FINANCIAL TIMES

Vanguard fails to exert influence over high pay

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May 6, 2017

If you wanted to draw up a list of the asset management companies with the best public image, Vanguard would probably come near the top.

The Pennsylvania-based fund house has built a powerful reputation as a virtuous investment company that tirelessly pushes against high fees and hidden costs in the industry on behalf of its clients.

Vanguard's US homepage proudly proclaims: "Our long-term strategy? Put clients first."

There is no doubt Vanguard has been hugely influential in driving down fees for investors in its home market, both for its own clients and those at rival companies.

In other areas, however, Vanguard, which is best known for its roster of cheap passive funds, is more reluctant to exert its influence.

For the second year running, the fund house has been criticised for being one of the most lenient investors globally on executive pay.

Vanguard voted in favour of 98 per cent and 96 per cent of pay resolutions in the UK and the US respectively in the 12 months to the end of June, according to figures from Proxy Insight, the data provider.

In the preceding year, Vanguard supported company management on pay on 95 per cent and 99 per cent of occasions in the US and the UK respectively.

Vanguard declined to comment on why it rarely votes against pay proposals, although it has repeatedly said in the past that it prefers to engage with companies on such issues. In other words, to discuss these matters behind closed doors.

Rosanna Landis Weaver, corporate pay expert at **As You Sow**, a pressure group that campaigns for responsible investment, is visibly frustrated by the situation.

“Vanguard is growing and growing. Its size in the market gives it a huge responsibility. I think passive investment and low fees definitely have a place, but passive investment should not mean that voting [by asset managers] is passive as well.”

As You Sow compiles an annual list of what it considers to be the 100 most overpaid chief executive in the US, based on metrics including total shareholder return versus increases in bonus payments and share awards.

According to **As You Sow**’s latest report, released in February, Vanguard voted against nine of the 100 most overpaid chief executives last year, which the campaign group described as a “shockingly low number” and “way below almost every other fund manager’s [record]”.

It might seem unfair to pick on Vanguard over its voting record. Indeed, two other fund houses have an even more generous stance on executive pay: Nuveen (formerly called TIAA) and Northern Trust, the US asset managers, according to the Proxy Insight figures. Nuveen supported 100 per cent of UK pay proposals in the year to the end of June, while Northern Trust supported 99 per cent.

But Vanguard has grown rapidly on the back of its low-cost mantra to become the world’s second-largest fund house. It has more than $4tn of assets under management. It is clearly a force to be reckoned with, and, as **Ms Landis Weaver** points out, with power comes responsibility.

Competitors even nervously discuss the so-called Vanguard effect, in reference to the pressure on fund houses in the US and Europe to cut fees — and therefore profits — in order to prevent Vanguard’s evangelical quest to secure a better deal for investors from luring away their clients.

If Vanguard were more willing to take action against those companies putting forward undeserved payouts for their management teams, at a time when there is political and public outcry about high executive pay, surely the corporate world would sit up and listen.

There is an additional business incentive for Vanguard to take a tougher stance. **Ms Landis Weaver** says she used to invest in one of the company’s funds, but recently sold out due to Vanguard’s voting record.

I strongly suspect other clients — both large institutions and individuals — would also like to see firmer action by the fund house to tackle the widening gap in earnings between company executives and average workers. And what is there to lose? Such action would only improve the company’s public image even further.

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