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Study Finds Trends in Votes About 'Say on Pay'

Some Funds Tend to Back Management Over Compensation Policies

Theo Francis | Feb. 12, 2015

Funds run by BlackRock Inc., TIAA-CREF and TCW Group Inc. are among the most likely to side with management in votes over corporate compensation policies, a new study found, shining a light on voting dynamics at a time when "say on pay" votes have become a flash point for activist investors and other critics.

Funds run by BlackRock, TIAA-CREF and TCW Group are among the most likely to side with management in votes over corporate compensation policies, a new study found. *PHOTO: BRENDAN MCDERMID/REUTERS*

The new analysis examined how often mutual-fund companies voted their shares in favor of management compensation policies at 100 companies where pay was determined to be high relative to performance, judged mainly by five-year stock returns.

Large mutual-fund companies varied widely in their voting, from nearly always siding with management to doing so just over half the time, according to the analysis by As You Sow, a shareholder advocacy group that focuses on environmental and social issues.

Funds run by BlackRock, which manages more than $2 trillion in equities, supported management pay practices at the companies covered by the report 95% of the time. Nonprofit TIAA-CREF, which manages $82.3 billion in mutual-fund assets, voted with corporate management about 94% of the time, the report found. TCW Group, with more than $80 billion in mutual fund assets, voted with management 100% of the time.

By contrast, the companies in the analysis received just under 60% support for their pay packages from American Funds, a unit of Capital Group Cos. with $1.1 trillion under management, and funds at Charles Schwab Corp., with $268 billion in assets, the report found.

The median support for management pay packages among fund companies was 80%, said Rosanna Landis Weaver, the report's author and project manager, meaning half voted with management more often than that, and half did so less often.

BlackRock said its votes vary by industry and that it considers a number of factors like strategy and pay package design. TCW is a long-only asset manager, meaning it only invests in companies where it has confidence in their business strategies and management teams, a spokesman said. TIAA said its investment results speak for themselves. Capital Group said it makes a policy of voting against what it considers unsatisfactory pay packages. A spokeswoman for Schwab declined to comment.

Under federal securities rules, most publicly traded companies are required to put their executive pay practices to a vote on a regular basis, typically once a year.

The votes are nonbinding, but they can become a rallying point for discontented shareholders with broader complaints, and companies often feel pressure to change pay practices with even a significant minority voting no.

Only about 2% of companies in the Russell 3000 lost say on pay votes over executive compensation during last year's proxy season, and companies on average won 90% of the votes that were cast, consulting firm Towers Watson said last year.

The As You Sow report was funded in part by Stephen Silberstein, a San Francisco investor who co-founded a library-software company that he sold in 2000. He says he has grown frustrated with soaring CEO pay and wants investment managers—including those managing his own assets—to scrutinize pay packages more closely.