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Poll: Funds Indifferent to Excessive CEO Pay

By Danielle Sottosanti May 25, 2011

Mutual fund firms should keep a closer watch and tighter rein on overly high executive pay, say the majority of *Ignites* poll respondents.

Roughly 67%, or 118 respondents, believe that fund companies are too deferential to management in their proxy votes on issues such as executive compensation. That made it the top opinion expressed in an *Ignites* survey about whether fund companies are too complacent with lavish executive pay packages.

The poll's leading sentiment goes against the industry's traditional perspective of fund firms' role in influencing compensation packages, some industry experts say. "Historically, the industry's view is that, unless a pay practice dilutes the shares or is clearly excessive, mutual funds tend to vote with management on compensation issues," says Niels Holch, executive director of the **Coalition of Mutual Fund Investors**.

Mercer Bullard, founder and president of **Fund Democracy**, also says that "one should generally expect funds who have chosen to invest with management also to vote with management and not with minority shareholder positions."

However, about 43% of *Ignites* poll respondents, or 76 voters, express that fund companies should better analyze pay packages and vocalize when excesses are found. That was the most popular individual choice in the poll. This group comprised the lion's share of the majority that believe fund firms overall are too deferential to management.

On the other hand, about 15%, or 27 voters, say that fund firms are doing enough by simply dumping a stock if its performance does not justify an executive's pay, ranking it in second place in the poll.

About 14%, or 25 respondents, say fund firms rightfully see executive compensation as a powerful incentive.

Meanwhile, nearly 13%, or 22 voters, attribute fund companies' proxy voting practices to inadequate pressure from shareholders to take a harder line on executive pay. About 11%, or 20 voters, say fund firms do not speak out against excessive executive pay because portfolio managers are sympathetic to high CEO compensation packages.

Only five respondents, almost 3% of all surveyed, say most funds are assertively keeping CEO pay in check. That was the least popular response.

So far this year, investors usually have voted in favor of companies' pay practices during "say on pay" advisory votes. Investors voted against only about 2% of the 1,069 U.S. companies that have held advisory votes so far this year, [according to ISS data](#).

The *Ignites* poll was prompted by a recent report by the **American Federation of State, County and Municipal Employees** (Afsme), which reported that some of the largest fund firms are among the least likely to "use proxy votes to align executive pay with performance."

Vanguard, BlackRock, ING and Lord Abbett are among the firms faulted in the report, which labels these firms “pay enablers.”

Vanguard challenged the scope of the report, saying that it was too narrowly focused and does not provide a complete view of the firm’s voting practices, according to a recent *Ignites* article. The Afscome report reviewed the votes cast by 55 of Vanguard’s funds on all Russell 3000 companies in those funds’ portfolios for all resolutions, according to the *Ignites* article. Overall, the study reviewed more than 12,000 votes.

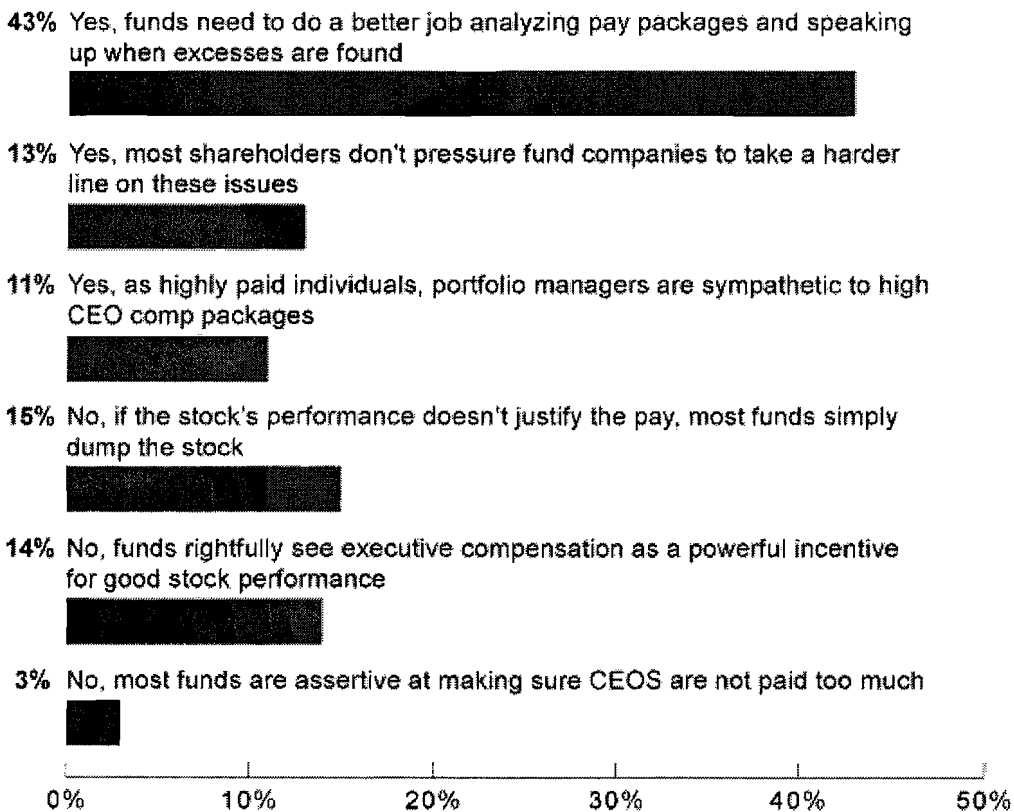
Roughly 175 *Ignites* readers participated in the survey as of 3 p.m. Tuesday.

The poll is an unscientific sampling of *Ignites* subscribers. Participants voted only once and were self-selected. *Ignites*’s audience consists of money managers, service providers and financial advisors.

☰ POLL RESULTS

Are Mutual Funds Patsies on CEO Pay?

A report by the American Federation of State, County and Municipal Employees slammed Vanguard, BlackRock and ING as being too passive as institutional investors when it comes to speaking out against excessive executive compensation, *Ignites* has reported. Are mutual funds too deferential to management on issues such as executive compensation?



Total Votes: 175

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