What is the impact of mutual funds' ESG preferences on portfolio firms?

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Abstract

Mutual funds must publish policies announcing how they generally vote on the different ballot items at the shareholder meetings of their portfolio firms. I manually collect 17,000 of these policies for a sample of 29 of the largest U.S. mutual fund families over 2006-2018. I find that voting policies are a major predictor of funds' voting behavior. Exploiting staggered changes in funds' voting policies, I show that investee companies adopt their mutual fund shareholders' preferred governance provisions. This adoption is the result of mutual fund shareholders' active voting. Announced voting policies also stimulate strategic proposal submissions by non-mutual fund shareholders.

JEL Classification: G20, G23, G30, G34, M14, Q56.

Keywords: Corporate governance, corporate social responsibility, proxy voting, mutual funds.

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1 Introduction

Institutional ownership has increased tremendously over the past decades. Assessing how effective institutional investors are in their stewardship activities has therefore become central. Yet such an assessment has proven difficult, given that one does not observe the ex-ante preferences of institutional investors. I overcome this challenge by constructing measures of mutual funds' environmental, social, and governance (ESG) preferences from their proxy voting guidelines. In fact, since 2003 the Securities and Exchange Commission (SEC)[1] requires that registered management investment companies prepare and disclose proxy voting policies describing how they generally vote on the different ballot items at the shareholder meetings of their portfolio firms. Although scholars have widely discussed institutional investors' preferences revealed in votes, very little is known about the preferences announced in voting guidelines and their impact on firm ESG policies.[2] My announced preferences approach allows me to observe directly how effective institutional investors are at obtaining what they want.

In this paper, I provide the first analysis of preferences announced in proxy voting guidelines. I study whether portfolio firms adopt the announced ESG preferences of their mutual fund shareholders. If investee companies adopt their mutual fund shareholders' preferred ESG policies, through which channels does the adoption take place? Finally, I investigate whether beneficial investors reward mutual funds for their ESG consciousness.

To answer the questions above, I hand-collect the proxy voting guidelines of 29 of the largest U.S. mutual fund families for the 2006-2018 period from funds' statements of additional information (SAIs). The dataset covers 2,600 funds that represent over 30% of the equity and balanced funds included in the CRSP Mutual Funds database. I focus on 100 common ESG proposal topics. The final dataset contains over 17,000 family-year-item voting policies. I find substantial cross-sectional and time variations in mutual funds' announced ESG preferences. I show that these announced preferences are a key predictor of mutual funds' votes, ahead of ISS and management recommendations. The staggered changes in voting policies across mutual fund families are key to my identification strategy: It allows me to separate active decisions of mutual fund families from general

[1] See https://www.sec.gov/rules/final/33-8188.htm

[2] Academic papers studying institutional investors' preferences revealed in votes include, for instance, Morgan, Poulsen, Wolf, and Yang (2011), Matvos and Ostrovsky (2010), Iliev and Lowry (2014), Bolton, Li, Ravina, and Rosenthal (2020), or Bubb and Catan (2018).

time trends or recommendations of proxy advisory firms. My analysis reveals that portfolio companies adopt the governance preferences of their mutual fund shareholder base, but not the environmental and social ones. I find that mutual funds convey their governance preferences through their impact on voting results rather than through the use of outspoken activism tools such as proposal submissions. I also find consistent evidence with mutual funds conducting private negotiations to obtain the implementation of their preferred policies. Finally, I show that proxy voting guidelines do not only reflect preferences but are also an effective governance tool on their own, allowing non-mutual fund shareholders to strategically submit proposals that are more likely to receive shareholder support.[3]

One challenge for my analysis is the endogenous nature of mutual funds' portfolio selection. Mutual funds may simply select firms that display their preferred ESG policies. For example, McCahery, Sautner, and Starks (2016) document widespread governance-motivated exits among institutional investors. Similarly, Aguilera, Bermejo, Capapé, and Cuñat (2019) show that Norway's sovereign wealth fund significantly re-balanced its portfolio to meet its governance preferences. I tackle this challenge by using the staggered changes in voting policies across mutual fund families as an instrumental variable (IV) to identify the impact of funds' announced ESG preferences on portfolio firm policies. A key element of this identification strategy arises from the fact that proxy voting guidelines are designed at the mutual fund family level. Therefore, changes in guidelines are plausibly exogenous to individual portfolio firm characteristics.

I first examine the announced preferences of mutual funds. I find that funds exhibit a wide variety of announced preferences. Some support shareholder rights enhancement, while others support management independence. Similarly, some advocate that firms should take the environmental and social (E&S) implications of their actions into consideration, while others defend their fiduciary duty to maximize shareholder value. A time-series analysis reveals that announced preferences change over time, with a tremendous increase in the support of E&S issues between 2006 and 2018. Therefore, my results indicate that different ESG preferences coexist among institutional investors. It also provides novel evidence that these preferences are not stable over time.

One could however claim that proxy voting guidelines are solely designed to meet the regulatory requirement, without conveying any information on preferences. In fact,

[3]Throughout the paper, I refer to shareholders that are not included in my sample of the 29 mutual fund families as "non-mutual fund shareholders".

guidelines are not binding, and policies are often constructed such that they allow their issuers to deviate easily. For example, they usually contain phrases like "we will *generally* vote" or "we may deviate from voting policies on a case-by-case basis". In addition, there is ample evidence that proxy advisors' recommendations significantly influence mutual funds' voting behavior (Larcker, McCall, and Ormazabal, 2015; Malenko and Shen, 2016; Ertimur, Ferri, and Oesch, 2017). Scholars have also shown that mutual funds side in their voting with management when they have other business ties to the firm (Davis and Kim, 2007; Ashraf, Jayaraman, and Ryan, 2012; Cvijanović, Dasgupta, and Zachariadis, 2016). All in all, the informativeness of proxy voting guidelines about institutional investors' preferences is unclear. If proxy voting policies reflect institutional investors' fundamental preferences, they should, to a certain extent, be informative about preferences revealed in votes. It is therefore important to first analyze the correlation between announced policies and actual votes.

A comparison of over 500,000 mutual funds' votes on ESG issues to their corresponding voting policies reveals a compliance rate of 80%, with lots of cross-sectional differences. For example, funds follow their policies in less than 45% of the cases when the policies support E&S issues. In comparison, when their policies oppose E&S issues, their level of compliance is of 96%. Furthermore, the level of compliance with proxy voting guidelines varies widely from one fund family to another. Some families rely on their guidelines for over 95% of the votes while others fall below 50%. Through a panel regression, I find that proxy voting guidelines are a major predictor of votes, ahead of ISS, the largest proxy advisor, and of management recommendations. Moreover, I show that changes in voting policies are followed by analogous changes in voting behavior. It therefore appears proxy voting policies do provide information about mutual funds' ESG preferences.

I then examine why mutual funds deviate from their announced preferences. Although I find that greenwashing may explain deviations from E&S-supportive voting policies, I show that one of the main reasons explaining discrepancies between announced and revealed preferences is tailored voting. In fact, while general voting policies represent a one-size-fits-all approach to voting, most funds provide additional details describing the circumstances under which they would not respect their general voting policy. My results highlight that the more detailed and numerous these exceptions are, the less likely a fund will vote in compliance with its general policy. It therefore provides evidence that

funds are aware that one size does not fit all in corporate governance (Coles, Daniel, and Naveen, 2008; Linck, Netter, and Yang, 2008; Bhandari, Iliev, and Kalodimos, 2020) and deviate from their general voting policy to provide better oversight. It also implies that mutual funds analyze voting items at the firm-item level, hence reinforcing the existing evidence that mutual funds are active monitors (Morgan et al., 2011; Iliev and Lowry, 2014; McCahery et al., 2016). In addition, I provide anecdotal evidence that mutual funds use proxy voting guidelines to outsource their own voting strategy to proxy advisory firms. Such a business model reconciles the existing evidence of active voting with the anecdotal evidence regarding the very small size of mutual fund families' stewardship teams (Krouse, Benoit, and McGinty, 2016; Bebchuk, Cohen, and Hirst, 2017). One major implication of this result is that proxy voting guidelines act as a governance mechanism that allows mutual funds to do governance at scale.

As I have established that mutual funds' proxy voting guidelines represent more than a mere regulatory requirement, I investigate whether portfolio companies adopt the announced preferred ESG policies of their mutual fund shareholders. For every firm in my sample, I use voting policies to construct time-varying measures of the preferences of their mutual fund shareholders towards a set of major governance provisions as well as towards E&S provisions. Through an ordinary least squares (OLS) approach, I show that a high level of support to a certain governance provision is positively associated with the presence of that provision at portfolio firms. However, as mutual funds may simply select the firms that display the ESG structure they favor, I exploit the staggered changes in proxy voting policies to instrument mutual funds' announced preferences. This instrumental variable approach confirms that portfolio companies adopt the governance preferences of their mutual fund shareholders. With regard to environmental and social issues, I do not find evidence that portfolio companies adopt the policies favored by their mutual fund shareholder base.

I then explore the channels through which mutual funds convey their governance preferences to investee firms. I show that the more supportive mutual fund shareholders are of a certain provision, the more likely the provision will receive majority support, conditional on being placed on ballots. Furthermore, I find a significant relationship between mutual funds voting policies and the adoption of provisions in the absence of shareholder proposals. Such evidence is consistent with mutual funds conducting private negotiations or with

portfolio firms adopting the preferred policies of their mutual fund shareholders on their own initiative. However, I do not find that mutual funds play an outspoken activism role by submitting shareholder proposals. Finally, I find that proxy voting guidelines stimulate activism by non-mutual fund shareholders as they allow them to identify and submit proposals that will be more likely to receive support from mutual funds.

Next, I investigate whether mutual funds' clients reward funds' ESG consciousness. I implement an event study and analyze fund flows around changes in proxy voting guidelines. I do not observe significant abnormal inflows when comparing funds that experienced a guideline change to funds that did not. I confirm this absence of significant inflows when distinguishing changes that enhance shareholder rights from changes that oppose them. Such results are inconsistent with the assumption that mutual funds' clients reward ESG consciousness. The absence of reward by mutual fund investors may explain why mutual funds deviate from their E&S-friendly policies more easily.

Most of the literature on the ESG preferences of institutional investors has adopted a revealed-preferences approach, analyzing votes (Matvos and Ostrovsky, 2010; Bubb and Catan, 2018; Bolton et al., 2020). It allowed scholars to uncover large cross-sectional variations in the voting behavior of institutional investors, thereby leading them to argue in favor of the existence of different "ideologies" across investors. Nevertheless, ideologies implied from votes may be very different from the fundamental preferences of institutional investors. They may, for example, reflect the choice of proxy advisor (Larcker et al., 2015; Malenko and Shen, 2016; Duan and Jiao, 2016; Ertimur et al., 2017), the level of managerial resistance (Bach and Metzger, 2019; Lee and Souther, 2020), or network and coordination effects (Crane, Koch, and Michenaud, 2019; He, Huang, and Zhao, 2019; Calluzzo and Kedia, 2019). My announced preferences approach contributes to this literature by allowing me to provide measures of mutual funds' preferences that abstract from the different forces that may influence votes. I demonstrate that mutual fund families have heterogeneous preferences and that these preferences vary over time. Thanks to the comparison of votes with voting policies, I also shed light on a growing concern among mutual funds' investors and policy-makers, namely that mutual funds' public statements and policy positions reflect marketing rather than stewardship intentions (Mooney, 2017; Ceres, 2018; Riding, 2019; Bain, 2020). My results confirm that, to a certain extent, their concerns are well-founded for environmental and social issues.

I also considerably extend the literature on the impact of institutional investors on firms' policies (Smith, 1996; Becht, Franks, Mayer, and Rossi, 2010; Dimson, Karakaş, and Li, 2015; Aguilera et al., 2019). While a large portion of this literature relies on studying the effects of a single activist investor, I study a set of 29 mutual fund families, hence covering thousands of mutual funds. Furthermore, I show that voting, a low-cost voice mechanism, is sufficiently meaningful to influence investee firms' policies. In this literature, the closest paper to mine is Aguilera et al. (2019) who show that the announced governance expectations of Norway's sovereign wealth fund influence systemic governance. I differ from this paper by studying the proxy voting guidelines of a large set of institutional investors. I am therefore able to show that investors differ in their support of ESG policies. In addition, conducting my analysis at the provision level allows me to identify the channels through which mutual funds convey their preferences. My paper goes also beyond governance issues and provides evidence that institutional investors' influence on E&S policies differs from their influence on governance policies.

Finally, my results have important implications for the debate over the influence of passive ownership on governance (Appel, Gormley, and Keim, 2016; Schmidt and Fahlenbrach, 2017; Appel, Gormley, and Keim, 2019; Heath, Macciocchi, Michaely, and Ringgenberg, 2019). In this debate, an often-voiced concern is that passive investors do not have incentives or tools to closely monitor portfolio firms' governance (Schmidt and Fahlenbrach, 2017; Bebchuk and Hirst, 2019). While Appel et al. (2016) and Appel et al. (2019) find that passive ownership is associated with improvements in governance practices, Schmidt and Fahlenbrach (2017) and Heath et al. (2019) find evidence of the opposite. I add to the debate by demonstrating that proxy voting guidelines are an effective governance tool on their own. They allow passive shareholders to do governance at scale through the outsourcing of their monitoring role to proxy advisors. Furthermore, proxy voting guidelines allow active investors to identify the preferences of large institutional investors, and subsequently to submit proposals strategically. Such a mechanism indicates that active investors may replace passive ones in their governance role. Overall, my evidence alleviates concerns about the potentially detrimental impact of passive ownership on firm governance as proxy voting guidelines allow them to do governance at low cost.

The remainder of the article is organized as follows. Section 2 provides institutional details on proxy voting guidelines. Section 3 derives testable hypotheses. Section 4 de-

scribes the sample, the methodology, and presents descriptive statistics. Section 5 reports the results. In Section 6, I discuss the main results of the paper. Finally, Section 7 concludes.

2 Institutional framework

In April 2003, the SEC adopted Rule 206(4)-6 that requires that investment advisors registered with the SEC adopt proxy voting policies and, upon request, provide clients with a copy of those policies. The SEC claimed that "*Advisers' proxy voting policies and procedures should address (although the rule does not require) how the adviser will vote proxies (or what factors it will take into consideration) when voting on particular types of matters, such as changes in corporate governance structures, adoption or amendments to compensation plans (including stock options) and matters involving social issues or corporate responsibility.*"[4]. It is especially important to note that the SEC did not propose specific policies or procedures for advisers, hence leaving advisers the flexibility to decide what they want to address in their proxy voting guidelines and how. Proxy voting policies may therefore vary extensively from one investor to the other as well as over time. Figure 1 provides snapshots of the 2018 proxy voting guidelines of Morgan Stanley as well as of Alliance Bernstein to illustrate how they design their voting policies.

[Figure 1 about here.]

From the figure, it appears that some families, such as Morgan Stanley, provide very detailed explanations of how they take their decisions while others, such as Alliance Bernstein, may provide very clear and succinct voting policies.

Although there is quite some heterogeneity in guidelines design, some common patterns can be pointed out. First, guidelines are generally adopted at the fund family level and apply to all the funds of the family unless stated otherwise.[5] Second, policies usually address very specific provisions, such as separating the roles of CEO and Chairman, and provide the mutual fund's position towards those provisions. A policy will hence state

[4] https://www.sec.gov/rules/final/ia-2106.htm#P66_11634

[5] I manually verify in Statements of Additional Information that all mutual funds in my sample use the fund family voting guidelines. Some fund families have developed specific guidelines for ESG funds. I do not include funds that use specific ESG guidelines. Invesco is an exception as it has adopted different guidelines for its different advisers. I only consider the guidelines of Invesco Advisers, Inc. Geode is a subadviser of Fidelity. As it is a very large asset manager, I have decided to also collect its guidelines.

that the fund will generally vote "for" or "against" a specific provision. It may also state that the fund will decide how to vote on a "case-by-case" basis. In such circumstances, advisers often describe the different factors they take into account to reach a decision. Less frequently, guidelines state that advisers will abstain from voting on certain matters. In rare cases, the policy may be to follow the recommendations of their proxy advisor or management.

Another key aspect of proxy voting guidelines is that, while funds often provide their "general policy" which states how they "generally" vote on specific ballot items, they may also provide additional details explaining the criteria that they take into account when deciding whether to respect their general policy. As an illustration, State Street Global Advisors states, in its 2010 guidelines, that it generally votes in favor of "*the establishment of annual elections of the board of directors unless the board is comprised of a supermajority of independent directors (e.g., 80% or more), including wholly independent board committees, and the company does not have a shareholder rights plan (poison pill)*". In the remainder of this article, I refer to general policies as "policies" and to the exceptions to the general policy as "exceptions".

3 Hypotheses development

The main research question of this paper is to assess the influence of mutual funds' ESG preferences on portfolio firms' policies. A necessary condition to answer this question is that proxy voting guidelines reflect mutual funds' fundamental preferences. Assuming that this condition holds, I hypothesize that, if mutual funds influence the ESG policies of their portfolio firms, investee firms should adopt their mutual fund shareholders' ESG preferences as announced in proxy voting guidelines.

H1 Impact on firms: *Firms adopt the announced ESG preferences of their mutual fund shareholders.*

Mutual funds may convey their announced preferences to portfolio firms through several channels. The most straightforward channel through which proxy voting policies could impact firms' ESG structure is the voting process itself. In fact, when applying its voting policy to its votes, a fund may increase (decrease) the support given to a specific provision. The provision will therefore be more (less) likely to win a majority which would

subsequently encourage (discourage) its implementation.

H2a Voting channel: *Mutual funds' votes are meaningful enough to impact the likelihood that a policy wins majority.*

Mutual funds may also play a more active role to obtain the implementation of their preferred policies. As an illustration, Carleton, Nelson, and Weisbach (1998) show that CalPERS, a large US pension fund, effectively submits proposals requesting governance reforms. Mutual funds may therefore engage publicly and submit proposals requiring the implementation of their preferred ESG policies.

H2c Mutual fund proposals channel: *Mutual funds submit proposals that demand the implementation of the ESG policies they favor.*

Furthermore, Smith (1996), Becht et al. (2010), Dimson et al. (2015), McCahery et al. (2016), Couvert (2019) show that institutional investors conduct behind-the-scenes negotiations. Mutual funds may therefore engage privately to negotiate the implementation of their preferred policies.

H2d Private negotiations channel: *Mutual funds conduct private negotiations to obtain the implementation of their preferred ESG policies.*

Finally, Brav, Jiang, Li, and Pinnington (2018) show that activist hedge funds tend to launch campaigns at firms where the shareholder base is activist-friendly. A similar phenomenon could happen with mutual funds. Non-mutual fund shareholders may strategically submit proposals that are likely to obtain the support of the institutional shareholder base. These shareholders could derive the voting strategies of large institutional investors from the proxy voting guidelines of these investors.

H2b Non-mutual fund proposals channel: *Non-mutual fund shareholders strategically submit proposals that meet mutual fund shareholders' announced preferences.*

Next, I study whether clients reward mutual funds for their ESG consciousness. In fact, Riedl and Smeets (2017) show that some investors express preferences for socially responsible mutual funds. Martin and Moser (2016) show that investors react positively when managers disclose the societal benefits of their investments. Furthermore, Hartzmark and

Sussman (2019) provide causal evidence that mutual funds' clients value sustainability. However, Larcker and Watts (2020) find no evidence that investors accept to pay a premium for green securities. If investors value the proxy voting strategy adopted by mutual funds, I expect to observe inflows when mutual funds adopt more shareholder- or E&S-friendly policies.

H3 Rewards for ESG consciousness: *Mutual funds experience inflows when they adopt shareholder- or E&S-friendly policies.*

4 Data, methodology, and descriptive statistics

This section presents data collection and sample construction. It also provides the methodology for assessing the impact of mutual funds' preferences. Finally, it provides descriptive statistics on the sample.

4.1 Data

I collect the proxy voting guidelines of mutual funds from several sources. First, mutual fund families' websites often provide the current version of their voting guidelines. As most funds do not keep the historical versions on their website, I collect them from their statements of additional information (SAIs). In fact, the SEC requires that proxy voting guidelines be included in the SAIs that supplement funds' prospectus. However, the SEC also allows funds to provide a summary of their policies in their SAIs while still being required to provide detailed guidelines upon client's requests. I obtain the missing guideline documents thanks to internet searches, contacting funds, and through the SAIs of funds of funds that requested the proxy voting guidelines of all the funds in which they have invested. I focus my search on the largest U.S. mutual fund families. I can construct a complete history of voting policies for the 2006-2018 period for 29 of the 60 largest U.S. mutual funds families. My sample therefore includes 377 guideline documents. I also collect the complete history of voting policies for ISS, the largest proxy advisory firm. Table A1a provides the list of the mutual fund families included in the collected sample.

Next, I analyze guideline documents to construct a database of mutual funds' voting policies. I collect the policies concerned with management and shareholder proposals addressing governance, environmental, or social issues. As guideline documents vary widely

on the ballot items they address, I concentrate on one hundred very common items. Table A1b provides a list of all the policies that I collect. Among others, the most common items encompass the implementation of majority voting for board elections, the publication of political contributions, or the limitation of CO2 emissions. My final dataset of proxy voting policies includes over 17,000 family-year policies.

A fund policy regarding a specific issue usually states whether the fund will *generally* vote "for", "against", or "on a case-by-case basis". However, as some funds may have exceptions to their general policy, I also collect the number of exceptions to each of their general voting policies.

I obtain votes by mutual funds from the ISS Voting Analytics database. Data on fund characteristics come from CRSP Mutual Fund database.[6] It is crucial to identify who holds the voting authority. Mutual funds' boards usually delegate their voting authority to the investment adviser. However, in the presence of a subadviser, the investment adviser may decide to delegate its voting authority to the subadviser. In such a case, the subadviser would apply its own proxy voting guidelines rather than the guidelines of the investment adviser. Therefore, I collect the identity of the party holding the voting authority from the statements of additional information for every fund in my sample.

Finally, I obtain accounting and financial data on firms from the CRSP-Compustat-Merged database. The institutional ownership of firms comes from Thomson Reuters Institutional Holdings. The governance characteristics of firms are from the ISS Governance database. I construct measures of firms' E&S performance using the MSCI ESG KLD Stats database. My final sample includes about 2,600 funds and over 500,000 fund votes.

4.2 Methodology

4.2.1 Construction of measures of mutual fund preferences

I construct an index of mutual funds' announced preferences using funds' proxy voting guidelines. I obtain the announced preferences index (API) of mutual fund m towards provision p in year y, $API_{m,p,y}$, by mapping "for", "against", and "case-by-case" policies

[6] ISS Voting Analytics does not provide an identifier allowing to match the voting data to the CRSP Mutual Fund database. It only provides the Edgar filing number of the NPX source file. I use this filing number to obtain the series CIK from NSAR filings on Edgar. I use the series CIK to match ISS Voting Analytics funds to CRSP funds. As a fund series may contain several individual funds, a series CIK may apply to several funds. Therefore, I manually match funds within each series.

to the values 1, −1, and 0, respectively. For simplicity sake and following Iliev and Lowry (2014), I aggregate abstain policies and against policies.[7]

The API variable is therefore defined at the fund-provision-year level. However, as firms generally have multiple mutual fund investors, I aggregate the announced preferences of the different mutual fund shareholders at the firm-provision-year level. To take funds' ownership size into account, I weigh the announced preferences index with the number of shares fund family m owns in firm f. The value-weighted API has the following form:

$$VWAPI_{f,p,y} = \sum_{m=1}^{M} O_{m,f,y} API_{m,p,y} \tag{1}$$

where M is the total number of mutual fund families in the sample that own shares of firm f in year y. $O_{m,f,y}$ is the percentage of ownership of mutual fund family m in firm f in year y.

4.2.2 Staggered voting policy changes as an instrument

Identifying the impact of mutual funds' preferences on portfolio firms' poses a problem of endogeneity. Mutual funds may select firms that display their preferred policies. A positive correlation between $VWAPI$ and firm policies may therefore be the result of portfolio selection rather than of mutual funds' impact. The definition of the aggregate measure of mutual funds' preferences, $VWAPI$, reflects this issue. $VWAPI$ can be impacted by two types of changes; changes in mutual funds' ownership and changes in voting policies. I isolate variations in $VWAPI$ that are induced by variations in voting policies from variations in $VWAPI$ that are induced by variations in funds' ownership as follows:

$$\begin{aligned}
\Delta VWAPI_{f,p,y} &= VWAPI_{f,p,y} - VWAPI_{f,p,y-1} \\
&= \sum_{m=1}^{M} O_{m,f,y} API_{m,p,y} - \sum_{m=1}^{M} O_{m,f,y-1} API_{m,p,y-1} \\
&= \sum_{m=1}^{M} O_{m,f,y} API_{m,p,y} - \sum_{m=1}^{M} O_{m,f,y-1} \left(API_{m,p,y} - \Delta API_{m,p,y}\right) \\
&= \left[\sum_{m=1}^{M} O_{m,f,y} - \sum_{m=1}^{M} O_{m,f,y-1}\right] API_{m,p,y} + \sum_{m=1}^{M} O_{m,f,y-1} \Delta API_{m,p,y} \\
&= \Delta O_{m,f,y} API_{m,p,y} + VW\Delta API_{m,p,y}
\end{aligned} \tag{2}$$

[7] As voting policies indicating that the mutual fund will follow its proxy advisor's recommendations or management recommendations are rare, I do not include them in the forthcoming analyses.

where $\Delta API_{m,p,y} = API_{m,p,y} - API_{m,p,y-1}$. $VW\Delta API_{m,p,y}$ is the variation in $VWAPI$ that is induced by variations in voting policies. Such a definition ensures that $VW\Delta API_{f,p,y}$ only depends on the changes in the announced preferences index. It does not depend on changes in portfolio weights. $\Delta O_{m,f,y} API_{m,p,y}$ is the variation in $VWAPI$ that is induced by variations in ownership.

I instrument the value-weighted announced preferences index, $VWAPI$, with $VW\Delta API_{m,p,y}$ to identify the impact of mutual funds' preferences on firms' policies. Several of the specifications hereafter have the following form:

$$VWAPI_{f,p,y} = \alpha_0 + \alpha_1 VW\Delta API_{f,p,y} + \epsilon_{f,p,y} \tag{3}$$

$$Outcome_{f,p,y} = \beta_0 + \beta_1 \widehat{VWAPI}_{f,p,y} + \Gamma' Controls_{f,y} + \delta_i + \theta_y + \upsilon_{f,p,y} \tag{4}$$

where equation 3 is the first stage equation and equation 4 is the second stage equation. f indexes firms, p indexes provisions, y indexes years, and i indexes industries. $Outcome_{f,p,y}$ is the dependent variable. $Controls$ is the vector of control variables. δ_i and θ_y are industry and year fixed effects, respectively. The industry fixed effects are computed with two-digit sic codes. $\epsilon_{m,p,y}$ and $\upsilon_{f,p,y}$ are the error terms. Furthermore, to account for the fact that it may take some time for firms to implement the new preferences of its mutual fund shareholders, $VW\Delta API_{f,p,y}$ is kept constant for two years after a policy change, except if another policy change took place in between.

Such a specification ensures that the relevance condition holds. By definition, the instrument, $VW\Delta API_{f,p,y}$, has a direct impact on the value-weighted measure of mutual funds' preferences, $VWAPI_{f,p,y}$. To meet the exclusion restriction and qualify as an instrument, changes in voting policies should not be related to the outcome variables other than through their impact on mutual funds' voting policies. The instrument would hence not meet the exclusion condition if portfolio companies could influence the design of proxy voting guidelines and thereby induce changes in voting policies. However, the fact that proxy voting guidelines are designed at the fund family level alleviates such a concern. It would indeed be unlikely that a specific firm within a specific fund's portfolio would be able to influence guidelines at the family level thereby influencing the voting policies applied at hundreds or thousands of other firms.

4.3 Descriptive statistics

Table 1 provides summary statistics for the sample. All continuous variables are winzorized at the 1% and 99% levels. Institutional ownership is capped at 1.

[Table 1 about here.]

Panels A and B respectively present fund and firm control variables. Panel C describes the sample of proxy voting guidelines. Panel C shows that the sample includes over 17,000 family-year-item policies. About 80% of the policies address corporate governance issues while the remaining 20% address environmental and social issues. Furthermore, the ten most common governance and E&S proposals represent 33% and 46% of the announced policies, respectively. One interesting pattern is that the number of items addressed in guidelines has significantly increased over time with more than 500 new policies.

Furthermore, voting policies are not static. Between 2006 and 2018, over 500 changes in voting policies took place. Such modifications reflect changes in mutual fund preferences. As an illustration, Fidelity, which had introduced its proxy access policy in 2015, changed from opposing proxy access to assessing it on a "case-by-case" basis in 2018. Such a gradual adoption of a policy is common. A fund could start with opposing a provision, move to a "case-by-case" assessment, before finally supporting the provision. However, more abrupt changes can also take place. For example, Dodge & Cox' guidelines changed from "*Dodge & Cox does not support requiring a majority of votes for the election of directors*" in 2008 to "*Dodge & Cox will typically support non-binding shareholder proposals to require a majority vote standard for the election of directors*" in 2009.

Panel C also provides the mean API. It first appears that mutual funds tend to express more support for corporate governance issues than for environmental and social issues. Moreover, funds tend to express more support for the ten most common E&S issues than for less common ones. Finally, Panel C provides the average number of exceptions to general policies. There is an average of 0.47 exception per policy.

4.3.1 Evolution of announced preferences

Figure 2 shows the evolution of the mean announced preferences index for the top 10 most common governance and E&S provisions. However, since the number of provisions addressed in guidelines may vary over time, I scale the mean announced preferences index

with the ratio of the number of provisions addressed in a specific year to total number of possible provisions. The solid line displays the evolution of the average index for the ten most common governance proposals. The dashed line presents the evolution of the index for the ten most common E&S proposals.

[Figure 2 about here.]

Figure 2 reveals that the average API for the top 10 most common governance proposals has slightly increased over time, hence reflecting more and more support for shareholder rights enhancement. Concerning E&S provisions, the average API increased substantially. In other words, mutual fund families express more and more support for environmental and social issues. Another key message of Figure 2 is that, despite the tremendous increase of the announced preferences index for E&S issues, mutual funds keep expressing more support for governance matters.

4.3.2 Cross-sectional analysis of announced preferences

Figure 3 presents the mean announced preferences index by mutual fund families as well as by proposal topics. The value of the index is provided for the beginning of the sample period, the year 2006, as well as for the end of the sample period, the year 2018.

[Figure 3 about here.]

Figures 3a and 3b present the mean announced preferences index computed at the fund family level for governance and E&S issues, respectively. However, one should note that a fund family m may not have voting policies addressing all provisions $p \in P$. One could therefore confuse a mutual fund family whose guidelines cover a small set of provisions with a mutual fund family that opposes many provisions. To address the issue, I scale the mean announced preferences index with the ratio of the number of provisions the fund family guidelines address to the total number of possible provisions.

Figure 3a reveals that the fund level API for governance issues varies substantially from one family to another. It therefore provides evidence that mutual fund families have very different attitudes towards governance reforms. While most funds seem to favor governance proposals, the magnitude of the index varies widely. Such evidence reinforces the hypothesis that mutual funds diverge in terms of ideologies. It is also

interesting to compare the level of the index in 2006 to the level in 2018. Consistent with previous evidence, the index increased for most fund families over the sample period, hence expressing more support for governance matters. However, the magnitude of the increase diverges largely from one fund family to another. Therefore, my announced preferences approach confirms the existence of different mutual fund ideologies towards governance (Matvos and Ostrovsky, 2010; Bubb and Catan, 2018; Bolton et al., 2020) and provides novel evidence that these ideologies change over time.

Figure 3b concentrates on environmental and social topics. Contrary to governance issues, many funds present an index at the same level, zero. This pattern is explained by the case-by-case approach that many mutual funds take on E&S matters. Nevertheless, some fund families started to be more supportive of environmental and social proposals. It is especially the case for Alliance Bernstein, Lazard, or TIAA-CREF. Some funds, such as Dodge & Cox, that were historically opposed to E&S proposals moved towards a more neutral position. The case of Dodge & Cox is particularly interesting as the fund family evolved on E&S issues while remaining stable on governance issues.

Figures 3c and 3d present the mean announced preferences index for the ten most common governance proposals and the ten most common E&S proposals, respectively. From these figures, it first appears that mutual funds have heterogeneous approaches to governance matters. While there seems to be a consensus on the importance of declassifying boards, there is much less support for the implementation of cumulative voting. Similarly, separating the roles of CEO and chairman is only moderately supported. It is also interesting to remark that some topics, such as requiring that directors be elected by a majority vote, became very popular over time while others, such as fixing the number of directors, remained rather stable.

Similar patterns can be highlighted regarding environmental and social proposals. One could however note that items that require the implementation of some sort of reforms tend to be less supported than items that demand the publication of reports on some specific activities. Prohibiting employee discrimination is an exception and seems to receive much support from mutual funds. Finally, one can note the increasing support for the disclosure of political contributions.

5 Results

As a necessary condition for the subsequent analyses, I first assess whether mutual funds' voting policies are informative about mutual funds' preferences. I then assess whether portfolio firms adjust their ESG policies to match the preferences of their mutual fund shareholders and investigate through which channels these adjustments take place. Finally, I assess whether beneficial investors reward mutual funds for their stewardship activities.

5.1 Discrepancies between announced and revealed preferences

I test whether mutual fund families vote as they claim they vote by comparing votes to announced policies. Columns 1, 2, and 3 of Table 2 provide the percentages of compliance between votes and policies, ISS recommendations, and management recommendations, respectively.

[Table 2 about here.]

Overall, mutual funds comply with their voting policies for 80% of their votes. In comparison, the levels of compliance with ISS recommendations and with management recommendations are of 68% and 76%, respectively. From these results, it appears that voting guidelines are a major predictor of votes, ahead of ISS and management. With a level of compliance of about 81%, mutual funds seem to rely slightly more on their guidelines for standard proposals, i.e. proposals that belong to the top 10 of the most common governance/E&S ballot items.

Table 2 also provides statistics for the subsamples of governance and E&S issues. The level of compliance with voting policies for governance issues, 76%, is lower than for E&S issues, 87%. One might therefore conclude that institutional investors' clients and policy-makers should be relieved; mutual funds vote as they claim they vote on environmental and social issues. However, if we compare policies supporting E&S issues to policies opposing them, the conclusion is very different. In fact, when a voting policy supports an E&S proposal, the level of compliance is of 45%. This level is much lower than of level of compliance for voting policies that oppose E&S issues, 96%. In other words, for environmental and social issues, mutual funds vote as they claim they vote mostly when their policies oppose the issue. When policies support E&S proposals, they tend to deviate from their voting policies and oppose proposals. These results hence provide evidence that the

concerns of institutional investors' clients are well-founded as they support the existence of greenwashing. While such a pattern is present for governance proposals, its magnitude is much smaller.

It is, however, difficult to assess what should be the optimal compliance level. As the business model of proxy advisory firms is to analyze ballot items and to provide voting recommendations to institutional investors, they can provide an interesting benchmark. Column 4 reports the percentage of compliance of ISS recommendations with ISS voting guidelines. I find that ISS complies with its own voting policies in about 76% of the cases, just below the average compliance level of mutual funds. If one considers that ISS has adopted an optimal level of compliance, my evidence would indicate that mutual funds rely a little too much on their one-size-fits-all voting policies. However, the difference is rather small.

5.1.1 Compliance per fund family

Figure 4 shows the average compliance per fund family. From the figure, it is clear that mutual fund families have different approaches to voting. While some fund families rely on their voting guidelines in more than 95% of the cases, others comply with their announced policies in less than 50% of the cases. Studying the determinants of diverging from voting policies will help to understand why would a mutual fund deviate from its announced preferences. I do so in Section 5.1.3.

[Figure 4 about here.]

5.1.2 Panel analysis of compliance with proxy voting policies

Table 3 presents panel regressions to help understand to which extent funds rely on their guidelines. The dependent variable, $Fund\ Voting\ Index$, is a binary index equal to -1 when a fund votes against a proposal and equal to 1 when a fund votes in favor of a proposal. The independent variable of interest is the announced preferences index. Columns 1 and 2 include all proposals. Columns 3 and 4 include governance proposals. Columns 5 and 6 include environmental and social proposals. Analyses include a range of fund and firm control variables. Moreover, even columns include industry and year fixed effects.

[Table 3 about here.]

Table 3 reveals that the announced preferences index is positively associated with the voting outcome. In other words, when funds announce that they support (oppose) a reform, they tend to vote in favor (against) that reform. When comparing governance to environmental and social issues, it appears that the API is significant and positive for both subsamples.

The analyses also include binary variables for management as well as for ISS recommendations. The ISS/management recommendation variables take the value -1 when ISS/management recommends voting against a ballot item and 1 when recommending voting for that item. Consistent with the existing literature (Larcker et al., 2015; Malenko and Shen, 2016; Ferri and Oesch, 2016; Ertimur et al., 2017), both seem to play an important role in funds' voting decision.

Shareholder proposal is an indicator variable taking the value 1 when a ballot item is a shareholder-initiated proposal and zero when it is a management-initiated proposal. Table 3 reveals that shareholder proposals are less likely to receive mutual funds' support than management proposals.

All in all, it seems that announced voting policies play an important role in voting decisions and, hence, that they are more than a mere fulfillment of regulatory requirements. To further measure the impact of announced preferences on voting outcomes, I use changes in voting policies. As previously shown, mutual fund families may change their position towards a certain matter over time. They may for instance change their position regarding the importance of splitting the roles of CEO and chairman. I can therefore analyze whether changes in announced preferences are associated with changes in revealed preferences.

Figure 4 (b) presents the average percentage of "For" votes before as well as after changes in voting policies from "For" policies to "Against" policies. It appears that before the change, the mutual funds that announced they would support a proposal comply with their policy in about 75% of the cases. After the change to an "Against" policy, the average support drops down to about 15%. Therefore, it appears that mutuals funds change their voting strategy after having changed their voting policy.

Table 4 studies the impact of changing a voting policy in a multivariate framework. The dependent variable is the *Fund Voting Index*. *Initial AP index* is the AP index at the beginning of the sample period. *Positive* (*Negative*) *change* is an indicator variable

taking the value 1 if the AP index is larger (smaller) than the Initial AP index and zero otherwise. For example, if in 2010 a mutual fund family changes its policy from opposing a certain item to supporting it, the *Positive change* variable would be equal to zero before 2010 and to 1 as from 2010.

[Table 4 about here.]

It appears that positive changes in the announced preferences are associated with positive changes in the voting outcome. Such evidence implies that mutual funds do change their voting behavior along with their announced voting policies. Concerning negative changes, the impact is less clear except for E&S issues. For these E&S proposals, a negative change in the announced preferences is associated with negative votes. Furthermore, in unreported regressions, I find that *Negative change* is significant and negative for the top 10 most comment proposals, whether governance or E&S.

All in all, my results indicate that, although proxy voting guidelines are non-binding, proxy voting policies are a major predictor of the voting decision. However, the magnitude of reliance on voting policies is much lower for policies that support environmental and social issues.

5.1.3 Determinants of discrepancies between announced and revealed preferences

From the previous analyses, it appeared that mutual fund families diverge widely in their level of compliance with their announced policies. It is therefore important to examine the determinants of complying with announced preferences.

Table 5 presents linear probability models of the determinants of relying on announced preferences. The dependent variable, *Complies with policy*, is an indicator variable taking the value one if a fund's vote complies with its announced voting policy and zero otherwise. The first two columns present all proposals. Columns 3 and 4 focus on governance issues. Columns 5 and 6 present estimates for E&S proposals. Even columns include year and industry fixed effects. Standard errors are clustered at the fund level.

[Table 5 about here.]

I exploit the number of exceptions to general policies to assess whether deviations are the result of a detailed analysis conflicting with one-size-fits-all voting policies. Table 5

reveals that the higher the number of exceptions to a general proxy voting policy, the less a fund respects its general policy. This result has several implications. First, it confirms the importance of guideline documents as determinants of mutual funds' voting behavior. Second, it also implies that some funds conduct detailed analysis at the item-firm level. Such evidence conflicts with the often-voiced concern that mutual funds, especially passive funds, do not take their voting role seriously.

However, I do not find that the number of exceptions plays a significant role when the vote concerns an environmental or social issue. Such a pattern may signify that funds perform a more detailed analysis for governance issues than for environmental and social issues. Furthermore, it is interesting to note that funds tend to respect their voting policies more for shareholder proposals than for management proposals.

Against ISS is an indicator variable taking the value one when the recommendation of ISS differs from the voting strategy announced in a fund's voting guidelines. Similarly, "Against mgmt." is an indicator variable taking the value one when the recommendation of management conflicts with a fund's guidelines. One can observe that both variables are significant and negative. These results indicate that when ISS or management provides recommendations that are not in line with fund voting policies, funds are more likely to deviate from their guidelines. These results are consistent with the existing literature that shows that proxy advisors as well as management play an important role in institutional investors' voting behavior (Larcker et al., 2015; Malenko and Shen, 2016; Ferri and Oesch, 2016; Ertimur et al., 2017).

I also analyze which firm and fund characteristics explain guidelines compliance. I find that funds deviate more from their voting policies for larger firms, for firms with better accounting and financial performances, and for firms with higher institutional ownership. These results provide grounds to the hypothesis that funds may be less strict and accept to bend their principles with better performing firms or with firms that receive more institutional monitoring.

When it comes to funds' characteristics, it appears that the larger the fund family, the less likely it will vote according to its general voting guidelines. Such evidence may express the fact that large fund families take their stewardship role more seriously and therefore perform more detailed analyses. Furthermore, it appears that the larger the investment, expressed in percentage of the fund's total net assets, the more likely the fund

will deviate from its announced preferences. In other words, when stakes are higher, funds are less likely to apply a one-size-fits-all approach. This evidence is consistent with Fich, Harford, and Tran (2015), Kempf, Manconi, and Spalt (2017), and Liu, Low, Masulis, and Zhang (2020) as it adds more support to the hypothesis that funds deviate from their voting policies to maximize shareholder value. It is however worth noting that it is not the case for E&S proposals. It may indicate that funds do not value E&S reforms as much as governance ones.

Finally, *Passive fund* is an indicator variable taking the value one if a fund follows a passive investment strategy, such as index trackers, and zero otherwise. I find that passive funds are less likely to deviate from their announced policies than active mutual funds. Such evidence is consistent with Heath et al. (2019) who argue that passive funds are passive monitors. It also provides additional evidence that deviations from proxy voting guidelines are the result of an active monitoring strategy. However, for environmental and social issues this pattern is absent. One might interpret this absence as evidence that neither active mutual funds nor passive ones devote many resources to their votes on E&S matters.

All in all, my results are consistent with the hypothesis that mutual funds deviate from their announced voting guidelines on governance issues because they conduct detailed analyses of the value of proposals at the firm-item level. For environmental and social issues, my results support the existence of greenwashing.

5.2 Impact of mutual funds' preferences on portfolio firms: OLS approach

I have shown that voting policies largely reflect the preferences of mutual funds when it comes to voting. However, voting is a rather low-cost activism mechanism which funds must perform as part of their fiduciary duty. One could argue that mutual funds do not pay detailed attention to the ESG structure of firms beyond ballots. To assess the extent to which mutual funds influence the ESG policies of their investee companies, I investigate whether the firms in which they invest exhibit the provisions that their mutual fund shareholders' support.

I first focus on governance issues. I obtain data on the presence of 7 important and observable governance provisions from the ISS Governance database. These 7 provisions

include staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. The importance of these issues has been pointed out by Gompers, Ishii, and Metrick (2003) and Bebchuk, Cohen, and Ferrell (2009). I estimate the following linear probability model to assess whether portfolio firms exhibit the preferred structure of their institutional shareholder base:

$$Provision_{f,p,y} = \beta_0 + \beta_1 VWAPI_{f,p,y} + \Gamma' Controls_{f,y} + \delta_i + \theta_y + u_{f,p,y} \tag{5}$$

where $Provision_{f,p,y}$ is an indicator variable taking the value 1 if firm f exhibits provision p in year y and zero otherwise. $p \in [1, 7]$ and are the 7 aforementioned governance provisions. $VWAPI_{f,p,y}$ is the main variable of interest and is the weighted announced preferences index of the mutual fund shareholder base for provision p in year y. I include firm characteristics as controls as well as year, θ_y, and industry, δ_i, fixed effects. I cluster the standard errors at the firm-provision level. Results are presented in Columns 1 and 2 of Table 6.

[Table 6 about here.]

The analysis reveals that the value-weighted announced preferences index, $VWAPI$, is significant at the 1% level and positively associated with the presence of a provision. In other words, when a firm's mutual fund shareholder base supports a certain governance provision, the firm is more likely to exhibit the supported provision. It is consistent with the hypothesis that the governance preferences expressed in voting policies reflect mutual funds' preferences beyond votes. In terms of economic magnitude, the coefficient of 0.25 implies that a firm, whose 5% blockholder changes its policy from opposing a provision to supporting it, would have a 2.5% higher probability of having the newly-supported provision.

Next, I turn to environmental and social issues. Unlike governance issues, I do not exactly observe whether a firm exhibits a specific provision. Consequently, I analyze the impact of environmental and social preferences on firms' E&S performance. I construct $E\&S\ index_{f,p,y}$, a measure of firm f performance regarding provision p in year y. I obtain data from MSCI ESG Stats on the strengths and concerns of firms regarding nine categories of provisions; alcohol, community, diversity, employee relations, environment,

human rights, military, and tobacco. For each category, I subtract the number of concerns from the number of strengths and obtain a net measure of firms' performance. However, as the maximum number of strengths and concerns for a given category may vary over time, I scale the net measures by dividing every number of strengths/concerns by the maximum number of strengths/concerns for a given category in a given year. I then construct the value-weighted $API_{f,p,y}$ of mutual funds shareholders at firm f in year y regarding provision p. For provisions that the MSCI ESG Stats dataset does not cover, I assign a general KLD score that I construct by following the methodology of Servaes and Tamayo (2013) and Lins, Servaes, and Tamayo (2017). Table 6, Columns 3 and 4 provide the OLS estimates of the following model:

$$E\&S\ \ index_{f,p,y} = \beta_0 + \beta_1 VWAPI_{f,p,y} + \Gamma' Controls_{f,y} + \delta_i + \theta_y + u_{f,p,y} \tag{6}$$

From Table 6, it appears that the $VWAPI$ for E&S issues is not statistically significant when accounting for industry and year fixed effects. In other words, the OLS approach does not support the hypothesis that portfolio firms adopt the environmental and social preferences of their mutual fund shareholders. Such evidence is consistent with the low level of compliance that I observe for votes on E&S-supportive proposals.

5.3 Impact of mutual funds' preferences on portfolio firms: IV approach

Two reasons may explain the presence of funds' favored policies among their portfolio companies. First, funds may select firms that have adopted the ESG structure they favor. Second, it is also possible that firms adopt the favored ESG structure of their institutional shareholders.

In this section, I exploit the staggered changes in proxy voting policies of mutual fund families to analyze whether portfolio companies adopt the preferences of their mutual fund shareholder base. In fact, mutual fund families may change their position on specific items over time. Since proxy voting guidelines are designed at the fund family level, they are plausibly exogenous to individual portfolio firm characteristics. Therefore, I instrument the mutual funds' announced preferences index with changes in voting policies. I estimate the following two stage least square (2SLS) regression:

$$VWAPI_{f,p,y} = \alpha_0 + \alpha_1 VW\Delta API_{f,p,y} + \epsilon_{f,p,y} \tag{7}$$

$$Provision_{f,p,y} = \beta_0 + \beta_1 \widehat{VWAPI}_{f,p,y} + \Gamma' Controls_{f,y} + \delta_i + \theta_y + \upsilon_{f,p,y} \quad (8)$$

[Table 7 about here.]

Columns 1 through 3 of Table 7 present results for governance issues. Columns 4 through 6 of Table 7 present results for environmental and social issues. First stage results are provided in Columns 1 and 3. From these columns, it appears that the instrument fulfills the relevance condition for both subsets of issues. The partial R^2 of 4% and 2% emphasize the ability of the instrument to explain the variation in aggregate mutual funds' preferences, $VWAPI$. Furthermore, the first stage Kleibergen-Paap F statistics of 185 and 156 provide additional support against weak instrument concerns (Stock and Yogo, 2005).

Columns 2 and 3 reveal that $VWAPI_{f,p,y}$ is positive and statistically significant for governance matters. It hence appears that changes in the preferences of mutual funds induce analogous governance changes in their portfolio firms. Such evidence demonstrates that portfolio companies adopt the preferred policies of their mutual fund shareholders. Furthermore, in analyses reported in Table A3, I show that this result is robust, at the 10% significance level, to including provision as well as provision*year fixed effects.

It also appears that the size of instrumental variable local average treatment effects is much larger than with the linear model presented in Table 6. Jiang (2017) shows that such inflated coefficients are common for instrumental variable analyses in finance. In the present case, one possible explanation is that the estimates obtained with the instrumental variable approach capture the treatment effects for the subset of voting policies that changed. The fact that a mutual fund family decides to change its voting policy on a specific provision may indicate that the mutual fund family values this provision more than other provisions or more than what other fund families do. If the mutual fund family attaches more value to a specific provision, it may exert more effort to obtain the implementation of the provision.

I then turn to environmental and social issues. I use the same instrumental variable approach where the instrument is $VW\Delta API_{f,p,y}$. The dependent variable is $E\&S\ index_{f,p,y}$. The Columns 5 and 6 of Table 7 reveal that there is no significant relation between variations in mutual funds' E&S preferences and variations in firms' E&S performance. My results are consistent with Dyck, Lins, Roth, and Wagner (2019) who find no evidence of U.S. institutional investors significantly affecting the E&S performance of U.S. firms.

The low level of compliance that I find for E&S-supportive voting policies may explain this absence of impact. Mutual funds would therefore have no influence on firms' E&S performance as they do not play the active role they claim they do.

5.4 Channels of adoption of ESG preferences

In the subsequent sections, I analyze the channels through which mutual funds may obtain the implementation of their preferred policies.

5.4.1 Voting channel

The first channel through which mutual funds may encourage firms to adopt their preferences is the voting channel. Simply supporting proposals on ballots will increase the probability that these proposals reach the passing threshold. It will hence increase their implementation probability (Bach and Metzger, 2017). As I have shown that proxy voting guidelines represent a major predictor of mutual funds' votes, guidelines may mechanically increase (decrease) the probability that a proposal obtains shareholder support. Columns 1 and 2 of Table 8 present analyses of the impact of voting policies on the probability of reaching the passing threshold.

[Table 8 about here.]

$Passing_{f,p,y}$, the dependent variable, is an indicator variable taking the value one if a proposal addressing a provision p, submitted at firm f in year y, reached the passing threshold as defined in the company's bylaws and zero otherwise. Column 1 reports the estimates of a linear probability model where I regress $Passing_{f,p,y}$ on the value weighted announced preferences index, $VWAPI_{f,p,y}$. The results presented in the table reveal that the higher the index, the more likely a proposal is to reach the passing threshold. In other words, the more favorable the mutual fund shareholder base is towards a provision, the more likely a vote on this provision is to win a majority.[8]

I exploit mutual funds' staggered changes in voting policies to better understand the impact of announced preferences on the probability of reaching the passing threshold. Column 2 presents estimates from a two stage least square regression where the dependent variable is the $Passing_{f,p,y}$ indicator and the explanatory variable of interest

[8] I use the term "majority" to refer to firms' bylaws-defined passing threshold.

is $VWAPI_{f,p,y}$. Similar to the previous instrumental variable regressions, the instrument is $VW\Delta API_{f,p,y}$.

The estimation reveals that the relation between these two variables is positive and significant at the 1%. It implies that changes in voting policies are associated with analogous changes in the probability of reaching the passing threshold.

Considering that proposals that reach the passing threshold are more likely to be implemented, my results provide evidence of a direct relation between voting strategies of mutual funds and the implementation of ESG policies. It implies that institutional investors, including passive investors, may have a substantial impact on their portfolio firms simply through their vote.

5.4.2 Proposals by non-mutual fund shareholders

I analyze the impact of the value weighted announced preferences index on the probability of receiving a shareholder proposal from non-mutual fund shareholders to assess the extent to which mutual funds' voting policies stimulate activism by other shareholders. Column 3 of Table 8 provides the estimates of a linear probability model where the dependent variable, $Shareholder\ \ proposal_{f,p,y}$, is an indicator variable taking the value one if a firm f received a proposal on a provision p in year y and zero otherwise. The key variable of interest is the value-weighted announced preferences indices for firm f regarding provision p in year y.

It appears that the more supportive the mutual fund shareholder base is of a provision, the more likely a non-mutual fund shareholder will file a proposal requiring the implementation of the aforementioned provision. The results are significant at the 1% level.

Column 4 replicates the analysis using the two stage least square estimation where the instrument is $VW\Delta API_{f,p,y}$. From Column 4, it appears that changes in the $VWAPI$ are positively associated with the probability of receiving shareholder proposals with a significance level of 5%. My results therefore confirm the hypothesis that non-mutual fund shareholders modify their proposal-submission strategy to meet changes in mutual funds' proxy voting guidelines.

Such evidence implies that institutional investors can stimulate activism among other shareholders simply through their support to shareholder proposals. As a consequence, my

results alleviate concerns regarding the governance role of passive institutional investors. In fact, passive investors may not play an active monitoring role but simply vote according to their predefined guidelines which encourages activism by other investors.

Appel et al. (2019) exploit stock index rebalancing to show that passive ownership encourages activists investors to seek board representations, in particular through the proxy fights. My results add to Appel et al. (2019) by showing that proxy voting guidelines provide a clear communication of mutual funds' preferences which helps shareholder activists to identify what mutual funds support. Proxy voting guidelines hence enable activist investors to infer mutual funds' preferences much more easily than using votes. My evidence also highlights the role of mutual funds in supporting activists' requests extends beyond board representations.

5.4.3 Announced preferences and submission of shareholder proposals by mutual funds

Mutual funds could also play a more active corporate governance role. In fact, another channel through which mutual funds could foster the implementation of their preferred ESG policies is through the submission of their own shareholder proposals. I expect that mutual funds who favor a certain provision file shareholder proposals at their portfolio companies to obtain the implementation of this provision. I quickly study the proposals they submit to examine whether mutual funds exploit this channel to obtain the implementation of their preferred ESG policies.

My analysis of proposal sponsors reveals that, except for TIAA-CREF funds, mutual funds in my sample do not sponsor proposals.[9] It hence appears that the submission of proposals by mutual funds is not a credible channel through which mutual funds foster the adoption of their preferred policies.

5.4.4 Behind-the-scene negotiations

Next, I assess whether mutual funds use private negotiations to obtain the implementation of their preferred policies. As I do not observe private negotiations, I analyze cases where firms changed their provisions without the presence of a shareholder proposal in the previous two years. Changes in provisions without shareholder proposals may indicate

[9] Carleton et al. (1998) provide evidence of the role of TIAA-CREF in behind-the-scene negotiations.

that they are the results of private negotiations between management and shareholders. It is however important to highlight that this research strategy does not allow me to disentangle the private negotiations hypothesis from a situation where firm managers would implement the provisions supported by the proxy voting guidelines of their institutional shareholders without any negotiation.

Columns 5 and 6 of Table 8 present ordinary least square and two stage least square regressions, respectively. The dependent variable is $\Delta Provisions_{f,p,y} = Provisions_{f,p,y} - Provisions_{f,p,y-1}$, where $Provisions_{f,p,y}$ is an indicator variable taking the value one if firm f exhibits provision p in year y and zero otherwise. The sample is limited to cases where a change in $Provisions_{f,p,y}$ was not preceded by a shareholder proposal on provision p in year y, $y-1$, or $y-2$. The analysis is conducted for 7 observable governance provisions (staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes). As for previous analyses, the key variable of interest is $VWAPI_{f,p,y}$, and the instrument is $VW\Delta API_{f,p,y}$.

It appears that changes in provisions without preceding shareholder proposals are significantly and positively associated with the value weighted announced preferences index. These results are consistent with the hypothesis that mutual funds may negotiate the implementation of their preferred governance policies privately. However, as aforementioned, firms may also adopt the preferred policies of their mutual fund shareholders on their own initiatives without any behind-the-scene negotiation. Guidelines would then allow mutual fund families to communicate their ESG preferences to investee firms.

5.5 Fund flows

I have shown that mutual funds present large heterogeneity in their ESG preferences. I have also shown that mutual funds are active voters that vote to support the implementation of their preferred policies at portfolio firms. I will now study whether beneficial investors reward mutual funds for their stewardship activities.

I analyze the cumulative abnormal fund flows (CAFs) around changes in proxy voting policies. I expect that, if investors reward mutual funds for their stewardship activities, mutual funds should experience significant inflows when they adopt shareholder-friendly guidelines. I follow Cooper, Gulen, and Rau (2005) who study fund flows around funds' name-change period and implement an event study methodology. I compute abnormal

fund flows for each voting policy change with respect to a matched fund that did not change its guidelines. I match funds to their nearest neighbor using propensity score matching.

[Table 9 about here.]

Table 9 presents the average cumulative abnormal flows around guideline changes. Panel A encompasses all types of changes including the apparitions of new voting policies. Panel B only includes changes in policies. I focus on three sets of changes. First, "All changes" includes any type of change whether it benefits the shareholder or not. "Positive changes" includes events that are shareholder-friendly. In other words, it includes events where mutual funds adopt more shareholder-friendly guidelines. "Negative changes" includes events where funds adopt less shareholder-friendly guidelines. The table presents the average CAFs for six windows, from twelve months before the event to 12 months after the event.

All in all, I do not observe significantly positive abnormal flows before as well as after the events. If anything, I find negative abnormal returns for the 3-month post-event window. Funds that change their proxy voting guidelines do not experience larger inflows than control funds. In consequence, these results are inconsistent with the hypothesis that beneficial investors reward mutual funds for their voting activities. My results conflict with Hartzmark and Sussman (2019) who find larger inflows to funds that place highly in sustainability ratings. However, Hartzmark and Sussman (2019) emphasize that the observed significant abnormal flows are only present for extreme rating changes. One could therefore argue that only an extreme change in voting guidelines would influence fund flows.

There exist alternative explanations to the question of why mutual funds adopt heterogeneous voting policies and why they change their policies over time. First, mutual funds may adopt guidelines that preserve their overall reputation. For example, mutual funds may change their voting policies towards more support for environmental and social issues to please different stakeholders than beneficial investors. However, as I observe that not all mutual fund families adopt ESG-friendly guidelines, my evidence does not support this hypothesis. Another possibility is that mutual fund families may have different expectations of the future. In fact, Bolton et al. (2020), recalling the work of Arrow (1984), argue

that profit-maximizing agents may present heterogeneous preferences if they have different expectations of the future. These diverging expectations would then imply different optimal ESG structures. Finally, Starks, Venkat, and Zhu (2017) show that heterogeneous ESG preferences may reflect different investor horizons.

5.6 Robustness test - small firms

The instrumental variable approach relies on the exogeneity assumption of the instrument. The fact that mutual funds generally design proxy voting guidelines at the fund family level alleviates concerns that an idiosyncratic firm within a specific mutual fund portfolio may influence family-wide guidelines. However, one could argue that very large firms may possess such an influential power. To verify that these very large firms do not drive results on the impact of announced preferences on portfolio firms' ESG structure, I replicate Table 7 but limiting the sample to small firms, i.e. firms whose total assets is below the sample median. Table 10 reports the analysis.

[Table 10 about here.]

It appears that the results are robust to restricting the sample to small firms that are unlikely to influence mutual fund families.

6 Discussion

An often-voiced concern about institutional ownership is that institutional investors do not have the incentives or tools to properly monitor portfolio firms (Bebchuk et al., 2017; Schmidt and Fahlenbrach, 2017; Heath et al., 2019). One of the elements that have fed this critique is the fact that many mutual fund families display a limited amount of resources dedicated to stewardship. As an illustration, Krouse et al. (2016) and Bebchuk et al. (2017) point out that, in 2016, BlackRock, Vanguard, and State Street employed less than 50 staff altogether in their voting and stewardship teams while covering thousands of firms. On the other hand, there is ample evidence that mutual funds do not all vote in the same manner, blindly following management or proxy advisors' recommendations (Morgan et al., 2011; Iliev and Lowry, 2014). How can mutual funds be active monitors while dedicating very few resources to their stewardship activities?

From direct contacts with a proxy advisory firm, I learned that the business model of proxy advisors has significantly changed over the past decade from providing general voting recommendations to providing voting recommendations tailored to the institutional investors' preferences. Gary Retelny, the CEO of ISS, emphasized the emergence of this business model in the ISS 2018 senate hearing statement:

> *"ISS' only job is to analyze proxy statements and provide informed research and vote recommendations based on the policies and guidelines that our institutional investor clients have selected, and in many cases developed, themselves."* (Retelny, 2018)

Under this scheme, the role of proxy advisors consists in analyzing how institutional investors should vote to meet their own proxy voting policies. Moreover, I examined the voting procedures of mutual fund families in my sample. Mutual funds describe these procedures in their SAIs. Many families explain clearly that they use their proxy voting guidelines to outsource their voting strategy to proxy advisory firms. As an illustration, State Street Global Advisors (SSGA) affirms in its 2018 proxy voting procedures that:

> *"In order to facilitate SSGA's proxy voting process, SSGA retains Institutional Shareholder Services Inc. ("ISS") [...] for applying the Guidelines [...]"*

Such a business model explains how mutual funds can be active voters while employing very small teams dedicated to stewardship. My findings support the existence of this model and show that it allows mutual funds to obtain the implementation of their preferred policies at portfolio firms. It hence demonstrates that proxy voting guidelines allow institutional investors to do governance at scale.

7 Conclusion

I find that mutual fund families announce heterogeneous and time-varying ESG preferences in their proxy voting guidelines. These announced preferences are a major predictor of mutual funds' voting behavior. I investigate why mutual funds deviate from their announced preferences. I find evidence consistent with funds diverging from one-size-fits-all voting policies as they perform analyses at the ballot item-firm level. However, my results also suggest that greenwashing may explain deviations from E&S-supportive voting policies. Exploiting staggered changes in voting, I show that portfolio firms adopt the

governance preferences of their mutual fund shareholder base, but not the environmental and social ones. Mutual funds convey their governance preferences through their impact on voting results rather than using shareholder proposals. Furthermore, non-mutual fund shareholders strategically submit proposals addressing provisions that mutual funds have announced to favor. Beneficial investors do not appear to reward mutual funds for their stewardship activities.

My results reveal that mutual fund families have developed diverging ideologies regarding ESG matters. They also demonstrate that mutual funds are active monitors. By measuring the distance between announced and revealed preferences, they shed light on a growing concern among mutual funds' investors and policy-makers, namely that mutual funds' public statements and policy positions reflect marketing rather than stewardship intentions. This concern appears to be well-founded for policies that support environmental and social reforms. In consequence, portfolio firms do not adopt the announced E&S preferences of their mutual fund shareholders.

My results have important implications for the growing debate on the impact of institutional ownership, especially passive ownership, on governance. While it is often argued that passive investors do not have the tools to monitor companies, I provide evidence that proxy voting guidelines are an important tool that allows mutual funds to do governance at scale. Furthermore, my results demonstrate that voting, a voice mechanism that passive investors use extensively, is sufficiently meaningful to foster the implementation of institutional investors' preferred governance policies. Finally, proxy voting guidelines ensure clear communication of mutual funds' preferences to activists. All in all, the evidence I present suggests that proxy voting guidelines enable mutual funds to perform their stewardship role effectively.

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Figure 1: Snapshot of proxy voting guidelines

Figure a presents a snapshot of Morgan Stanley's 2018 proxy voting guidelines. Figure b presents a snapshot of Alliance Bernstein's 2018 proxy voting guidelines.

(a) Snapshot of Morgan Stanley' 2018 proxy voting guidelines

10. Separation of Chairman and CEO positions: We vote on shareholder proposals to separate the Chairman and CEO positions and/or to appoint an independent Chairman based in part on prevailing practice in particular markets, since the context for such a practice varies. In many non-U.S. markets, we view separation of the roles as a market standard practice, and support division of the roles in that context. In the United States, we consider such proposals on a case-by-case basis, considering, among other things, the existing board leadership structure, company performance, and any evidence of entrenchment or perceived risk that power is overly concentrated in a single individual.

(b) Snapshot of Alliance Bernstein' 2018 proxy voting guidelines

Shareholder Proposal	For	Against	Case-by-Case
Environmental & Social, Disclosure Proposals			
Animal Welfare			+
Carbon Risk	+		

Figure 2: Evolution of the announced preferences index (top 10 issues)

The figure presents the evolution of the mean announced preferences index for 29 of the largest mutual fund families for the 10 most common governance and the 10 most common E&S issues. The sample period is 2006-2018. The announced preferences index is computed by first: mapping "for", "case-by-case", and "against" policies to values 1, 0, and -1, respectively; then scaling by the number of policies included in a fund's guidelines over the total number of possible policies.

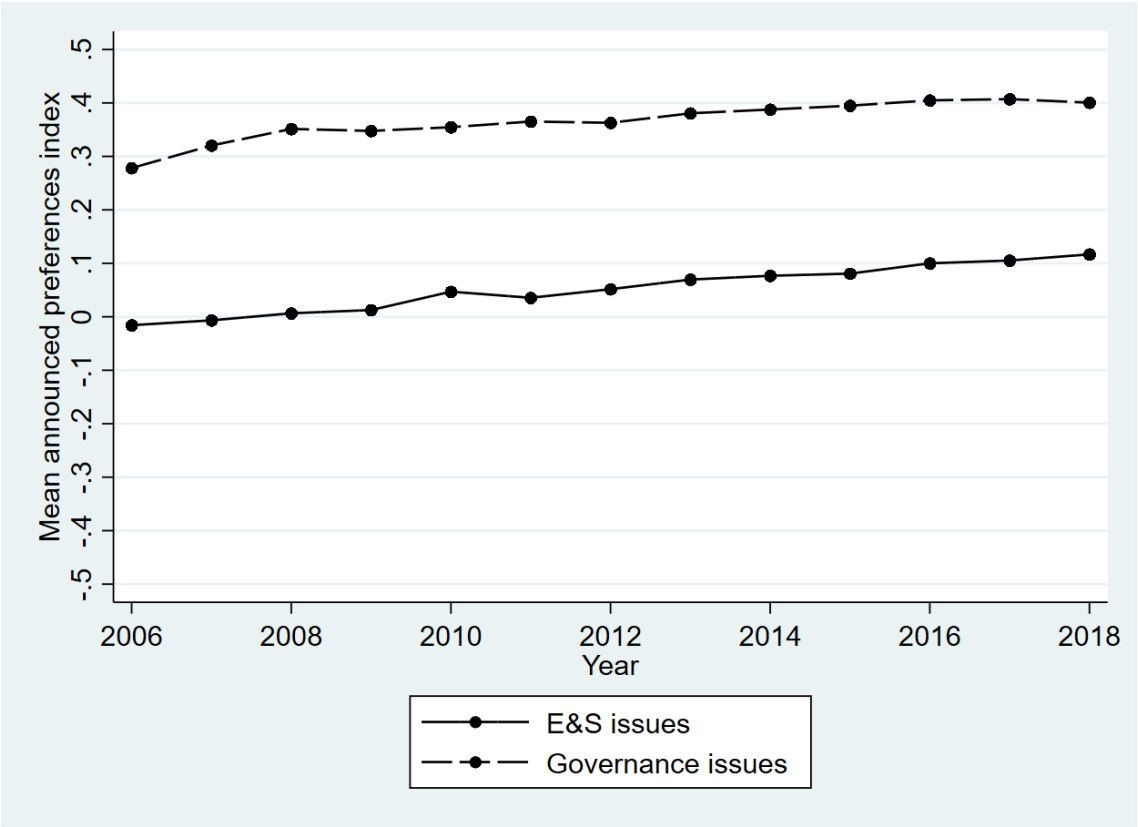
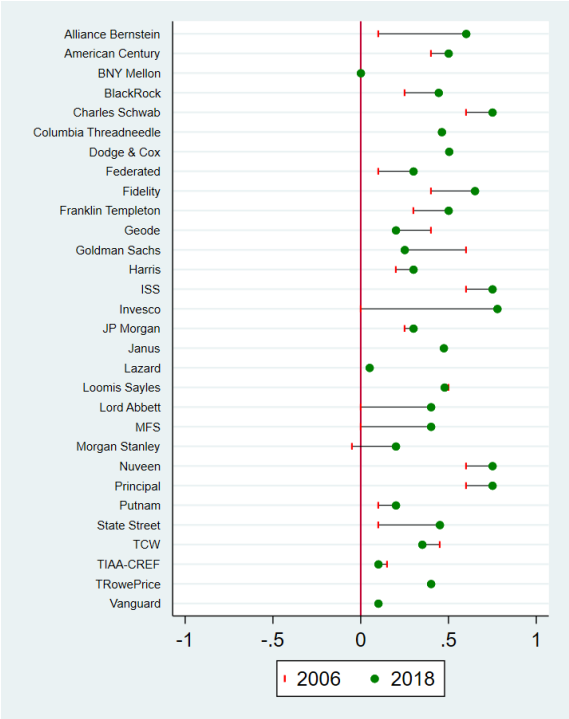


Figure 3: Announced preferences index

Figure a and b present the mean fund announced preferences index for 29 of the largest mutual fund families. The sample period is 2006-2018. The fund announced preferences index is computed by first mapping "for", "case-by-case", and "against" policies to values 1, 0, and -1, respectively; then scaling by the number of policies included in a fund's guidelines over the total number of possible policies. Figure a presents the announced preferences index for governance issues, computed at the fund family level. Figure b presents the announced preferences index for environmental and social issues, computed at the fund family level. Figure c presents the announced preferences index for the top10 governance issues, computed at the provision level. Figure d presents the announced preferences index for environmental and social issues, computed at the provision level.

(a) Governance issues (per fund family)



(b) E&S issues (per fund family)

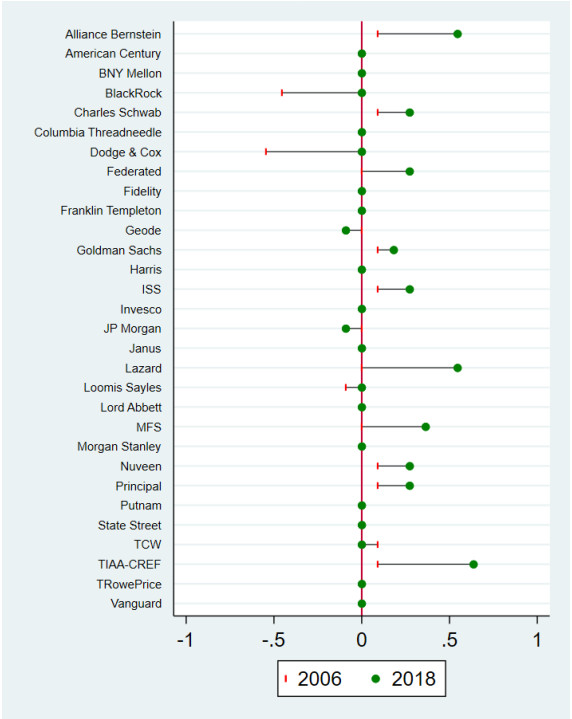
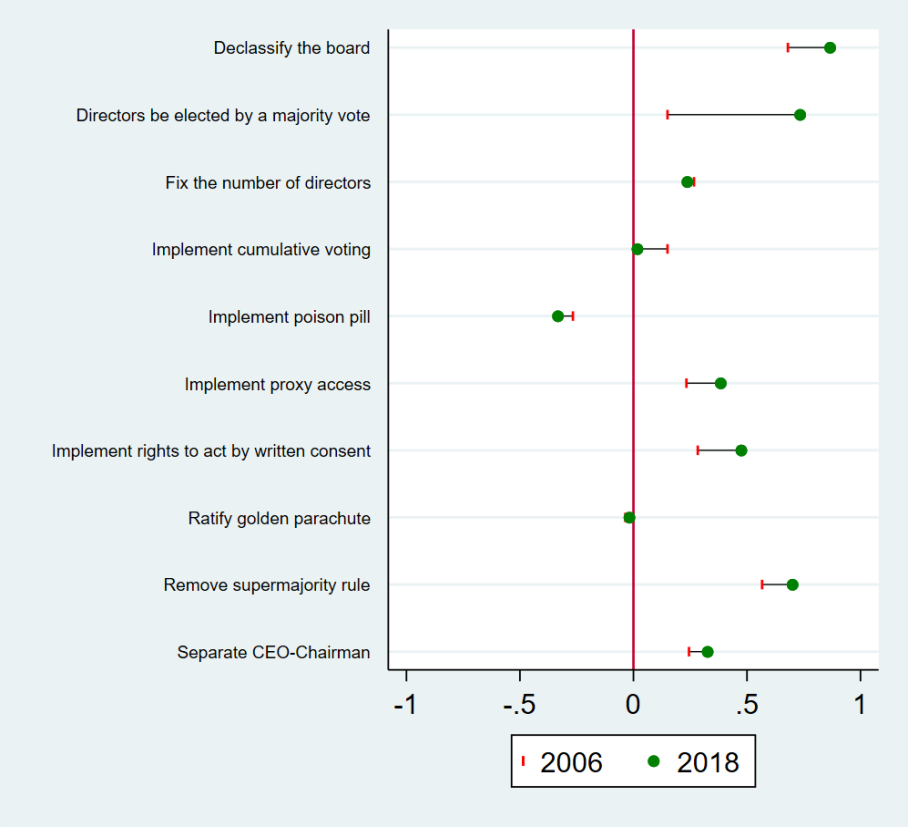


Figure 3: Announced preferences index (continued)

(c) Governance issues (per proposal)



(d) E&S issues (per proposal)

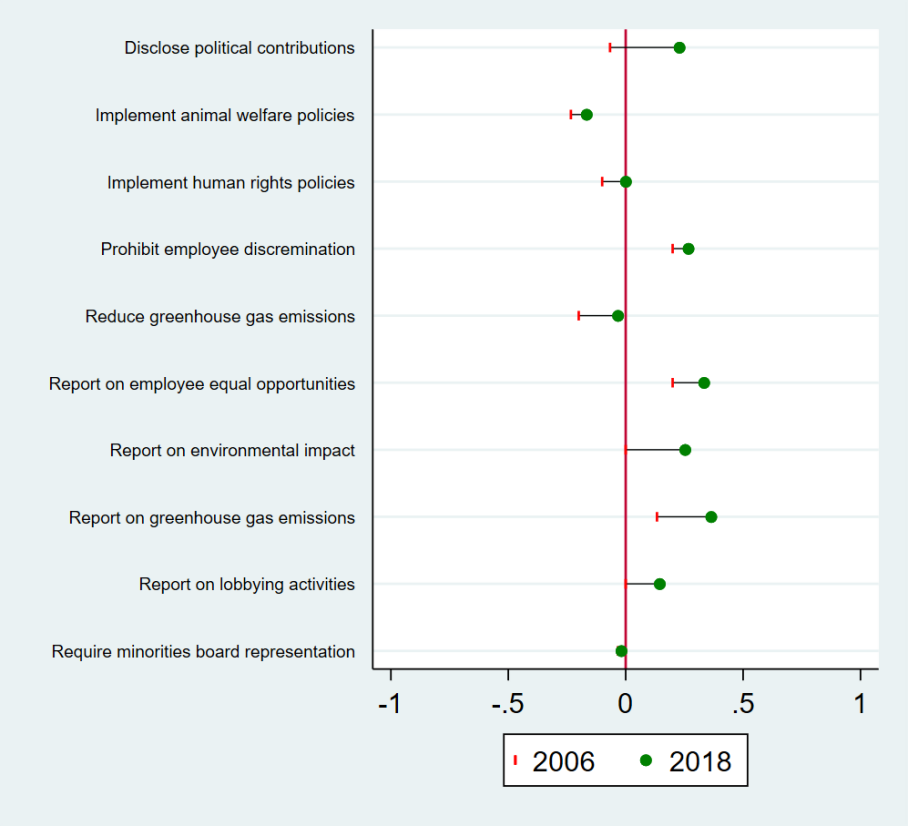
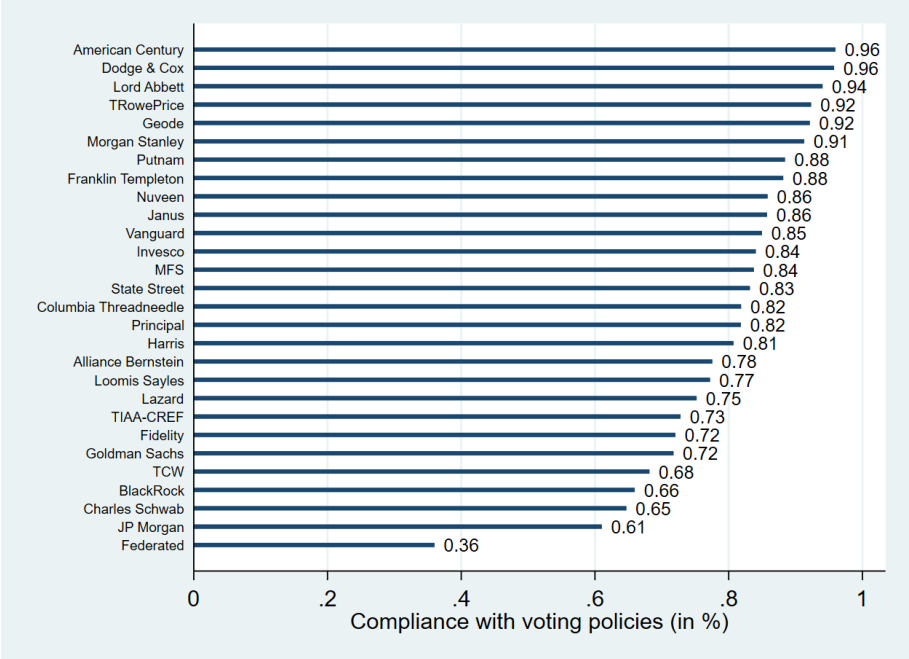


Figure 4: Compliance with proxy voting policies)

Figure a presents the average compliance guidelines per fund family. Compliance with guidelines is an indicator variable taking the value one if a vote complies with voting policies as described in fund families' voting guidelines. Figure b presents the average percentage of "for" votes before and after a change of voting policy from a "For" to an "Against" policy. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period.

(a) Compliance with proxy voting policies (per fund family)



(b) Compliance after change of voting policy

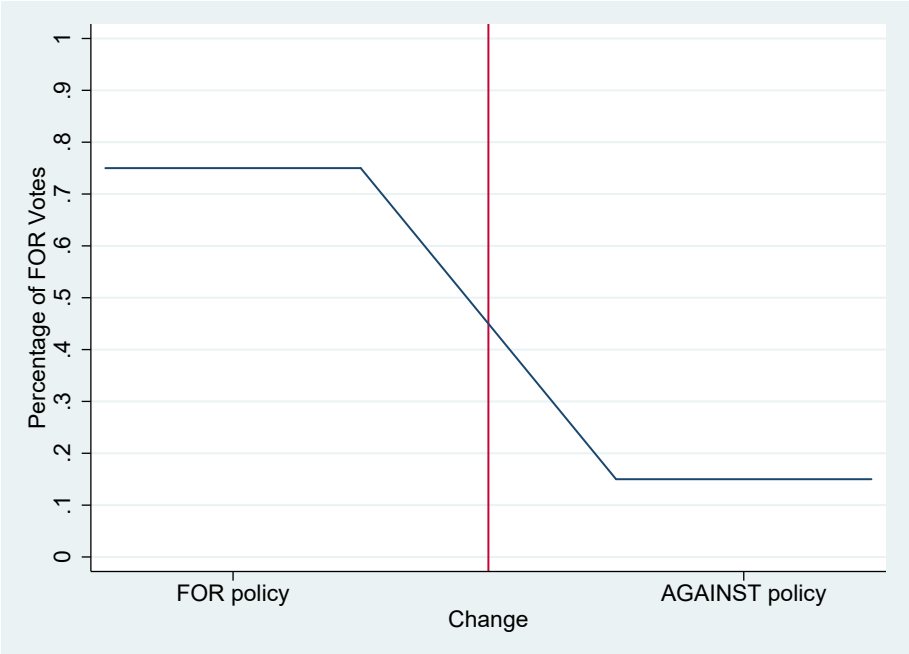


Table 1: Summary statistics

The table presents summary statistics. Panel A presents summary statistics for funds that voted on ESG issues. Panel B presents summary statistics for firms which experienced votes on ESG issues. All continuous variables of Panels A and B are winsorized at the 1% and 99% levels. Family size, fund size, total asset, and market capitalization are expressed in million $US. Fund age is expressed in years. Panel C presents summary statistics proxy voting policies. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Variables are defined in the appendix, Table A2.

Panel A: Funds

	Mean	Median	Sd.	Min.	Max.	N
Family size	555306.38	293489.81	534498.14	4080.60	2057296.38	9632
Fund size	2135.10	550.20	4618.84	0.00	31538.20	10168
Fund age	14.10	12.49	10.93	0.12	61.61	10168
Expense ratio	0.01	0.01	0.01	0.00	0.03	10168
Turnover rate	1.11	0.44	2.18	0.00	9.47	10168
Investment as % of fund TNA	1.53	0.86	1.97	0.01	11.39	7117
Investment as % of fund firm equity (in %)	0.16	0.02	0.37	0.00	2.42	7395
Passive fund	0.20	0.00	0.40	0.00	1.00	12418
Past fund alpha	-0.01	-0.00	0.06	-0.22	0.18	8369

Panel B: Firms

	Mean	Median	Sd.	Min.	Max.	N
Total Assets	28775.89	7456.20	54455.36	18.85	250518.74	4798
Market capitalization	17638.59	5532.95	26087.07	23.23	91730.60	4799
ROA	0.03	0.04	0.12	-0.73	0.27	4797
Leverage	0.26	0.24	0.19	0.00	0.90	4785
One year return	0.09	0.07	0.43	-0.79	2.10	4505
Institutional ownership	0.78	0.82	0.21	0.07	1.00	4799

Panel C: Guidelines

	All	CG	E&S	Top10 CG	Top10 E&S
Total nb. of policies	17269.00	14489.00	2780.00	4816.00	1280.00
Nb. of new policies	571.00	427.00	144.00	161.00	56.00
Nb. of policy changes	567.00	205.00	362.00	126.00	157.00
Announced preferences index (mean)	0.47	0.57	-0.05	0.57	0.17
Nb. of exceptions (mean)	0.47	0.46	0.52	0.72	0.62

Table 2: Percentage of compliance

Columns 1, 2, and 3 present the percentage compliance of funds with their own voting policies, with ISS recommendations, and with management recommendations, respectively. Column 4 presents the percentage of compliance of ISS recommendations with ISS voting policies. The statistics are provided for three categories of issues. "All", "Governance", and "E&S" are the subsamples of votes on all issues, governance issues, and environmental & social issues, respectively. The "Top10" subsample included the top10 most frequent proposals. The "Policy=For" subsample includes ballot items for which the funds' voting policy stated "for". The "Policy=Against" subsample includes ballot items for which the funds' voting policy stated "against". The sample includes all votes on which a fund has a "for" or an "against" voting policy. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Variables are defined in the appendix, Table A2.

	Funds' compliance with			ISS' compliance with
	their own guidelines	ISS recs.	management recs.	their own guidelines
	(1)	(2)	(3)	(4)
All:				
All	79.72	67.63	76.35	76.56
Top10	80.79	67.71	75.03	76.01
Policy=For	72.36	77.58	66.61	90.93
Policy=Against	92.76	50.00	93.33	45.00
Governance:				
All	76.15	73.06	70.27	84.22
Top10	79.48	75.13	70.40	84.03
Policy=For	74.90	78.42	67.72	92.22
Policy=Against	84.28	38.09	86.64	37.62
E&S:				
All	87.08	56.43	88.69	51.87
Top10	83.87	50.26	85.72	45.54
Policy=For	45.41	68.72	54.98	67.46
Policy=Against	95.56	53.93	95.53	49.11

Table 3: Announced preferences and votes

The table presents the OLS regressions of determinants of mutual fund votes. The main variable of interest is the announced preferences index, "AP index". The dependent variable is the "Fund Voting Index" obtained by mapping "for" and "against" votes to values 1 and -1, respectively. Columns 1 and 2 include all proposal topics. Columns 3 and 4 include proposals addressing governance issues. Columns 5 and 6 include proposals addressing environmental or social issues. Even columns include industry and year fixed effects. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Standard errors are robust to heteroskedasticity and clustered at the fund level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table A2.

	All		Governance		E&S	
	(1)	(2)	(3)	(4)	(5)	(6)
Proposal:						
AP index	0.36***	0.36***	0.30***	0.29***	0.29***	0.29***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
ISS recommendation	0.25***	0.24***	0.30***	0.28***	0.16***	0.15***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Mgmt. recommendation	0.37***	0.37***	0.34***	0.34***	0.34***	0.36***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Shareholder proposal	-0.21***	-0.21***	-0.20***	-0.19***		
	(0.00)	(0.00)	(0.00)	(0.00)		
Firm:						
Log(firm size)	-0.07***	-0.07***	-0.08***	-0.07***	-0.03***	-0.04***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Firm ROA	-0.21***	-0.14***	-0.25***	-0.12***	-0.23***	-0.12***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Firm book leverage	-0.04***	-0.05***	-0.07***	-0.09***	-0.02***	-0.03***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
Firm return	-0.01*	0.01**	-0.02***	0.00	0.02*	0.02**
	(0.09)	(0.02)	(0.00)	(0.55)	(0.07)	(0.03)
Institutional ownership	-0.13***	-0.12***	-0.13***	-0.11***	-0.07**	-0.10***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.04)	(0.00)
Fund:						
Log(fund size)	-0.00	-0.00	-0.00	-0.00	-0.01**	-0.01**
	(0.34)	(0.33)	(0.98)	(0.89)	(0.04)	(0.05)
Log(fund age)	0.04**	0.05***	0.02	0.04**	0.07**	0.06**
	(0.04)	(0.01)	(0.28)	(0.04)	(0.02)	(0.02)
Fund expense rate	5.81**	4.28*	8.95***	7.48***	3.09	3.85
	(0.01)	(0.07)	(0.00)	(0.00)	(0.37)	(0.28)
Fund turnover rate	-0.02*	-0.01	-0.02***	-0.02**	-0.01	-0.01
	(0.05)	(0.25)	(0.00)	(0.03)	(0.55)	(0.42)
Log(family size)	-0.13***	-0.12***	-0.14***	-0.13***	-0.17***	-0.17***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Past fund alpha	-0.08	-0.08	-0.16**	-0.16**	0.01	0.11
	(0.24)	(0.23)	(0.05)	(0.04)	(0.94)	(0.42)
Investment as % of fund TNA	-0.01***	-0.01***	-0.03***	-0.02***	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.57)	(0.30)
Investment as % of firm equity (in %)	0.01	0.00	-0.01	-0.01	0.00	-0.01
	(0.56)	(0.97)	(0.65)	(0.30)	(0.87)	(0.82)
Passive fund	-0.07***	-0.07***	-0.05**	-0.05**	-0.06**	-0.07**
	(0.00)	(0.00)	(0.02)	(0.02)	(0.04)	(0.03)
Constant	2.29***	2.21***	2.63***	2.69***	1.62***	1.89***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Observations	251732	251732	158986	158986	87167	87167
R^2	0.511	0.524	0.443	0.461	0.241	0.254
Year, and industry F.E.	No	Yes	No	Yes	No	Yes

Table 4: Impact of changes in announced preferences on votes

The table studies the impact of changes in announced preferences on votes through OLS regressions. The dependent variable is the "Fund Voting Index" obtained by mapping "for" and "against" votes to values 1 and -1, respectively. The main variables of interest is "Positive change" and "Negative change". Columns 1 and 2 include all proposal topics. Columns 3 and 4 include proposals addressing governance issues. Columns 5 and 6 include proposals addressing environmental or social issues. Even columns include industry and year fixed effects. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Standard errors are robust to heteroskedasticity and clustered at the fund level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in appendix, Table A2.

	All		Governance		E&S	
	(1)	(2)	(3)	(4)	(5)	(6)
Proposal:						
Initial Voting Index	0.36***	0.36***	0.34***	0.34***	0.14***	0.12***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
ISS recommendation	0.27***	0.26***	0.28***	0.27***	0.20***	0.18***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Mgmt. recommendation	0.34***	0.35***	0.32***	0.33***	0.37***	0.40***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Positive change	0.32***	0.32***	0.23***	0.23***	0.42***	0.38***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Negative change	-0.07	-0.05	-0.06	-0.04	-0.50***	-0.52***
	(0.11)	(0.22)	(0.13)	(0.35)	(0.00)	(0.00)
Shareholder proposal	-0.20***	-0.20***	-0.20***	-0.19***		
	(0.00)	(0.00)	(0.00)	(0.00)		
Firm:						
Log(firm size)	-0.07***	-0.07***	-0.08***	-0.08***	-0.03***	-0.04***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Firm ROA	-0.27***	-0.16***	-0.28***	-0.12***	-0.39***	-0.13**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.04)
Firm book leverage	-0.05***	-0.06***	-0.08***	-0.10***	-0.03***	-0.02**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)
Firm return	-0.01	0.03***	-0.02***	0.01*	0.01	0.04***
	(0.17)	(0.00)	(0.00)	(0.07)	(0.28)	(0.00)
Institutional ownership	-0.13***	-0.12***	-0.14***	-0.12***	-0.08**	-0.14***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.03)	(0.00)
Fund:						
Log(fund size)	-0.01	-0.01	-0.00	-0.00	-0.01	-0.01
	(0.17)	(0.19)	(0.85)	(0.80)	(0.27)	(0.19)
Log(fund age)	0.03*	0.04**	0.02	0.04**	0.05*	0.04
	(0.07)	(0.01)	(0.34)	(0.05)	(0.06)	(0.13)
Fund expense rate	8.36***	7.17***	8.60***	6.90***	6.87*	8.87**
	(0.00)	(0.00)	(0.00)	(0.01)	(0.07)	(0.02)
Fund turnover rate	-0.02*	-0.01	-0.02***	-0.02**	0.00	-0.01
	(0.06)	(0.25)	(0.00)	(0.04)	(0.95)	(0.47)
Log(family size)	-0.12***	-0.11***	-0.14***	-0.13***	-0.20***	-0.22***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Past fund alpha	-0.07	-0.07	-0.17**	-0.18**	0.15	0.32*
	(0.32)	(0.31)	(0.04)	(0.02)	(0.24)	(0.06)
Investment as % of fund TNA	-0.01***	-0.01***	-0.03***	-0.02***	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.93)	(0.36)
Investment as % of firm equity (in %)	-0.00	-0.01	-0.01	-0.01	-0.05*	-0.05**
	(1.00)	(0.54)	(0.64)	(0.23)	(0.07)	(0.05)
Passive fund	-0.03	-0.03	-0.05**	-0.05**	0.02	0.02
	(0.15)	(0.15)	(0.02)	(0.02)	(0.58)	(0.59)
Constant	2.20***	2.32***	2.69***	2.84***	2.07***	2.61***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Observations	222358	222358	155839	155839	60000	60000
R^2	0.504	0.518	0.443	0.464	0.298	0.315
Year, and industry F.E.	No	Yes	No	Yes	No	Yes

Table 5: Determinants of complying with voting policies

The table presents the linear probability models for determinants of complying with voting policies. The dependent variable, *Complies with policy*, is an indicator variable taking the value one if a fund voted in compliance with its announced preference and zero otherwise. Columns 1 and 2 include all proposal topics. Columns 3 and 4 include proposals addressing governance issues. Columns 5 and 6 include proposals addressing environmental or social issues. Even columns include industry and year fixed effects. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Standard errors are robust to heteroskedasticity and clustered at the fund level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table A2.

	All		Governance		E&S	
	(1)	(2)	(3)	(4)	(5)	(6)
Proposal:						
Against ISS	-0.16***	-0.16***	-0.20***	-0.19***	-0.10***	-0.12***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Against mgmt.	-0.55***	-0.56***	-0.54***	-0.55***	-0.53***	-0.55***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Nb. exceptions	-0.03***	-0.02***	-0.03***	-0.02***	-0.00	-0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.83)	(0.90)
Shareholder proposal	0.13***	0.13***	0.12***	0.12***		
	(0.00)	(0.00)	(0.00)	(0.00)		
Firm:						
Log(firm size)	-0.03***	-0.03***	-0.05***	-0.04***	-0.01**	-0.01**
	(0.00)	(0.00)	(0.00)	(0.00)	(0.03)	(0.05)
Firm ROA	-0.17***	-0.10***	-0.13***	-0.07***	-0.16***	-0.07***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Firm book leverage	-0.03***	-0.03***	-0.02***	-0.03***	-0.02***	-0.02***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Firm return	-0.00*	0.01***	-0.01***	0.00	-0.01***	-0.00
	(0.08)	(0.00)	(0.00)	(0.11)	(0.01)	(0.47)
Institutional ownership	-0.04***	-0.03***	-0.09***	-0.07***	0.05***	0.06***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Fund:						
Log(fund size)	-0.00	-0.00	-0.00	-0.00	-0.01**	-0.01**
	(0.40)	(0.52)	(0.55)	(0.71)	(0.02)	(0.01)
Log(fund age)	0.01	0.01	0.00	0.01	0.02*	0.02
	(0.41)	(0.25)	(0.90)	(0.20)	(0.07)	(0.10)
Fund expense rate	2.54**	2.10*	3.78***	2.56*	1.65	1.51
	(0.02)	(0.05)	(0.01)	(0.07)	(0.23)	(0.25)
Fund turnover rate	-0.01	-0.00	-0.01***	-0.01	0.00	0.00
	(0.14)	(0.40)	(0.00)	(0.11)	(0.39)	(0.46)
Log(family size)	-0.03***	-0.03***	-0.07***	-0.06***	0.03***	0.03***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.01)
Past fund alpha	-0.08***	-0.05*	-0.11***	-0.08**	0.04	0.09***
	(0.00)	(0.08)	(0.00)	(0.02)	(0.28)	(0.01)
Investment as % of fund TNA	-0.01***	-0.01***	-0.01***	-0.01***	0.00	0.00
	(0.00)	(0.00)	(0.00)	(0.00)	(0.53)	(0.58)
Investment as % of firm equity (in %)	0.00	0.00	0.00	-0.00	-0.00	0.00
	(0.34)	(0.82)	(0.76)	(0.52)	(0.98)	(0.91)
Passive fund	-0.02***	-0.03***	-0.05***	-0.05***	-0.01	-0.01
	(0.01)	(0.00)	(0.00)	(0.00)	(0.64)	(0.67)
Constant	1.79***	1.68***	2.43***	2.38***	0.51***	0.49***
	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)
Observations	209494	209494	135897	135897	69122	69122
R^2	0.391	0.405	0.404	0.428	0.427	0.439
Year, and industry F.E.	No	Yes	No	Yes	No	Yes

Table 6: Mutual funds' announced preferences and firms' ESG structure

This table reports analyses of whether portfolio firms exhibit the preferred ESG structure of their mutual fund shareholders. Columns 1 and 2 present linear probability models where the dependent variable *Governance Provisions*$_{f,p,y}$ is an indicator variable taking the value one if a firm f has a provision p in year y and zero otherwise. The provisions considered here are staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Columns 3 and 4 present ordinary least square regressions where the dependent variable is *E&S index*$_{f,p,y}$, the environmental and social performance index of firm f in year y towards provision category p. $VWAPI_{f,p,y}$, the main variable of interest, is the value-weighted announced preferences index for firm f regarding provision p in year y. The sample covers 29 of the largest US mutual fund families over the 2007-2016 period. Odd columns include year and industry fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm-provision level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table A2.

	Governance Provisions		E&S index (KLD)	
	LPM	LPM	OLS	OLS
	(1)	(2)	(3)	(4)
VWAPI	0.24***	0.25***	-0.67***	0.06
	(0.00)	(0.00)	(0.00)	(0.70)
Log(firm size)	0.01***	0.01***	0.10***	0.12***
	(0.00)	(0.00)	(0.00)	(0.00)
ROA	0.01	0.00	0.22***	0.05
	(0.75)	(0.93)	(0.00)	(0.43)
Firm book leverage	-0.02	-0.02	-0.02	-0.00
	(0.13)	(0.23)	(0.54)	(0.95)
Firm return	0.01***	0.00	0.02**	-0.01
	(0.00)	(0.44)	(0.03)	(0.23)
Institutional ownership	0.00*	0.00**	-0.00***	-0.00***
	(0.08)	(0.05)	(0.00)	(0.00)
Constant	0.21***	0.23*	-0.83***	-1.31***
	(0.00)	(0.07)	(0.00)	(0.00)
Observations	97644	97644	206513	206513
Adjusted R^2	0.003	0.009	0.100	0.174
Fixed effects	No	Industry and year	No	Industry and year

Table 7: Adoption of mutual funds' preferences by portfolio companies

This table reports instrumental variable analyses of whether portfolio firms adopt the preferred ESG structure of their mutual fund shareholders. Columns 1 through 3 focus on governance issues. The dependent variable for governance issues is $Governance\ Provisions_{f,p,y}$, an indicator variable taking the value one if a firm f has a provision p in year y and zero otherwise. The provisions considered here are staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. $VWAPI_{f,p,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f regarding governance provision p in year y. The instrument is $VW\Delta API_{f,y}$ is the change in the value-weighted announced preferences index that is induced by changes in voting policies. Column 1 presents the first stage. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Columns 4 through 6 focus on environmental and social issues. Column 4 present the first stage regressions. The dependent variable is the $E\&S\ index_{f,p,y}$, the environmental and social performance index of firm f in year y towards provision category p. $VWAPI_{f,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f in year y regarding environmental and social issues. The sample covers 29 of the largest US mutual fund families over the 2007-2016 period. Columns 3 and 6 include year and industry fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm-provision level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table A2.

	Governance Provisions			E&S index (KLD)		
	first stage	2SLS	2SLS	first stage	2SLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWΔAPI	1.47***			0.44***		
	(0.00)			(0.00)		
VWAPI		1.75***	2.48***		79.65	1.34
		(0.00)	(0.00)		(0.52)	(0.13)
Log(firm size)	0.00	0.01***	0.01***	0.00***	0.05	0.13***
	(0.50)	(0.00)	(0.00)	(0.00)	(0.59)	(0.00)
ROA	0.00	0.04	0.00	0.00	0.70	0.06
	(0.55)	(0.22)	(0.90)	(0.46)	(0.33)	(0.32)
Firm book leverage	-0.00	0.00	-0.01	-0.00	0.59	-0.01
	(0.69)	(1.00)	(0.58)	(0.92)	(0.54)	(0.76)
Firm return	0.00	-0.01	0.00	-0.00	0.06	-0.01
	(0.85)	(0.19)	(0.97)	(0.15)	(0.57)	(0.36)
Institutional ownership	-0.01**	0.05**	0.12***	-0.03***	3.43	0.01
	(0.03)	(0.03)	(0.00)	(0.00)	(0.51)	(0.87)
Constant	-0.03	0.20***	0.38**	-0.04***	-0.45	-1.19***
	(0.13)	(0.00)	(0.03)	(0.00)	(0.60)	(0.00)
Observations	65978	65978	65978	142990	142990	142990
Fixed effects		No	Industry and year		No	Industry and year
Partial R^2	0.04			0.017		
Kleibergen-Paap F statistic	185.46			155.632		

Table 8: Adoption channels of ESG preferences

This table reports analyses of the channels through mutual funds convey their ESG preferences to portfolio firms. $VWAPI_{f,p,y}$, the main variables of interest, is the value-weighted announced preferences index for firm f regarding provision p in year y. Odd columns report estimations of ordinary least squares estimates. Even columns report two stage least squares estimations where the explanatory variable of interest, $VWAPI_{f,p,y}$, is the value-weighted announced preferences index for firm f regarding provision p in year y. The instrument, $VW\Delta API_{f,p,y}$, is the change in the value-weighted announced preferences index that is induced by changes in voting policies. In Columns 1 and 2 the dependent variable, $Passing_{f,p,y}$, is an indicator variable taking the value one if a proposal addressing a provision p, submitted at firm f in year y, reached the passing threshold as defined in the company's bylaws and zero otherwise. The analysis is conducted at the proposal level. In Columns 3 and 4, the dependent variable, $Shareholder\ proposal_{f,p,y}$, is an indicator variable taking the value one if a firm f received a proposal on a provision p in year y and zero otherwise. The analysis is conducted at the firm-provision-year level. In Columns 5 and 6, the dependent variable is $\Delta Provisions_{f,p,y} = Provisions_{f,p,y} - Provisions_{f,p,y-1}$, where $Provisions_{f,p,y}$ is an indicator variable taking the value one if firm f exhibits provision p in year y and zero otherwise. The sample is limited to cases where a change in $Provisions_{f,p,y}$ was not preceded by a received a shareholder proposal on provision p in year y, $y-1$, or $y-2$. The analysis is conducted for 7 observable governance provisions (staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes) at the firm-provision-year level. All regressions include industry and year fixed effects. The sample covers 29 of the largest US mutual fund families over the 2006-2017 period. Standard errors are robust to heteroskedasticity and clustered at the firm level. P-values are reported in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table A2.

	Channel 1 Passing		Channel 2 Shareholder proposal		Channel 3 Change in provision	
	LPM	2SLS	LPM	2SLS	OLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWAPI	2.64***	8.12***	0.01***	0.03**	0.14***	0.06**
	(0.00)	(0.00)	(0.00)	(0.03)	(0.00)	(0.01)
Log(firm size)	-0.09***	-0.03	0.00***	0.00***	-0.00***	-0.00***
	(0.00)	(0.28)	(0.00)	(0.00)	(0.00)	(0.00)
ROA	-0.24**	-0.30**	-0.00**	0.00	0.00	0.01
	(0.02)	(0.02)	(0.01)	(0.14)	(0.75)	(0.36)
Firm book leverage	-0.05***	-0.04	0.00	0.00*	-0.00	0.00
	(0.00)	(0.15)	(0.23)	(0.08)	(0.56)	(0.73)
Firm return	-0.03*	-0.08***	0.00	-0.00	0.01**	0.00
	(0.08)	(0.01)	(0.47)	(0.51)	(0.03)	(0.15)
Institutional ownership	0.13**	0.05	-0.00	-0.00	0.01***	0.01
	(0.03)	(0.57)	(0.36)	(0.28)	(0.01)	(0.10)
Constant	1.13***	0.69***	-0.01***	-0.01***	-0.01**	-0.01
	(0.00)	(0.00)	(0.00)	(0.00)	(0.02)	(0.32)
Observations	4447	3669	854712	609719	66367	56469
Fixed effects	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year	Industry & year

Table 9: Cumulative abnormal flows around changes in proxy voting guidelines

This table presents the average cumulative abnormal flows around changes in proxy voting guidelines. To compute CAFs, I follow Cooper et al. (2005) and implement nearest-neighbor propensity score matching. I compute propensity scores for each event date using probit regressions where the dependent variable is an indicator variable taking the value one if a fund changed its guidelines and zero otherwise. The following variables are used for matching: the 1-month lagged log of total net assets, 6-months return to the fund before the guideline change, the average fund flow and standard deviation of returns over the 6 months before the guideline change, the 12b-1 marketing fees before the guideline change, and the log of fund age in months. Fund flows are defined as $(TNA_t - (1+r_t)TNA_{t-1})/TNA_{t-1}$. Panel A encompasses all types of changes, including the adoption of new policies. Panel B focuses on changes, excluding new policies. Three sets of events are considered. "All changes" includes all guideline changes. "Positive changes" includes events where the guideline change is shareholder-friendly. "Negative changes" includes events where the guideline change is not shareholder-friendly. Six time windows are provided, from 12 months before the guideline change to 12 months after the guideline change. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. P-values are reported in parentheses. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table A2.

	N	-12 to 0	-6 to 0	-3 to 0	0 to 3	0 to 6	0 to 12
		(1)	(2)	(3)	(4)	(5)	(6)
Panel A: Cumulative abnormal flows for all changes (incl. new guidelines)							
All changes	1015.00	0.05	0.01	0.00	-0.01	0.01	0.00
		(0.33)	(0.47)	(0.70)	(0.45)	(0.60)	(1.00)
Positive changes	792.00	0.00	-0.00	0.01	-0.00	0.00	-0.05
		(0.98)	(1.00)	(0.37)	(0.75)	(0.94)	(0.27)
Negative changes	175.00	0.10	0.00	-0.01	-0.00	0.04	0.13
		(0.53)	(0.91)	(0.41)	(0.79)	(0.38)	(0.13)
Panel B: Cumulative abnormal flows for changes (excl. new guidelines)							
All changes	723.00	0.06	0.01	0.01	-0.02*	0.02	-0.00
		(0.33)	(0.40)	(0.37)	(0.05)	(0.35)	(0.97)
Positive changes	480.00	0.06	0.02	0.01	-0.02**	-0.02	-0.12**
		(0.23)	(0.38)	(0.25)	(0.03)	(0.37)	(0.04)
Negative changes	210.00	-0.06	-0.03	-0.01	-0.02	0.00	0.02
		(0.63)	(0.40)	(0.35)	(0.18)	(0.93)	(0.81)

Table 10: Robustness test: Adoption of mutual funds' preferences by small portfolio companies

This table replicates the instrumental variable analysis presented in Table 7 but limiting the sample to small firms. Small firms are firms whose total assets are below the sample median. Columns 1 through 3 focus on governance issues. The dependent variable for governance issues is $Governance\ Provisions_{f,p,y}$, an indicator variable taking the value one if a firm f has a provision p in year y and zero otherwise. The provisions considered here are staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. $VWAPI_{f,p,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f regarding governance provision p in year y. The instrument is $VW\Delta API_{f,y}$ is the change in the value-weighted announced preferences index that is induced by changes in voting policies. Column 1 presents the first stage. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Columns 4 through 6 focus on environmental and social issues. Column 4 presents the first stage regressions. The dependent variable is the $E\&S\ index_{f,p,y}$, the environmental and social performance index of firm f in year y towards provision category p. $VWAPI_{f,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f in year y regarding environmental and social issues. The sample covers 29 of the largest US mutual fund families over the 2007-2016 period. Columns 3 and 6 include year and industry fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm-provision level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table A2.

	Governance Provisions			E&S index (KLD)		
	first stage	2SLS	2SLS	first stage	2SLS	2SLS
	(1)	(2)	(3)	(4)	(5)	(6)
VWΔAPI	1.42***			0.58***		
	(0.00)			(0.00)		
VWAPI		1.30***	2.07***		6.96**	0.26
		(0.00)	(0.00)		(0.02)	(0.66)
Log(firm size)	0.00	0.02***	0.02***	0.00	0.06***	0.06***
	(0.71)	(0.00)	(0.01)	(0.40)	(0.00)	(0.00)
ROA	0.00	0.02	0.01	0.00	0.11	-0.03
	(0.59)	(0.52)	(0.87)	(0.50)	(0.14)	(0.59)
Firm book leverage	-0.00	0.00	-0.00	-0.00	0.04	-0.01
	(0.64)	(0.96)	(0.96)	(0.76)	(0.46)	(0.78)
Firm return	0.00	-0.00	-0.00	0.00	-0.02	-0.02
	(0.58)	(0.91)	(0.98)	(0.88)	(0.12)	(0.16)
Institutional ownership	-0.01*	0.01	0.09**	-0.04***	0.36***	0.05
	(0.06)	(0.73)	(0.02)	(0.00)	(0.00)	(0.25)
Constant	-0.03***	0.13**	0.08	-0.00	-0.54***	-0.38***
	(0.01)	(0.02)	(0.54)	(0.74)	(0.00)	(0.00)
Observations	31195	31195	31195	72082	72082	72082
Fixed effects		No	Industry and year		No	Industry and year

A Appendix

Table A1: List of mutual fund families and proposal topics

Table A1a presents the list of mutual fund families included in the collected dataset. Table A1b presents the list of policy topics included in the collected dataset. Column 1 provides the topic of the policy. Column 2 indicates whether the policy is a governance (Gov.) or an environmental and social (E&S) policy. Column 3 indicates whether the policy concerns shareholder proposals (SP), management proposals (MP) or both (MP ; SP). Column 4 reports the number of year-policies for management and shareholder proposals. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period.

(a) List of mutual fund families

AllianceBernstein
American Century Companies
BlackRock
BNY Mellon
Charles Schwab
Columbia Threadneedle Investments
Dodge & Cox
Federated Investors
Fidelity Investments
Franklin Templeton
Geode
Goldman Sachs Asset Management
Harris Associates
Invesco
Janus Henderson Investors
JP Morgan Asset Management
Lazard Asset Management
Loomis, Sayles & Company
Lord, Abbett & Co.
Massachusetts Financial Services Company
Morgan Stanley Investment Management
Nuveen
Principal Global Investors
Putnam Investments
State Street Global Advisors
TIAA-CREF
T. Rowe Price Group
TCW Group
Vanguard Group

Table A1: List of mutual funds families and proposal topics (continued)

(b) List of policy issues

Topic of the policy	Category of the policy	Type of policy	Nb. Obs.
Create/Increase Dual Class Shares (or New Class of Shares with Superior Rights)	Gov.	MP ; SP	253 ; 319
Remove/Decrease Dual Class Shares (or Class of Shares with Superior Rights)	Gov.	MP ; SP	165 ; 143
Authorize the creation of Blank Check Preferred Shares	Gov.	MP ; SP	268 ; 210
Implement Term Limits for Directors	Gov.	MP ; SP	158 ; 139
Implement a Mandatory Retirement Age for Directors	Gov.	MP ; SP	139 ; 123
Implement Minimum Stock Ownership for Directors	Gov.	MP ; SP	178 ; 84
Require the Audit Committee to consist only of independent directors	Gov.	MP ; SP	125 ; 196
Require the Compensation Committee to consist only of independent directors	Gov.	MP ; SP	124 ; 195
Require the Nominating Committee to consist only of independent directors	Gov.	MP ; SP	86 ; 157
Fix the Number of Directors at a Specific Size	Gov.	MP ; SP	141 ; 141
Implement Possibility for Shareholders to Remove Directors Directly	Gov.	MP ; SP	129 ; 116
Limit Director's Liability for breaches of care	Gov.	MP	191
Require more than 1 candidate per board seat	Gov.	SP	87
Establish/Amend Board Nominees Qualifications	Gov.	SP	67
Establish other Board Committees	Gov.	SP	60
General antitakeover policy	Gov.	MP ; SP	199 ; 225
Implement Proxy Access	Gov.	MP ; SP	171 ; 218
Implement Poison Pill	Gov.	MP ; SP	344 ; 247
Remove Poison Pill	Gov.	MP ; SP	183 ; 223
Implement/Increase rights to call Special Meetings	Gov.	MP ; SP	236 ; 242
Remove/Decrease rights to call Special Meetings	Gov.	MP ; SP	209 ; 190
Implement/increase rights to act by Written Consent	Gov.	MP ; SP	191 ; 188
Remove/decrease rights to act by Written Consent	Gov.	MP ; SP	191 ; 174
Declassify/Destagger the board	Gov.	MP ; SP	313 ; 332
Implement classified/staggered board	Gov.	MP ; SP	327 ; 295
Implement Cumulative Voting	Gov.	MP ; SP	285 ; 326
Remove Cumulative Voting	Gov.	MP ; SP	228 ; 254
Implement an Independent Chairman (Separate Chairman/CEO)	Gov.	MP ; SP	230 ; 279
Implement/Increase Supermajority	Gov.	MP ; SP	340 ; 287
Remove/Decrease Supermajority	Gov.	MP ; SP	262 ; 232
Require that directors be elected by a majority of the votes cast	Gov.	MP ; SP	221 ; 253
Implement Confidential Voting	Gov.	MP ; SP	259 ; 293
Remove Confidential Voting	Gov.	MP ; SP	77 ; 85
Require a Majority of Independent Directors	Gov.	MP ; SP	207 ; 140
Prevent Greenmail Payments	Gov.	MP ; SP	209 ; 213
Implement Independent Vote Tabulation	Gov.	MP ; SP	64 ; 141
Implement/Ratify Golden Parachute (Severance Packages)	Gov.	MP ; SP	227 ; 215
Remove Golden Parachute (Severance Packages)	Gov.	MP ; SP	154 ; 140
Establish a CEO Succession Planning	Gov.	SP	53
Reimburse Proxy Solicitation/Proposal Expenses	Gov.	SP	123
Require additional board representation of women/minority	E&S	MP ; SP	57 ; 97
General Position regarding Environment and Social Proposals	E&S	SP	289
Implement Animal Welfare Policies (incl. Ban animal test and slaughtering)	E&S	SP	119
Reduce advertising of Tobacco/Alcohol Products (incl. Towards minors)	E&S	SP	124
Disclose Climate Change/Greenhouse Gas Emissions Reports	E&S	SP	114
Reduce Greenhouse Gas Emissions	E&S	SP	91
Report on firm's Energy Efficiency/Renewable Energies	E&S	SP	119
Report on Employee Equal Opportunities	E&S	SP	122
Prohibit employee discrimination on Gender Identity, Sexual Orientation, and Domestic Partners Benefits	E&S	SP	144
Report on Facility and Workplace Safety	E&S	SP	50
Report on Environmental/Sustainability/Water Impact	E&S	SP	123
Restrict the company from making Charitable Contributions	E&S	SP	115
Implement Data Security, Privacy, and Internet Issues Policies	E&S	SP	50
Implement ESG-Related Compensation	E&S	SP	78
Report on Company or Supplier Labor and Human Rights Policies	E&S	SP	118
Implement Company or Supplier Labor and Human Rights Policies	E&S	SP	130
Report on Operations in High Risk Markets (incl. Terrorism)	E&S	SP	67
Report on the Risks associated with Outsourcing/Offshoring	E&S	SP	59
Report on Weapons and Military Sales (incl. nuclear)	E&S	SP	114
Cease the production of Weapons	E&S	SP	71
Report on Lobbying Activities	E&S	SP	119
Disclose Political Contributions	E&S	SP	164
Prevent company from making Political Contributions	E&S	SP	106
Require a company to affirm Political NonPartisanship	E&S	SP	84
Report on bank lending policies	E&S	SP	56

Table A2: Definitions of Variables

The table contains the definitions and data sources of the key control variables used in the paper. All continuous variables are winsorized at the 1% and 99% levels. Many variables were computed following (Iliev and Lowry, 2014).

Variable	Definition	Source
Firm Variables		
Market Capitalization	Market capitalization (in million dollars), csho x prcc_f.	CRSP-Compustat-Merged
ln(Market Cap.)	Logarithm of the market capitalization, ln(csho x prcc_f).	CRSP-Compustat-Merged
Total Assets	Total Assets are the firm's total assets (in million dollars), at.	CRSP-Compustat-Merged
ROA	ROA is the return on assets, ni/at.	CRSP-Compustat-Merged
(Book) Leverage	Leverage is book leverage, (dltt+dlc)/at.	CRSP-Compustat-Merged
One Year Return	One Year Return is the yearly return in year t, ($\text{prcc\_f}_t/\text{prcc\_f}_{t\text{-}1}$) - 1.	CRSP-Compustat-Merged
Institutional Ownership	Institutional Ownership is the percentage of institutional ownership.	Thomson Reuters Institutional Holdings
Fund Variables		
Fund size	Funds' total net assets (tna_latest). Aggreted at the fund level if there are multiple classes.	CRSP Mutual Funds
Fund age	Funds' age expressed in years.	CRSP Mutual Funds
Expense ratio	Fund's total operating expenses over fund's total net assets (exp_ratio). For funds with multiple classes, the expense ratio is a value-weighted average of the expense ratio of the different classes, where weights are the TNA of each class.	CRSP Mutual Funds
Turnover rate	The minimum of aggregate sales or aggregate purchases of securities, divided by the average 12-months total net assets of the fund (turn_ratio). For funds with multiple classes, the turnover ratio is a value-weighted average of the turnover ratio of the different classes, where weights are the TNA of each class.	CRSP Mutual Funds
Investment as % of fund TNA	Percentage of a fund's total net assets invested in a specific firm. (percent_tna)	CRSP Mutual Funds
Investment as % of firm equity	Number of shares of a firm a fund holds divided by the total number of common shares outstanding (nbr_shares/csho) of the firm.	CRSP-Compustat-Merged, CRSP Mutual Funds
Passive fund	Indicator variable taking the value 1 if a fund has a passive investment strategy according to CRSP (index_fund_flag) and zero otherwise.	CRSP Mutual Funds
Past fund alpha	Past fund alpha in t is the sum of the fund alphas between $t-13$ and $t-1$. Fund alpha in month t is the difference between a fund's actual returns and its expected returns. Expected returns are estimated, for each fund, through a regression of fund returns between month $t-36$ and month $t-1$ on the Fama-French-Carhart factors.	CRSP Mutual Funds
Family size	Total net assets of a fund family.	CRSP Mutual Funds

Table A3: Robustness test: Adoption of mutual funds' preferences by portfolio companies (provision fixed effects).

This table replicates the instrumental variable analysis presented in Table 7 but including provision and provision*year fixed effects. Columns 1 and 2 focus on governance issues. The dependent variable for governance issues is $Governance\ Provisions_{f,p,y}$, an indicator variable taking the value one if a firm f has a provision p in year y and zero otherwise. The provisions considered here are staggered board, dual-class shares, cumulative voting, confidential voting, poison pills, majority voting for director elections, and golden parachutes. $VWAPI_{f,p,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f regarding governance provision p in year y. The instrument is $VW\Delta API_{f,y}$ is the change in the value-weighted announced preferences index that is induced by changes in voting policies. Column 1 presents the first stage regression. The sample covers 29 of the largest US mutual fund families over the 2006-2018 period. Columns 3 and 4 focus on environmental and social issues. Column 1 presents the first stage regression. The dependent variable is the $E\&S\ index_{f,p,y}$, the environmental and social performance index of firm f in year y towards provision category p. $VWAPI_{f,y}$, the explanatory variable of interest, is the value-weighted announced preferences index for firm f in year y regarding environmental and social issues. The sample covers 29 of the largest US mutual fund families over the 2007-2016 period. All models include include industry, year, provision, and provision*year fixed effects. Standard errors are robust to heteroskedasticity and clustered at the firm-provision level. P-values are provided between brackets. One, two, and three asterisks denote statistical significance at the 1%, 5%, 10% level, respectively. Variables are defined in the appendix, Table A2.

	Governance Provisions		E&S index (KLD)	
	first stage	2SLS	first stage	2SLS
	(1)	(2)	(3)	(4)
VWΔAPI	0.57***		0.43***	
	(0.00)		(0.00)	
VWAPI		0.77*		1.41
		(0.07)		(0.11)
Log(firm size)	0.00**	0.01***	0.00***	0.13***
	(0.04)	(0.00)	(0.00)	(0.00)
ROA	0.00	0.01	0.00	0.06
	(0.22)	(0.79)	(0.46)	(0.32)
Firm book leverage	-0.00	-0.01	-0.00	-0.01
	(0.40)	(0.39)	(0.92)	(0.76)
Firm return	0.00	0.00	-0.00	-0.01
	(0.46)	(0.59)	(0.15)	(0.37)
Institutional ownership	-0.01***	0.11***	-0.03***	0.01
	(0.00)	(0.00)	(0.00)	(0.83)
Constant	-0.19***	0.41***	-0.04***	-1.22***
	(0.00)	(0.00)	(0.00)	(0.00)
Observations	65978	65978	142990	142990
Industry FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Provision FE	Yes	Yes	Yes	Yes
Provision*Year FE	Yes	Yes	Yes	Yes