Simon Property (efficiency)	Withdrawn
ExxonMobil	Withdrawn	Standard Pacific (efficiency)	39.3
ExxonMobil (climate data)	Withdrawn	Vintage Petroleum	Merger
ExxonMobil (Kyoto)	Withdrawn	Wachovia	Withdrawn
ExxonMobil (low-carbon plan)	Withdrawn	Wells Fargo	Omitted
Ford Motor (lobbying)	7.3	Whole Foods (efficiency)	8.9
General Motors (cut emissions)	Omitted	WPS Resources	Withdrawn
Great Plains Energy	Withdrawn	**# filed** / **# voted**	**Avg. Support**
Great Plains Energy (tax)	Omitted	**30** / **7**	**17.3%**

1. Does not include six proposals filed by skeptics of global warming

Source: Institutional Shareholder Services

Table 4. U.S. Climate Change Shareholder Resolutions—1995 - 2006



Note: 2006 filings does not include six proposals filed by global warming skeptics

Source: Institutional Shareholder Services