

Mutual Protection: Why Mutual Funds Should Embrace Disclosure of Corporate Political Contributions



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Common Cause and the Center for Political Accountability are teaming up in a unique effort to encourage corporations to voluntarily report and account for their political contributions to political organizations and parties.¹ This report examines the importance of the mutual fund industry to this effort, and its reluctance so far to embrace disclosure.

Introduction

Common Cause has long been concerned about the corrupting influence of corporate money in the electoral and legislative processes. Most recently, Common Cause led the effort to end “soft” money, the unlimited and unregulated funds funneled to national political parties, most of it from corporate treasuries.

But passage of the Bipartisan Campaign Reform Act, which banned soft money to political parties, did not end corporate spending in the political process. Corporate contributions to political parties and candidates remain legal in most states. Furthermore, disclosure requirements for corporate money vary from state to state, making contributions hard to track.

Additionally, corporate contributions continue to grow and find new outlets. Independent political committees that were formed under Section 527 of the Internal Revenue Code have proliferated. And corporations aren’t required to disclose the political contributions they make to these committees – only the recipients are obligated to report the contributions.

This lack of uniform and accessible disclosure hinders public oversight of how corporations use money to influence the political process and jeopardizes the integrity of our democracy.

To give the public a clear understanding of how corporate money is being spent to influence the political process, Common Cause is joining with the Center for Political Accountability, a non-partisan organization working for greater transparency in corporate political giving, in an effort to encourage corporations to voluntarily report and account for their contributions to political organizations and parties. The Center has coordinated the filing of shareholder resolutions at more than 30 major Fortune 500 companies, including such corporate giants as SBC Communications and General Electric. **[See Table I, page 8]** The shareholder resolutions filed at these companies request that corporate management provide to shareholders, the board, and the public, a report that tallies all corporate political giving and provides a rationale for each contribution.

¹ Because this report focuses on how shareholder resolutions can be used to encourage disclosure of corporate contributions, most of the information deals with corporate disclosure. It is also important for unions and other organized entities to disclose their giving practices, but that is beyond the scope of this report.

This report will examine the importance of the mutual fund industry to this effort, and its reluctance so far to embrace disclosure. In addition it will cover the following points:

- Both the public and shareholders benefit when corporate contributions are made transparently. The public benefits by having information that allows for greater vigilance over the influence of money in the political process. Shareholders benefit by gaining insight into the role political giving has in overall business strategy.
- Institutional shareholders have taken action to get better corporate disclosure of political contributions. This year more than 30 shareholder resolutions were filed at Fortune 500 companies requesting such disclosure.
- Mutual funds hold a significant portion of corporate stock. More than 22 percent of U.S. corporate stock is owned by mutual funds. Therefore, mutual fund companies have significant voting rights and are in a position to hold corporations accountable for their disclosure policies.
- Common Cause surveyed 10 of the biggest mutual fund corporations such as Charles Schwab and Fidelity to determine how they voted in 2004 on shareholder resolutions requesting corporate disclosure of political contributions. All voted against it or abstained, revealing a systemic reluctance to use shareholder clout to obtain better disclosure.
- The equity ownership of these 10 largest mutual fund companies could have translated into influence. Had the 10 mutual fund companies supported the resolution, the vote for the resolution would have topped 25 percent at almost half of the companies.
- Future mutual fund support for shareholder resolutions requesting disclosure of political contributions could have a strong impact. The top 30 mutual fund companies own, on average, 20 percent of the outstanding shares of each of the Fortune 500 companies that will face shareholder resolutions requesting disclosure this year.
- Millions of Americans invest in mutual funds for their retirement or savings and therefore have a stake in urging more disclosure. As of 2004, nearly 54 million households – more than 48 percent of all U.S. households -- invested in mutual funds.²
- Common Cause is urging its nearly 300,000 members and supporters to take action. Those who invest in mutual funds will be asked to contact those mutual fund companies to enlist support for disclosure.

The Importance of Comprehensive Corporate Disclosure of Political Contributions

The influence of corporate money on the political process to the detriment of the public interest has long been a concern of Common Cause. Common Cause has worked at the local, state, and federal levels to increase transparency in corporate political giving and to limit the influence of corporate money in politics. Indeed, when lawmakers make public policy that serves the interests of just a few corporations, the public pays the price. The most recent outrageous example of this phenomenon occurred with Enron Corp.

Enron and its top executives gave \$1.67 million in “soft” money donations to Republican and Democratic parties in 1999 and 2000 – with approximately 66 percent going to Republicans and 33 percent going to Democrats.¹⁰ The company’s influence over the Federal Energy Regulatory Commission (FERC) ultimately cost the public between \$1.8 billion and \$8.9 billion in energy overcharges, as FERC officials failed to fully investigate Enron’s criminal manipulation of the energy markets and also failed to impose caps on soaring energy prices. [\[See Box 1\]](#)

Box 1

The Dangers of Soft Money: The Enron Scandal

A brief review of the Enron scandal reveals why public oversight of corporate political giving is vital. Public records reveal that Enron Corp., the energy-trading giant, gave \$1.67 million in “soft” money to the Republican and Democratic parties in 1999 and 2000 - with approximately two-thirds going to Republicans and one-third going to Democrats.³

This extensive giving could have been a red flag to the public and to shareholders warning that Enron was unduly trying to influence public policy. For the public, this practice resulted in energy policies that did not serve our national interest and cost California ratepayers an estimated \$8.9 billion in energy overcharges.⁴ For shareholders, the focus on political influence, rather than on creating value for the company, was, in the end, a disaster.

In the late 1990s Enron, an energy wholesaler, was involved in an illegal scheme to artificially inflate wholesale energy prices. Under the scheme, energy prices skyrocketed for California ratepayers, causing a tremendous energy crisis. At the height of California’s energy crisis, Enron’s profits soared. In the fourth quarter of 2000, the company reported a 34 percent increase in its quarterly profit.⁵ As California consumers, including hospitals and schools, went into the red because of the price gouging, a group of western senators asked the Federal Energy Regulatory Commission (FERC) to impose caps on energy prices to restore order to the state’s electricity market.

Unfortunately, Enron executives had reached FERC first. In a memorandum that Senator Barbara Boxer (D-CA) called “the smoking gun,” Enron CEO Kenneth Lay outlined the reasons the Bush administration should not step in with price caps.⁶ The administration agreed, and the Federal Energy Regulatory Commission backed this position, outraging state officials and administrators.

Eventually, three top Enron energy officials were indicted and pled guilty to charges that they unlawfully manipulated electricity prices.⁷ Released transcripts of telephone conversations among the traders reveal that they boasted about gouging “those poor grandmothers” and other consumers and that they speculated about how Enron’s political contributions could translate into more power and profit for the company.⁸ However, the damage to the public was done. California ratepayers are still paying off the \$8.9 billion tab.⁹

Enron's ability to influence the political process was hardly an isolated incident, but the excesses of the scandal brought to light the corrupting power of money in the political process and helped pave the way for the passage of the landmark Bipartisan Campaign Reform Act of 2002, also known as McCain-Feingold. The McCain-Feingold legislation banned corporate "soft" money contributions of the type that Enron made to the political parties.

But much work remains. Corporate contributions to political parties and candidates remain legal in almost three-quarters of the states. And, importantly, disclosure requirements for corporate money vary from state to state, making contributions difficult to track.

Corporate contributions continue to grow and find new outlets. Independent political committees that were formed under Section 527 of the Internal Revenue Code have proliferated. And corporations are not required to disclose the political contributions they make to these committees – only the recipients are obligated to report the contributions. The result is that corporate giving can be tracked only indirectly and public oversight of the impact of corporate money on legislative and electoral process is minimal. Without this oversight, the opportunity for corporate money to skew policymaking can occur unchecked and often at great expense to the public and to shareholders. Both stand to benefit from complete corporate disclosure.

A number of prominent state and city treasurers who bear responsibility both for state economic policy and for the stewardship of public pension money have discerned that corporate disclosure of political contributions is vital to their work. In August of 2004, 11 state and city treasurers sent a letter to the Securities and Exchange Commission (SEC) asking that the commission issue a regulation requiring corporations to disclose all political contributions.

In their letter to the SEC the treasurers wrote:

"As state and local investment officers and trustees of some of the nation's largest public pension funds, we are writing to urge you to strike another blow for transparency by requiring publicly traded companies to disclose to shareholders the political contributions they make. Shareholders have a right to know how the companies they own are using their money in the political arena."

"Although federal, state, and local laws require candidates and/or contributors to report political contributions at various thresholds, there is no way for shareholders to learn how much the companies they own contribute to political campaigns and causes short of combing through the records of hundreds of jurisdictions. That is not only a Herculean task for any individual shareholder, but also beyond the powers of even well-funded public-interest groups organized for the purpose of tracking political money. None of those groups is able to determine the aggregate amounts spent by particular corporations on U.S. political races or even provide a total of all corporate contributions in U.S. elections."

"Shareholders are entitled to know how their money is being spent. For all investors that data is potentially valuable additional information about a company's values, business strategy, and future prospects."¹¹

The SEC has not acted on this request. Neither has the Federal Election Commission. However, shareholders continue to press for this disclosure through other avenues – specifically, by filing shareholder resolutions asking corporations directly to disclose their contributions to political candidates, organizations and other entities.

The data that could be gleaned by having corporations voluntarily disclose their political contributions would be vital not only to public oversight of the democratic process but also to shareholders. Our coalition partner, the Center for Political Accountability, a non-partisan organization working for greater transparency in corporate political giving, has recently released a companion report to this one, entitled “The Green Canary: Alerting Shareholders and Protecting Their Investments.” The CPA report lays out how investors seeking to evaluate the financial prospects of a given corporation would benefit from a clear understanding of the company’s political giving and the rationale for those contributions.

The business rationale for corporate disclosure of political contributions is resonating with a few forward-thinking corporate managers. Two major companies -- Morgan Stanley and Pfizer -- recognize the importance of such disclosure. They have embraced the concept of disclosing all political contributions made with corporate money. Morgan Stanley (www.morganstanley.com) pledged in December 2004 to publish its political donation policy on its Web site and to annually make available a list of its corporate political contributions in the United States. In addition, Morgan Stanley agreed to charge its board of directors with overseeing the company’s political policies and donations.¹² Earlier that year, Pfizer (www.pfizer.com) announced that it would begin reporting its political contributions in a report available through its Web site. A spokesperson for the company told *IR* magazine that “more frequent and more accessible public reporting of political contributions would serve investors’ needs at a reasonable cost,” and that the expense of disclosure for a company of its size would be “minor.”¹³ However, Pfizer does not have board- or executive-level oversight of its political contributions.

Shareholder Strategies to Encourage Corporations to Disclose Political Contributions

In an attempt to urge corporations to disclose their political contributions, a number of institutional shareholders, including pension funds, foundations, and mutual funds, filed shareholder resolutions at more than 25 Fortune 500 companies in the 2004 proxy season. The filing of these resolutions was promoted and coordinated by the Center for Political Accountability. These resolutions were filed at such corporate giants as General Electric and Citigroup. Each resolution requested that corporate management provide to shareholders, the board, and the public, a report that tallied all corporate political giving and provided a rationale for each contribution. **[See Box 2 for the text of the shareholder resolution, page 7]**

All told, shareholders of 25 companies voted on shareholder resolutions requesting corporations to disclose their political contributions in 2004. These resolutions received support from large public pension funds including the California Public Employees’ Retirement System, the New York State Common Retirement Fund, the New York City Employees’ Retirement System, and the Connecticut Retirement Plans and Trust Funds. At 12 of the companies, the resolutions received more than 10 percent of the vote, a figure that observers considered to be a sign of significant support. **[See Table I, page 8]**

Box 2

Shareholder Proposal

Resolved, that the shareholders of American International Group Inc. (the “Company”) hereby request that the Company prepare and submit to the shareholders of the Company a separate report, updated annually, and containing the following information:

- a. Policies for political contributions made with corporate funds, political action committees sponsored by the Company, and employee political contributions solicited by senior executives of the Company. This shall include, but not be limited to, policies on contributions and donations to federal, state and local political candidates, political parties, political committees and other political entities organized and operating under 26 USC Sec. 527;
- b. An accounting of the Company’s resources, including property and personnel, contributed or donated to any of the persons and organizations described above;
- c. A business rationale for each of the Company’s political contributions or donations; and
- d. Identification of the person or persons in the Company who participated in making the decisions to contribute or donate.

Statement of Support

As shareholders, we support policies that apply transparency and accountability to corporate political giving.

There is currently no single source of information providing comprehensive disclosure to the Company’s shareholders on political contributions made with corporate funds. Without full transparency, we believe Company executives may be able to make decisions without a stated business rationale for such donations.

The result is that shareholders are unaware of how and why the Company chooses to make corporate contributions and the political ends being furthered by the gift of corporate funds.

According to the Center for Responsive Politics, a leading campaign finance watchdog organization, our Company contributed \$1.6 million to major party committees and political dinners in the 2002 election cycle. However, shareholders do not know whether that is the full extent of the utilization of our Company’s resources for political purposes.

In our view absent a system of accountability, corporate executives will be free to use the Company’s assets in ways that could pose reputational and legal risks for the company.

For these reasons, we urge a vote FOR this resolution.

By and large, when a corporation is faced with a shareholder resolution that receives more than 5 percent of the vote, corporate management will take notice. The shareholder resolution is often the impetus prompting corporate executives to reach out to concerned shareholders and begin a dialogue to address the shareholders' concern. This occurred in the 2004 proxy season with Pfizer. The Nathan Cummings Foundation, which at the time had an endowment of \$400 million and owned a considerable amount of Pfizer stock, had filed a shareholder resolution with Pfizer requesting disclosure of political contributions. Management at Pfizer asked to meet with the foundations' chief financial and investment officer. Although Pfizer officially opposed the shareholder resolution, the company announced at its shareholder meeting that it would be posting a report of its political contributions on its Web site.¹⁴

TABLE I	
Corporation	% Votes Cast for the Resolution
Abbott Laboratories	7.2
Altria Group	7.2
American Express	7.4
American International Group	4.5
AmSouth	10.9
BellSouth	15.1
Chevron Texaco	12.0
Chubb	8.8
Citigroup	12.5
Exxon Mobil	9.5
FirstEnergy	9.7
Gateway	6.2
General Electric	9.9
Harrah's Entertainment	10.2
IBM	11.0
J.P. Morgan Chase	9.5
Merck	10.1
Morgan Stanley	15.6
Pfizer	10.9
Pitney Bowes	13.1
Textron	15.4
Union Pacific	9.0
Verizon	16.0
Wachovia	13.3
Wells Fargo	9.4

Similarly, in the 2004 proxy season, Morgan Stanley had received a shareholder resolution requesting that it disclose all political contributions. The resolution received more than 15 percent of the vote. Entering the fall of 2004, with another shareholder resolution in the offing, executives at Morgan Stanley indicated that they were interested in resolving the issues raised by the earlier resolution. In mid-December 2004, Morgan Stanley pledged to publish its political donation policy on its Web site and to annually make available a list of its corporate political contributions in the United States. In addition, the company agreed to have its board of directors oversee its political contributions and contribution policy.¹⁵

Despite these successes, much work lies ahead. In the 2005 proxy season, the Center for Political Accountability has coordinated the filing of shareholder resolutions at more than 30 Fortune 500 companies, including such corporate giants as SBC Communications and General Electric. With enough support from individual and institutional shareholders, the vote tallies for these shareholder resolutions could be much higher in the 2005 proxy season.

Mutual Fund Support of Shareholder Resolutions Requesting Disclosure of Political Contributions

Millions of Americans invest in mutual funds for their retirement or savings. As of June 2004, according to the Investment Company Institute, nearly 54 million households invested in mutual funds – that is about 48 percent of U.S. households.¹⁶ In fact, so many Americans use mutual funds to invest in the stock market that over 22 percent of U.S. corporate stock is owned by mutual funds.¹⁷ Because mutual funds hold such a significant portion of U.S. corporate stock, and therefore have significant voting rights, they are in a position to play an important role in holding corporations accountable to their shareholders and the public.

Yet, despite the enormous influence of mutual funds in the capital markets and their huge impact on the financial fortunes of American investors, mutual fund companies have not been very active in making their concerns known to management by exercising their voting power. When confronted with a shareholder resolution that could be somewhat controversial, mutual fund management has often simply followed the voting recommendation of corporate management.

The 2004 proxy season was no different. At each of the 25 companies where a resolution was filed requesting disclosure of political contributions, from Abbott Laboratories to General Electric, corporate management recommended that shareholders vote against the resolution. Based on a 2004 Common Cause study of SEC filings, it appears that, with few exceptions, the 10 largest mutual fund corporations voted against the disclosure resolution.¹⁸ **[See Table II, page 12]** The mutual fund families whose voting practices we reviewed included American Funds/Capital Research, Charles Schwab, Citigroup, Dreyfus, Federated Funds, FMR (Fidelity), Franklin Resources, Merrill Lynch, PIMCO and Vanguard.¹⁹

That mutual fund managers would vote against the shareholder resolution is cause for deep concern. The 10 mutual fund companies whose funds Common Cause surveyed are substantial shareholders at most of the companies that faced the resolutions. As a group, the top 10 mutual fund companies control between 4.3 and 19.8 percent of the total outstanding shares at each of the companies that voted on the resolution in 2004. This equity ownership could have translated into influence. Based on current mutual fund family holdings, their support for the political disclosure resolutions in 2004 would have pushed the percent of votes cast in support of the proposal to 25 percent or higher at 11 of the 25 companies facing the resolution. Indeed, support from the funds at four of the companies – BellSouth, Morgan Stanley, Pitney Bowes and Verizon -- would have given the resolution 30 percent or more of the vote. At Verizon, the vote would have topped 35 percent. **[See Table III, page 13]**

The lack of support for this resolution on the part of the top 10 major mutual fund companies is significant. Common Cause sees two major factors behind the mutual funds' failure to support the political disclosure resolution; Mutual fund company managers often have a "passive investor mentality," which means that they don't take a proactive stance on shareholder issues – and, therefore, simply vote the way that corporate management suggests. Also, mutual fund corporations may be reluctant to vote against the recommendations of the management of the corporations they own because the mutual fund companies have conflicts of interest.

Passive Investor Mentality

Most mainstream mutual fund managers act as passive investors and traditionally vote proxies in line with the recommendations of the management of the corporations held in their portfolios. This practice was a key factor in the SEC's decision to require mutual funds to disclose their proxy votes, so that the votes could be called into question by mutual fund investors. As the SEC pointed out in its discussion of the proxy voting rule, "Traditionally, mutual funds have been viewed as largely passive investors, reluctant to challenge corporate management on issues such as corporate governance . . . Recent corporate scandals have created renewed investor interest in issues of corporate governance and have underscored the need for mutual funds and other institutional investors to focus on corporate governance."²⁰

Conflicts of Interest

The fact that mutual fund corporations often have close ties to the companies they own as shareholders means that they tend not to vote against the recommendations of those companies. Many mutual funds either do business with or seek to do business with the companies whose stock they own and whose proxies they must vote. John Bogle, founder and former chairman of the Vanguard Group, the nation's second largest fund company, is one of the few industry insiders who has publicly acknowledged that mutual fund companies face an "extraordinary conflict" of interest. Speaking at the National Investor Relations Institute symposium in 2002, he said, "These corporations whose shares we're voting are also the source of our 401(k) and pension business. We don't want to offend the corporations we own."²¹

Fidelity faced this conflict of interest at Tyco International in 1998, when it cast its proxy votes against a shareholder proposal calling for a majority of independent directors on Tyco's board.²² Fidelity's vote may have furthered its own interests as it earned \$2 million in 1999 administering Tyco's employee benefit plans.²³ As later events made clear, Tyco was in need of increased vigilance at the board level, and independent directors may have provided that guidance. Fidelity's proxy vote was clearly not in the best interest of Fidelity's mutual fund shareholders. In 2002, two former top Tyco executives were charged in a \$600 million fraud scheme.²⁴ Investors fled and approximately \$80 billion in shareholder value evaporated as Tyco's stock plummeted.

New York Times columnist Gretchen Morgenson examined the problem in her September 2004 piece which addressed mutual fund support of management's position regarding shareholder resolutions on several issues.²⁵ In Fidelity's case, it involved a resolution on stock-option expensing at Intel Corp. A Fidelity spokesperson said the fund

voted with management because expensing is “unnecessary and confusing.” But, according to Morgenson’s research, “while Fidelity funds hold almost 3 percent of Intel’s shares for clients, Intel is also a big customer of Fidelity, creating the potential for a conflict at the fund giant. Fidelity is the record keeper for Intel’s 401(k) plan, which held eight Fidelity funds worth \$1 billion at the end of 2003.”

Call to Action

The 2005 proxy season gives mutual fund management the opportunity to support good corporate governance and good public policy by voting for corporate disclosure of political contributions. Common Cause urges mutual fund investors to contact fund CEOs to ask that their funds cast proxies for the political contribution disclosure resolutions. By voting for the resolutions, mutual fund companies will move toward better protection of their investors by reducing the possibility of questionable or conflicted corporate behavior. Mutual fund companies will also benefit the public by calling for information that allows for greater vigilance over the influence of money in the political process.

The top 30 mutual fund companies by asset size own between 12.1 and 34.2 percent of the outstanding stock of companies that are expected to face the disclosure resolution in 2005.²⁶ In fact, at 23 of the more than 30 companies at which the proposals are expected to be submitted, the funds control more than 20 percent of the outstanding shares.²⁷ **[See Table IV, page 14]**

What makes these figures so important is that a vote as high as 20 percent could not only help bring management to the negotiating table, but would bring a sense of urgency to the situation. This means that the largest mutual funds have the power to press companies in the upcoming proxy season to adopt political transparency and accountability.²⁸

Common Cause is taking these actions:

- Urging its members who own stock in these major corporations to vote for these shareholder resolutions in the 2005 proxy season.
- Urging mutual fund investors to contact fund CEOs to ask that their funds cast proxies for the political disclosure resolutions in 2005. This is key since many citizens do not own stock outright but instead invest through mutual funds. Common Cause has listed the contact information for the major mutual fund companies on its Web site.
- Writing letters to the CEOs of the 30 major mutual fund families requesting that these fund families support shareholder resolutions that ask for disclosure of political contributions.

The efforts of Common Cause and the Center for Political Accountability are meant to bring to light the importance of shareholder support and, specifically, mutual fund support for these shareholder resolutions. Indeed, the top 30 mutual fund companies own, on average, about 24 percent of the outstanding shares of each of the Fortune 500 companies that could face political disclosure resolutions in 2005. They have enormous leverage to influence company policies and practices.

TABLE II: Votes Cast by Mutual Funds on Disclosure Resolution in 2004

Fund Family *	Fund Name **	For Proposal	Against Proposal	Abstain
Dreyfus				
	Dreyfus Appreciation Fund		✓	
	Dreyfus S&P 500 Fund		✓	
	Dreyfus Fund Inc.		✓	
Charles Schwab and Co.				
	Schwab 1000 Fund		✓	
	Schwab S&P 500 Fund		✓	
	Schwab Market Track Growth Fund		✓	
Franklin Templeton				
	Franklin Capital		✓	
	Franklin Income Fund		✓	
	Franklin Growth A		✓	
Federated Funds				
	Federated Capital Appreciation Fund		✓	
	Federated American Leaders Fund		✓	
	Federated Max-Cap Index Fund		✓	
Merrill Lynch				
	Merrill Lynch Balanced Capital		✓	
	Merrill Lynch Basic Value		✓	
	Merrill Lynch Fundamental Growth		✓	
PIMCO				
	PIMCO CCM Capital Appreciation		✓	
	PIMCO PEA Growth Fund		✓	
	PIMCO PEA Value Fund		✓	
Citigroup Asset Management/Smith Barney				
	Smith Barney Aggressive Growth		✓	
	Smith Barney Appreciation		✓	
	Smith Barney Large Cap		✓	
Vanguard				
	Vanguard 500 Index			✓
	Vanguard Wellington Fund			✓
	Vanguard Total Stock Market Index			✓
Fidelity				
	Fidelity Magellan Fund		✓	
	Fidelity Contrafund		✓	
	Fidelity Growth and Income Fund		✓	
American Funds/ Capital Research and Management Corp.				
	American Funds Washington Mutual Fund		✓	
	American Funds Growth Fund of America		✓	
	American Funds Investment Company of America		✓	

**Ten largest fund families by asset size.*

***Three biggest "large cap" U.S. equity funds by asset size within each fund family.*

TABLE III. Top 10 Mutual Fund Family Holdings and Voting Power as of October 2004

	Aggregate Mutual Fund Holdings (% Outstanding Shares) *	% Votes Cast “For” Disclosure Resolution in 2004	Potential % Votes Cast “For” Disclosure Resolution in 2004 with Mutual Fund Support **
Abbott Laboratories	11.5	7.2	18.7
Altria Group	16.7	7.2	23.9
American Express	12.3	7.4	19.7
American International Group	14.7	4.5	19.2
AmSouth	4.3	10.9	15.2
BellSouth	17.1	15.1	32.2
ChevronTexaco	12.3	12.0	24.3
Chubb	14.7	8.8	23.5
Citigroup	9.8	12.5	22.3
Exxon Mobil	9.2	9.5	18.7
FirstEnergy	17.5	9.7	27.2
Gateway	5.7	6.2	11.9
General Electric	10.2	9.9	20.1
Harrah’s Entertainment	15.4	10.2	25.6
IBM	11.6	11.0	22.6
J.P. Morgan Chase	16.9	9.5	26.4
Merck	16.9	10.1	27.0
Morgan Stanley	14.8	15.6	30.4
Pfizer	15.1	10.9	26.0
Pitney Bowes	18.6	13.1	31.7
Textron	13.8	15.4	29.2
Union Pacific	13.3	9.0	22.3
Verizon	19.8	16.0	35.8
Wachovia	12.3	13.3	25.6
Wells Fargo	18.6	9.4	28.0

* Mutual funds included are: American Funds/Capital Research, Charles Schwab, Citigroup, Dreyfus, Federated Funds, FMR (Fidelity), Franklin Resources, Merrill Lynch, PIMCO and Vanguard. Percentages are based on holdings disclosed as of Sept. 30, 2004.

** These percentages are approximations based on the funds’ equity holdings as of Sept. 30, 2004, and do not reflect the exact voting power held by the funds on the record dates for the meetings. These percentages additionally assume a one-vote-per-share voting structure.

**TABLE IV: Top 30 Mutual Fund Family Holdings
(as of October 2004)**

Companies Facing Resolution in 2005 *	Aggregate Mutual Fund Holdings (% Outstanding Shares) **
Abbott Laboratories	21.8
AmSouth	12.1
Anadarko Petroleum	17.8
BellSouth	23.7
Boeing	23.6
Bristol-Myers Squibb	32.2
ChevronTexaco	24.8
Citigroup	23.7
Coca-Cola	17.7
Eli Lilly	19.9
FedEx	21.7
FirstEnergy	32.9
General Electric	20.2
Johnson & Johnson	22.2
J.P. Morgan Chase	27.0
Loews	19.7
Merck	22.0
Microsoft	22.3
Oracle	15.4
Peabody Energy	31.8
Pfizer	24.8
SBC Communications	26.7
Schering - Plough	29.8
Southern	17.7
Tyson Foods	24.8
Union Pacific	34.2
Verizon Communications	25.1
Wachovia	21.7
Wal-Mart Stores	14.1
Waste Management	26.1
Wyeth	32.5

* As of Dec. 23, 2004, these companies are expected to face the resolution in 2005. This list is subject to change.

** Mutual funds included are: Fidelity Investments, Vanguard Group, Capital Research & Management, Franklin Templeton Investments, Morgan Stanley, J.P. Morgan Chase & Co., Columbia Management Group, Merrill Lynch Investment Managers, PIMCO Funds, TIAA-CREF, Federated Investors, OppenheimerFunds/MassMutual, Citigroup Asset Management, SchwabFunds/U.S. Trust, Dreyfus Corporation, T. Rowe Price, Putnam Funds, AIM Investments, Deutsche Asset Management, Prudential Mutual Funds, Evergreen Funds, Goldman Sachs & Co., Janus, MFS Investment Management, Alliance Capital Management, American Century Investments, American Express Funds, Hartford, Wells Fargo, and Dodge & Cox. Percentages are based on holdings disclosed as of Sept. 30, 2004.

Footnotes

- ¹ Because this report focuses on how shareholder resolutions can be used to encourage disclosure of corporate contributions, most of the information deals with corporate disclosure. It is also important for unions and other organized entities to disclose their giving practices, but that is beyond the scope of this report.
- ² “Mutual Funds and the U.S. Retirement Market in 2003,” Investment Company Institute, June 2004.
- ³ OpenSecrets.org, Enron Corp., Soft Money Donations.
- ⁴ Johnson, Gene, “Enron gouged customers for at least \$1.1 billion,” Associated Press, June 14, 2004.
- ⁵ Lazarus, David, “Enron Reports 34% Increase in Its Profits; State’s energy crisis a boon for Houston-based supplier,” San Francisco Chronicle, Jan. 23, 2001.
- ⁶ Lazarus, David, “Boxer, Feinstein seize on ‘smoking gun’ note,” San Francisco Chronicle, Jan. 31, 2002.
- ⁷ Kravets, David, “Former Enron trader pleads guilty to manipulating energy market,” Associated Press, Aug. 11, 2004.
- ⁸ Kravets, Former Enron trader pleads guilty.
- ⁹ Johnson, Enron gouged customers.
- ¹⁰ OpenSecrets.org, Enron Corp. Soft Money Donations.
- ¹¹ Angelides, Philip, letter from California state treasurer to William Donaldson, chairman of the U.S. Securities and Exchange Commission, Aug. 25, 2004. The investment officers who signed the letter included: California Treasurer Phil Angelides; Oregon Treasurer Randall Edwards; Iowa Treasurer Michael Fitzgerald; Sean Harrigan; a member of the California Public Employees’ Retirement System, the nation’s largest public pension fund; New York State Comptroller Alan Hevesi; Maine Treasurer Dale McCormick; Kentucky Treasurer Jonathan Miller; North Carolina Treasurer Richard Moore; Connecticut Treasurer Denise Nappier; Vermont Treasurer Jeb Spaulding; and New York City Comptroller William C. Thompson, Jr.
- ¹² “Center for Political Accountability Applauds Morgan Stanley for Agreeing to Disclose and Account for Its Political Contributions,” Center for Political Accountability, Dec. 15, 2004.
- ¹³ Sanchez, Jana, “Strange Bedfellows,” IR, November 2004.
- ¹⁴ Information from email exchange with Caroline Williams, Chief Financial and Investment Officer of the Nathan Cummings Foundation, February 11, 2004.
- ¹⁵ “Center for Political Accountability Applauds Morgan Stanley for Agreeing to Disclose and Account for its Political Contributions,” Center for Political Accountability, December 15, 2004.
- ¹⁶ “U.S. Household Ownership of Mutual Funds in 2004,” Investment Company Institute, October 2004.
- ¹⁷ “Mutual Funds and the U.S. Retirement Market in 2003,” Investment Company Institute, June 2004.

- ¹⁸ Common Cause reviewed SEC filings to determine proxy votes cast in the particular mutual funds surveyed. Common Cause used data from Strategic Insight, a New York-based financial industry research firm, to develop the list of the ten largest fund complexes by total net assets. Then using data from Morningstar Inc., a Chicago-based investment service, we chose the top three biggest (by asset size) “large cap” U.S. equity and balanced funds as of July 31, 2004 for review. Large cap U.S. based equity and balanced funds were the focus of this study because the relevant political contribution disclosure resolutions were filed at “large cap” U.S. companies.
- ¹⁹ Ibid.
- ²⁰ Final Rule: Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies, Securities and Exchange Commission.
- ²¹ Hansard, Sara, “Conference Call – Bogle: Big Investors Should Use Clout to Curb Fund Abuses,” Investment News, May 13, 2002.
- ²² “Will the owners please stand up?” The Economist, Nov. 2, 2002.
- ²³ “Mutual Fund Shareholders Win with SEC Vote,” AFL-CIO, Jan. 27, 2003.
- ²⁴ Sorkin, Andrew Ross, “2 Top Tyco Executives Charged With \$600 Million Fraud Scheme.” The New York Times, Sept. 13, 2002.
- ²⁵ Morgenson, Gretchen, “A Door Opens. The View Is Ugly,” New York Times, Sept. 12, 2004.
- ²⁶ The top 30 mutual funds by asset size are: Fidelity Investments, the Vanguard Group, Capital Research & Management, Franklin Templeton Investments, Morgan Stanley, J.P. Morgan Chase, Columbia Management Group, Merrill Lynch Investment Managers, PIMCO Funds, TIAA-CREF, Federated Investors, OppenheimerFunds/MassMutual, Citigroup Asset Management, SchwabFunds/U.S. Trust, Dreyfus Corp., T. Rowe Price, Putnam Funds, AIM Investments, Deutsche Asset Management, Prudential Mutual Funds, Evergreen Funds, Goldman Sachs & Co., Janus, MFS Investment Management, Alliance Capital Management, American Century Investments, American Express Funds, Hartford, Wells Fargo, and Dodge & Cox. Common Cause obtained this list from the Investment Company Institute, which identified the top 30 funds, by asset size, based on equity holdings as of Oct. 31, 2004.
- ²⁷ The ownership percentages in this report are based on recent equity ownership disclosures made by the funds in Securities and Exchange Commission filings, available on the SEC’s Web site, Edgar (www.sec.gov/edgar). The majority of the funds analyzed disclosed their equity holdings as of Sept. 30, 2004. See Tables III and IV for company specific mutual fund holdings and voting power.
- ²⁸ Several major public pension funds and most of the top large cap “socially responsible mutual funds” voted for the resolutions in the 2004 proxy season. They include the Connecticut Retirement Plans and Trust Funds, the California Public Employees’ Retirement System, the New York State Common Retirement Fund, the New York City Employees’ Retirement System, the Calvert Group, Citizens Funds, Domini, Grantham Mayo Vanotterloo, MMA Praxis and Pax.