

How Do Passive Funds Act as Active Owners? Evidence from Mutual Fund Voting Records

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Abstract

The rise of passive institutional investors in the U.S. stock market raises questions about the governance implications of their portfolio firms. While the existing literature documents various governance changes in response to changes in passive ownership, the mechanism through which such changes take place remains unclear. We test whether these governance changes arise from differences in proxy voting behaviors between passive and active mutual funds, even if they have identical CRSP investment style or belong to the same fund family. We find a surprising result that passive funds' voting behaviors often contradict the corporate governance changes they bring to their portfolio firms. Our results suggest a “behind-the-scene” intervention argument: rather than approaching corporate governance through voting, passive funds influence what proxy agenda items get proposed to shareholder meetings in the first place.

In ongoing work, we plan to tease out a confounding story that passive/active funds may self-select into firms with different expected governance changes.

Keywords: Corporate governance, mutual funds, proxy voting.

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Passive institutional investors (index funds) are becoming increasingly prominent in the U.S. stock market. According to Investment Company Institute 2017 fact book, “From 2007 through 2016, index domestic equity mutual funds and ETFs received \$1.4 trillion in net new cash and reinvested dividends, while actively managed domestic equity mutual funds experienced a net outflow of \$1.1 trillion (including reinvested dividends)”.¹ This trend has led to significant changes in the composition of institutional ownership within U.S. public firms, and raises the question of what changes an increasing ownership by passively managed funds would bring about with respect to the governance of these firms.

Several studies have documented an active influence of passive funds on their portfolio firms. Using the annual reassignment of Russell 1000 and 2000 constituents as an instrument for changes in passive mutual fund ownership, Appel, Gormley, and Keim (2016) find that an increase in passive mutual fund ownership causes firms to increase board independence, remove anti-takeover defenses, and adopt equal voting rights for all shareholders. Mullins (2014) shows that an increase in passive ownership leads to higher performance sensitivity of CEO’s pay, higher likelihood of CEO turnover within two years, greater resistance to management proposals at shareholder meetings, lower rate of failure of shareholder proposals, lower capital expenditures, as well as fewer cash diversifying acquisitions. Schmidt and Fahlenbrach (2017), on the other hand, find that an exogenous increase in passive ownership leads to an increase in CEO power and fewer new independent director appointments.² Relatedly, Crane, Michenaud, and Weston (2016) interpret the same index reassignment as an exogenous change in institutional ownership and document more dividend payments resulting from higher institutional ownership. Boone and White (2015) find that higher institutional ownership leads to greater levels of transparency from management.³

Despite all the compelling evidence on *what* changes passive ownership brings to corpo-

¹Reid et al. (2017).

²They also find more value-destroying mergers and acquisitions (M&A) after passive ownership increases.

³While these studies focus mainly on the effect of passive investors on corporate governance issues, some recent studies look into how passive investors affect firm operation decisions and product market competition. See He and Huang (2014), Azar, Schmalz, and Tecu (2015), and Azar, Raina, and Schmalz (2016).

rate governance, we are still left with the question of *how* such changes take place. Survey evidence in McCahery, Sautner, and Starks (2016) shows that institutional investors often use different strategies, including on-the-stage shareholder voting and behind-the-scene intervention, when approaching governance issues of their portfolio firms. Given different investment objectives and available resources, one would expect different strategies adopted by passive and active funds when they approach corporate governance. Investigating these differences could further our understanding on how the rise of passive funds in the U.S. stock market affect the corporate governance of public firms.

This paper analyzes the differences in proxy voting between passive and active mutual funds. We first sift through the voting records (N-PX forms) of all U.S. mutual funds, and find significant differences in voting behaviors between passive and active funds even *within* the same fund family and with similar investment style. For a range of governance measures, including the election of independent directors, elimination of poison pills, right to call special shareholder meetings, declassifying boards, and removal of unequal voting rights (i.e., dual class shares), passive and active funds differ significantly in whether they support or object to the management of their portfolio firms. Our comparison is free of concerns over omitting non-votes or uninstructed shares, as all mutual funds are required to file N-PX forms on matters they are “entitled to vote”.⁴

Since a fund’s passive/active status is cemented by its prospectus drafted at fund creation and does not change for a specific portfolio firm’s future governance item, our approach of directly comparing passive and active funds within the same fund family avoids the endogeneity problem of regressing governance outcomes on the level of passive ownership.⁵ This advantage allows us to draw causal inferences about how a mature fund’s passive/active

⁴See <https://www.sec.gov/reportspubs/investor-publications/investorpubsmfproxyvotinghtm.html>.

⁵This endogeneity problem is well-recognized in the literature. For example, Appel, Gormley, and Keim (2016) motivates the index reassignment approach by pointing out that “Correlations between passive investors and governance choices might not reflect a causal relation since ownership by passive investors might be correlated with factors – such as firms investment opportunities or ownership by active investors – that directly affect managerial decisions.”

status influences its governance choice.⁶

We then highlight possible evidence of behind-the-scenes interventions by passive mutual funds. While the existing literature documents that higher passive ownership typically leads to better corporate governance outcomes, proxy voting records *alone* sometimes suggest no impact or even the opposite. For example, while higher passive ownership can lead to less poison pills, the likelihood of a passive fund voting for the renewal of a poison pill is actually higher than their active counterparts within the same fund family. We hypothesize one possible mechanism: with higher passive ownership, the firm is less likely to propose a renewal of poison pills in the first place. In other words, passive funds exert corporate governance by influencing what agenda items get proposed before shareholder meetings, rather than through voting at the meetings. Correlation results support our hypothesis.

While our main objective is to identify how passive investors exert active governance, our approach may also complement the existing index reassignment literature in three ways. First, we provide external validity. The index reassignment approach by design only covers firms near the Russell 1000/2000 cutoff, thus excluding large cap firms. However, the increase in passive ownership is most salient among those large cap firms, especially S&P 500 firms. By analyzing the voting records of all U.S. mutual funds for all U.S. public firms, we paint a more comprehensive picture. Second, even for firms near the Russell 1000/2000 cutoff, our approach bypasses the debate over whether a firm’s change of Russell 1000/2000 status leads to an ownership substitution between active and passive institutions (Appel, Gormley, and Keim 2016), or between institution and others investors (Crane, Michenaud, and Weston 2016). Finally, our analysis into the different approaches passive and active funds adopt to influence portfolio firm’s governance might help reconcile the contradictory evidences in the index reassignment literature. For example, while Appel, Gormley, and Keim (2016) show that an increase in passive ownership leads to greater board independence, Schmidt and Fahlenbrach (2017) instead find that “the fraction of independent board

⁶To further control for possible endogenous passive/active status choices at fund creation, we restrict our sample to funds with at least three years of history and obtain (untabulated) similar results.

members does not change” and “in firms with more passive investors, independent board turnover decreases so that directors serve longer terms”.⁷ We expect ongoing work to shed light on such contradictions.

As a work-in-progress, there are still many issues that we need to address in future revisions. In ongoing work, we plan to 1) establish causality for the behind-the-scene channel; 2) tease out a confounding factor that passive/active funds may self-select themselves into firms with different expected governance changes solely in their investment choices, while none of them exert active governance.

Related Literature

Our study contributes to three strands of literature.

Passive Institutional Investors and Corporate Governance Our findings are most closely related to the literature on understanding the impact of passive ownership on corporate governance. Because indexation prevents passive funds from divesting poor performing stocks in their portfolios, the lack of an exit option disciplines passive funds to improve the returns of their firm holdings through the “voice” channel. Furthermore, the fact that passive funds hold an inflexible portfolio allow them to be more aggressive in pursuing governance interventions without fear of management being uncooperative in facilitating equity research. On the other hand, passive funds’ low profit margins may restrict their resources available for active governance intervention.⁸ Empirical evidence for these claims are nevertheless mixed, which motivate us to take a microscopic approach and analyze how passive

⁷Schmidt and Fahlenbrach (2017) further argue that “the incidence of a broad basket of governance-related shareholder proposals does not change following changes in the shareholder base, which is consistent with these shareholder proposals not being initiated by the passive, index-tracking institutional shareholders that form the basis of our study”.

⁸However, a low profit margin does not necessarily translate to lack of resources. Large passive funds run by Vanguard or BlackRock could enjoy high profits despite low margins sheerly due to their sizes. Fund families that run both active and passive funds may also share governance resources, as is the case with Vanguard.

institutional investors induce corporate governance changes.⁹

Mutual Fund Proxy Voting Though not our main focus, we contribute to the literature on mutual fund proxy voting. Iliev and Lowry (2015) and Matvos and Ostrovsky (2013) suggest that mutual fund votes can be determined by recommendations of proxy advisory firms (e.g., ISS) or by other mutual funds (e.g., herding or peer effects), respectively. Ashraf, Jayaraman, and Ryan (2012), Davis and Kim (2007), and Ng, Wang, and Zaiats (2009) show that fund votes can be influenced by existing business ties. Bach and Metzger (2016) argue that management may rig the voting process, as demonstrated by a large discontinuous drop in the density of voting results at the 50% threshold. Schwartz-Ziv and Wermers 2018 looks specifically at pay-on-say votes and find that institutional investors who have small stakes of a portfolio firm are more likely to oppose the management.

Interactions within Mutual Fund Families This paper relates to the literature on within-family fund interactions. Kempf and Ruenzi (2008) show that fund managers compete with colleagues in the same company for the best rank within the fund family. Likewise, Gaspar, Massa, and Matos (2006) find that fund management companies have incentives to cross-subsidize the performance of “high value funds” (i.e., high fees or high past performers) at the expense of low value funds. This result is supported by Nanda, Wang, and Zheng (2004), who show that exceptional fund performance leads to greater cash inflow to other funds in its family. All evidence suggests that mutual fund families do not act as coordinated entities, consistent with our findings on the differences in governance strategies between active and passive funds.

The rest of the paper is organized as follows. Section 1 describes our data construction, Section 2 gives an overview on the differences in voting patterns between passive and active mutual funds, Section 3 reports our main findings, and Section 4 concludes.

⁹See Appel, Gormley, and Keim (2016), Mullins (2014), Crane, Michenaud, and Weston (2016), Boone and White (2015), and Schmidt and Fahlenbrach (2017).

1 Data

Our dataset is constructed by merging four databases: 1) SEC N-PX form filings maintained by Institutional Shareholder Services (ISS), 2) Thomson Reuters CDA/Spectrum S12 mutual fund holdings, 3) CRSP Mutual Funds and CRSP-Compustat Merged, and 4) ISS directors data. The N-PX database includes mutual fund votes cast for each agenda item appearing on firm proxy statements for shareholder meetings from 2004 to 2015. The S12 database provides information on the portfolio of mutual funds collected from fund prospectuses and quarterly holding reports including SEC forms N-30D, N-30B-2, N-CSR, N-CSRS, and N-Q filings. While the S12 holdings data includes mutual funds listed on all major U.S. stock exchanges (i.e., NYSE, AMEX, and NASDAQ), CRSP Mutual Fund data only includes mutual funds listed on NASDAQ. This is a caveat to keep in mind since we merge CRSP Mutual Fund data with S12 through the Wharton Financial Institution Center Number (WFICN), which provides links between 98% of the domestic equity funds in CRSP Mutual Fund and Thomson Reuters S12.

The ISS N-PX database is merged with CRSP Mutual Fund data in two stages. In the first stage, we associate each mutual fund’s identification number created by ISS to their tickers (if it has one). This is done by parsing each raw N-PX filing from SEC to get a list of tickers and fund names associated to each N-PX filing through a unique SEC filing number. We map the mutual funds in ISS N-PX database to the tickers and names extracted from SEC N-PX filings by first matching on the SEC filing numbers and then fuzzy string matching on mutual fund names.¹⁰ In the second stage, we link ISS N-PX database with CRSP Mutual Fund data by year and ticker.

To merge ISS N-PX database with ISS directors data, we first use a natural language processing software to tag and extract human names from agenda item descriptions related to director elections in N-PX.¹¹ We then link these two databases by matching on firm

¹⁰We thank Peter Iliev for suggesting this procedure.

¹¹See <https://stanfordnlp.github.io/CoreNLP/>.

CUSIP and year and fuzzy string matching on director name.

We identify passive mutual funds using the same method in Appel, Gormley, and Keim (2016). We categorize funds as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. In addition, we augment our classification method by incorporating the passive mutual fund identifying variable provided in CRSP.

2 Do Passive and Active Funds Vote Differently?

In this section, we first estimate panel regressions to assess voting behavior differences between passive and active mutual funds within the same fund families. The dependent variables are dummies for whether a fund votes for governance related agenda items studied in the literature. These agenda items include retaining shareholder rights plans (poison pills), rights to call special shareholder meeting, declassifying boards, removal of a stock class (Table 4), and director elections (Table 5). Our main independent variable of interest is a dummy variable that indicates whether a fund is passive or active. We control for management and ISS recommendations as well as their interactions, and fund age. We also include fund family and firm fixed effects interacted with meeting year as well as CRSP fund style fixed effects. Standard errors are clustered at the firm and fund levels.

Note that our specification does not control for contemporaneous variables such as ownership share, turnover and expense ratios, fund flow relative to total net assets, and fund size. This specification avoids a “bad control” problem (see e.g. Angrist and Pischke (2009) Section 3.2.3), and allows us to draw causal inference. The interpretation of the coefficient for our passive/active dummy is worth noting: we are interested in how would an active fund change its voting behavior, if it hypothetically switches to its passive counterpart within the

same fund family and with the same investment style. We should consider both direct effect of passive/active status on voting behaviors, as well as indirect effects caused by changes in the fund’s ownership share, turnover ratio, etc. induced by the passive/active status switch. This is what our specification is trying to capture.

Our findings show that passive mutual funds are becoming more active in proxy voting in recent years. Using a sample from 2006 to 2010, Iliev and Lowry (2015) explore the influence of ISS on the voting behavior of active funds through probit models. For compensation and governance related proposals, they find a 99 percent probability of passive funds voting with management when ISS recommends to do so and a 5 percent probability of voting with management when ISS recommends otherwise. On the other hand, whether or not active funds vote with management is essentially unrelated to ISS recommendations. Morgan et al. (2011) document that this divergence in voting behavior persists even within fund family and across board, compensation, governance, environmental and social issues related proposals. They find that funds within the same family vote in the same way only 90% of the time (with a standard deviation of 16.1%). By including more recent data, we find the incidences of “active” voting increase significantly for passive mutual funds.

Table 4 and 5 renders some interesting facts. By looking at voting records alone, we find that increased passive ownership does not necessarily appear to lead to better governance (at least on the surface). For example, while the literature has established that higher passive ownership leads to proportionately more independent directors on the board, from the voting records, the likelihood of a passive fund casting a vote for an independent director is not really higher than that of its active peers. This evidence suggests possible behind-the-scenes interventions from passive funds: passive funds influence which items get to be voted on before the shareholder voting takes place. We investigate this hypothesis in Section 3 (still ongoing work), along with detailed discussions of the voting results from Table 4 and 5.

3 Explicit voting vs. behind the scenes intervention

In this section, we conduct detailed analysis into several agenda items extensively studied in the existing literature, and associate the composition of shareholder meeting agenda items with the level of ownership by passive institutional investors. These findings reconcile the occasional discrepancies between passive fund’s voting behaviors and the corporate governance outcomes they bring to portfolio firms. However, unlike exogenous passive/active status we use in the previous section, the level of passive ownership on the right hand side and the composition of agenda items may be simultaneously determined by firm-specific confounding factors (and because the analysis is at firm-year level, we cannot include firm-year fixed effect to absorb them, as we did in the previous section). Hence we do not claim causality in this section. We hypothesize that passive funds either actively (compared to active peers) influence what agenda items get put in the shareholder meeting, or invest in firms with different expected shareholder meeting agenda items.¹² We plan to distinguish these two, and establish causality in ongoing work.

3.1 Approving, Amending, or Renewing the Poison Pill

While the existing literature (Appel, Gormley, and Keim (2016)) argue convincingly that an increase in passive ownership leads to “removals” of poison pills, what actually happens during shareholder meetings is much more complex. Proxy statements rarely contain proposals that explicitly removes a shareholder rights plan (i.e., poison pill). Indeed, out of our sample of about 65 million agenda items, only 356 that are exclusively sponsored by shareholders specifically ask for the elimination or restriction of a poison pill.

A more common observation is that firms allow their poison pills to automatically expire.¹³ Most companies follow the advice (e.g., general guidelines set by ISS) of not adopting

¹²Li and Schwartz-Ziv (2018) analyzes the relationship between fund voting and trading behaviors.

¹³See https://www.sharkrepellent.net/pub/rs_20070920.html.

or renewing a poison pill unless a raider or activist attempts a takeover. In our sample, there are about 60,208 cases of approving, amending, or renewing poison pills.

As we have seen in Table 4, passive mutual funds are actually more likely to vote in favor of agenda items that call for the approval, amendment, or renewal of a shareholder rights plan, regardless of whether ISS agrees or disagrees with management. On average, passive mutual funds are 5.3 percentage points more likely than active mutual funds to vote to retain a poison pill after controlling for fund portfolio characteristics.

[Insert Table 6]

To see whether passive mutual funds ownership is associated with the appearance of agenda items that approve/amend/renew a poison pill on firm proxy statements, we regress an indicator variable for whether such agenda items are up for vote at firm annual shareholder meetings on aggregate measures of firm ownership by passive mutual funds. As documented in Table 6, we find that an increase of 100 percentage points in passive ownership relative to all mutual funds is associated with a significant .1 percentage points decrease in probability of observing an agenda item that retains a poison bill. The presence of passive funds is associated with a lower chance of management putting a poison pill renewal proposal up for a vote.

3.2 The Right to Call Special Meetings

Table 4 has also reported that passive mutual funds have a strong preference for the right to call special meetings at the voting stage. On average, passive mutual funds are 8.7 percentage points more likely than active mutual funds to vote for the right to call special meetings after controlling for fund characteristics. For the rights to call special meetings, passive funds appear to be more active in the voting stage.

[Insert Table 7]

Table 7 examines the relationship between passive mutual fund ownership and the probability of seeing agenda items that propose to call special meetings. While there is no significant association between passive ownership relative to *all mutual funds* and the probability of observing an agenda item that propose to call special meetings, when the passive mutual fund ownership share of *total shares outstanding* increases 100 percentage points, the likelihood of observing such an agenda item on the proxy statement decreases by 10.3%.

3.3 Declassifying Boards

Staggered boards can delay not only the turnover of directors but also the removal of directors in the event of hostile takeovers. Table 4 reveals passive mutual funds are less likely to support proposals to declassify boards at the voting stage. On average, passive mutual funds are 0.4 percentage points less likely than active mutual funds to vote for declassifying boards.

On the other hand, we find some evidence that more passive mutual fund ownership is associated with a higher likelihood of proposals appearing to declassify boards. As documented in Table 8, all else equal, increasing passive ownership share of *total shares outstanding* by 100 percentage points is associated with an increase in probability of encountering a proposal to declassify boards by 10.5 percentage points (significant at the 5 percent level). This result implies that passive mutual funds may influence corporate governance through changing the composition of the proposals voted on at each shareholder meeting.

[Insert Table 8]

3.4 Eliminating Multi-Class Share Structure

Table 4 shows that passive mutual funds essentially vote the same way as active mutual funds within the same fund family on proposals related to eliminating multi-class shares. Any effects passive funds have compared to active counterparts on eliminating multi-class

shares must be due to other channels. We hence investigate whether passive mutual funds are able to add proposals that eliminate multi-class share structure on proxy statements. As shown by Table 9, passive mutual fund ownership, as measured by the ownership percentage of *all mutual funds* or *total shares outstanding*, is not associated with the probability that a proposal to eliminate multi-share class structure will be voted on by shareholders. However, when passive ownership, measured by the count percentage of passive funds within all mutual funds increases 100 percentage points, the likelihood of observing such an agenda item on the proxy statement decreases by 0.3%.

[Insert Table 9]

3.5 Director Elections

By matching ISS N-PX filings data with ISS director data, we are able to identify the votes made by mutual funds for each director candidate. In Table 5, we regress the vote cast by mutual funds for each nominated director (i.e., dependent variable is equal to 1 if the vote is cast in support of a candidate) on a passive mutual fund dummy variable.¹⁴ We split the director elections data into two separate subsamples: proposals to elect independent and non-independent directors.

After controlling for ISS and management recommendations, we do not find significant differences in the voting patterns between active and passive mutual funds in both independent and non-independent director elections (Table 5).

[Insert Table 10]

Table 10 then shows the results of regressing the candidate slate percentage of independent directors on passive mutual fund ownership along with controls. We find that higher passive mutual fund ownership measured as the fraction of all mutual fund holdings, total

¹⁴In untabulated results We also include fund and director characteristics as controls although we find almost identical results.

share outstanding, as well as fund count are all significantly associated with a higher percentage of independent directors being nominated. For example, increasing passive mutual fund ownership of total shares outstanding by 100 percentage points is associated with an increase in the proportion of nominated independent directors by 2.4 percentage points. Passive mutual funds may exert their influence on board issues through changing the composition of director candidates to be voted on by shareholders.

3.6 Summary

Our analysis so far shows that both “on-the-stage” voting and “behind-the-scene” intervention/difference in portfolio choices may play roles in how passive funds exert active corporate governance. For different agenda items, passive and active funds seem to have different preferences for these methods. Table 1 summarizes such preference differences.

Table 1: **Who is more pro-governance in voting?
Passive versus Active Funds**

	Voting channel	Non-voting channel
Approval, amending, or renewing the poison pill	Active	Passive
Right to call special meetings	Passive	Active
Declassifying boards	Active	Passive
Eliminating multi-class structure	No Difference	No Difference
Independent director elections	No Difference	Passive

For most of the agenda items studied in the literature, passive funds are more likely to be pro-governance through non-voting channels. We conjecture that passive funds engage in behind-the-scene interventions, and look for ways to establish causality in ongoing work.¹⁵

¹⁵We could use the Russell 1000/2000 cutoff IV as done in the literature. However we prefer not to because of limits on external validity. Indeed, when we apply both the Schmidt and Fahlenbrach 2017 and Appel, Gormley, and Keim 2016 IV we find no significant results. (untabulated).

4 Conclusion

In this paper we first compare the voting behavior between passive and active mutual funds in the U.S. While previous studies document more independent boards and removal of takeover defenses following increases in passive ownership, we find no evidence that passive mutual funds are more likely to vote in favor of independent directors or declassifying staggered boards than active funds. However, we find strong evidence that associates more passive ownership with increases in the likelihood of such proposals being accepted for vote on at shareholder meetings. These findings support the argument that passive mutual funds use a mixture of strategies, and possibly behind-the-scene interventions to influence corporate governance. Our approach bypasses several limitations that the existing literature faces, and provides a more in-depth analysis on the nuances of how passive mutual funds affect corporate governance differently than their active counterparts.

In ongoing work we try to establish causality in the behind-the-scene channel and tease out a fund self-selection story. We are also interested in understanding why passive funds behave differently from their active counterparts across different channels. Does our finding relate to the coordination and competitions between active and passive mutual funds within the same fund family? If so, how? We look forward to future research that helps address these questions.

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Tables

A Summary Statistics

Table 2: Descriptive Statistics of Governance Voting

	Poison Pill	Special Meeting	Staggered Boards	Equal Vote
Mgmt. recommends voting FOR	67.76	29.19	59.81	100.00
ISS recommends voting FOR	31.40	97.21	97.48	79.12
ISS recommends voting with Mgmt.	21.33	28.17	58.87	79.12
Fund votes with Mgmt.	36.38	54.50	62.78	93.03
Fund votes with ISS	38.10	71.75	93.76	81.25
Shareholder proposal	32.25	71.26	40.25	0.00
Observations	88943	193088	302225	9023

The table describes the voting patterns of funds and the recommendations of management and ISS in percentage terms across the four different types of proposals.

Table 3: Descriptive Statistics of Director Voting

	Independent Directors	Contested Independent Directors	Non-Independent Directors	Contested Non-Independent Directors
Mgmt. recommends voting FOR	99.98	99.94	99.98	100.00
ISS recommends voting FOR	95.41	83.09	90.93	73.65
ISS recommends voting with Mgmt.	95.41	83.16	90.94	73.65
Fund votes with Mgmt.	95.22	86.90	92.95	83.60
Fund votes with ISS	94.69	87.76	92.33	83.72
Shareholder proposal	0.10	1.62	0.06	0.56
Observations	23793613	384350	5602210	99759

The table describes the voting patterns of funds and the recommendations of management and ISS in percentage terms. Contested agenda items are those that received (lacked) at most 5 percent above (below) the vote passing threshold.

B Passive vs. Active Voting within Fund Family

Table 4: Passive Funds Vote Differently on Specific Governance Issues within Fund Family: 2003–2015

	<i>Dependent variable:</i>			
	Voting FOR a Governance Policy = 1			
	FOR Renewing Poison Pill	FOR Calling Special Meeting	FOR Declassifying Boards	FOR Removing a Stock Class
Passive	0.053*** (0.011)	0.087*** (0.023)	-0.004** (0.002)	0.002 (0.006)
Mgmt Votes FOR	0.350* (0.184)	0.025*** (0.009)	-0.169 (0.131)	Absorbed
ISS Votes FOR	0.384** (0.150)	-0.207*** (0.042)	-0.521*** (0.050)	0.353*** (0.024)
Mgmt Votes FOR × ISS Votes FOR	-0.391* (0.229)	0.452*** (0.048)	0.102 (0.137)	Absorbed
ln(Fund Age)	0.000 (0.000)	-0.001*** (0.000)	0.002 (0.002)	-0.002 (0.003)
CRSP Fund Style FE	Yes	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes
Observations	13125	70787	98144	2345
Adjusted R ²	0.532	0.599	0.418	0.667

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm and fund levels. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Retaining a shareholder rights plan includes adopting, amending, or renewing a poison pill.

Table 5: Passive Funds Vote Differently on Director Elections within Fund Family: 2003–2015

	<i>Dependent variable:</i>			
	Fund Votes for a Director = 1			
	Independent		Non-Independent	
	Full Sample	Contested	Full Sample	Contested
	(1)	(2)	(3)	(4)
Passive	0.003 (0.002)	−0.004 (0.008)	0.002 (0.005)	−0.021 (0.015)
Mgmt Votes FOR	0.188 (0.118)	Absorbed	0.213* (0.127)	Absorbed
ISS Votes FOR	0.152 (0.119)	0.281*** (0.095)	0.167 (0.135)	0.308* (0.180)
Mgmt Votes FOR × ISS Votes FOR	0.255** (0.118)	Absorbed	0.297** (0.136)	Absorbed
ln(Fund Age)	0.000 (0.001)	0.005* (0.003)	0.002** (0.001)	0.013*** (0.004)
CRSP Fund Style FE	Yes	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes
Observations	8432527	119935	1998981	31077
Adjusted R ²	0.287	0.433	0.375	0.47

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm and fund levels. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Contested agenda items are those that received (lacked) at most 5 percent above (below) the vote passing threshold.

C Passive Ownership and Behind-the-Scenes

Table 6: Association of Passive Ownership with the Probability of Voting on a Proposal to Retain a Shareholder Rights Plan

	<i>Dependent variable:</i>			
	Poison Pill Proposal Appearing on Proxy Statement = 1			
	(1)	(2)	(3)	(4)
Passive Ownership % of Mutual Funds	0.000 (0.000)			0.000 (0.000)
Passive Ownership % of Total Shares Out.		0.000 (0.000)		0.000 (0.000)
Passive % of Mutual Funds			0.000 (0.000)	0.000 (0.000)
% Mgmt Votes FOR	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)	-0.001 (0.001)
% ISS Votes FOR	0.002 (0.001)	0.002 (0.001)	0.002 (0.001)	0.002 (0.001)
% Mgmt & ISS Agree	-0.002* (0.001)	-0.002* (0.001)	-0.002* (0.001)	-0.002* (0.001)
log(market Cap.)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
log(No. Agenda Items)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	30361	30361	30361	30342
Adjusted R ²	-0.008	-0.008	-0.008	-0.008

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm level. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Retaining a shareholder rights plan includes adopting, amending, or renewing a poison pill. Average management and ISS disagreement variable, which ranges between 0 and 1, is defined as the average absolute difference between how management and ISS votes.

Table 7: Association of Passive Ownership with the Probability of Voting on a Special Meeting Proposal

	<i>Dependent variable:</i>			
	Special Meeting Proposal Appearing on Proxy Statement = 1			
	(1)	(2)	(3)	(4)
Passive Ownership % of Mutual Funds	-0.002*** (0.001)			-0.004*** (0.001)
Passive Ownership % of Total Shares Out.		0.000 (0.000)		0.000 (0.000)
Passive % of Mutual Funds			0.003*** (0.001)	0.007*** (0.001)
% Mgmt Votes FOR	-0.025** (0.010)	-0.025** (0.010)	-0.025** (0.010)	-0.025** (0.010)
% ISS Votes FOR	0.068*** (0.013)	0.068*** (0.013)	0.068*** (0.013)	0.068*** (0.013)
% Mgmt & ISS Agree	-0.068*** (0.013)	-0.068*** (0.013)	-0.068*** (0.013)	-0.068*** (0.013)
log(market Cap.)	0.001 (0.001)	0.001 (0.001)	0.002 (0.001)	0.002* (0.001)
log(No. Agenda Items)	0.020*** (0.003)	0.020*** (0.003)	0.020*** (0.003)	0.020*** (0.003)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	30361	30342	30361	30342
Adjusted R ²	0.119	0.119	0.119	0.119

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm level. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Average management and ISS disagreement variable, which ranges between 0 and 1, is defined as the average absolute difference between how management and ISS votes.

Table 8: Association of Passive Ownership with the Probability of Voting on an a Proposal to Declassify Boards

	<i>Dependent variable:</i>			
	Declassify Boards Proposal Appearing on Proxy Statement = 1			
	(1)	(2)	(3)	(4)
Passive Ownership % of Mutual Funds	0.000 (0.001)			-0.001 (0.002)
Passive Ownership % of Total Shares Out.		0.000* (0.000)		0.000* (0.000)
Passive % of Mutual Funds			0.003 (0.002)	0.004 (0.003)
% Mgmt Votes FOR	-0.210*** (0.019)	-0.210*** (0.019)	-0.210*** (0.019)	-0.210*** (0.019)
% ISS Votes FOR	0.212*** (0.017)	0.212*** (0.017)	0.212*** (0.017)	0.212*** (0.017)
% Mgmt & ISS Agree	-0.178*** (0.017)	-0.179*** (0.017)	-0.178*** (0.017)	-0.179*** (0.017)
log(market Cap.)	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)	-0.001 (0.002)
log(No. Agenda Items)	0.097*** (0.005)	0.097*** (0.005)	0.097*** (0.005)	0.097*** (0.005)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	30361	30342	30361	30342
Adjusted R ²	0.139	0.139	0.139	0.139

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm level. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Average management and ISS disagreement variable, which ranges between 0 and 1, is defined as the average absolute difference between how management and ISS votes.

Table 9: Association of Passive Ownership with the Probability of Voting to Eliminate a Class of Stock

	<i>Dependent variable:</i>			
	Equal Vote Proposal Appearing on Proxy Statement = 1			
	(1)	(2)	(3)	(4)
Passive Ownership % of Mutual Funds	0.000 (0.000)			0.001* (0.000)
Passive Ownership % of Total Shares Out.		0.000 (0.000)		0.000 (0.000)
Passive % of Mutual Funds			-0.001 (0.001)	-0.002** (0.001)
% Mgmt Votes FOR	0.006*** (0.002)	0.006*** (0.002)	0.006*** (0.002)	0.006*** (0.002)
% ISS Votes FOR	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)	0.000 (0.001)
% Mgmt & ISS Agree	-0.003 (0.002)	-0.003 (0.002)	-0.003 (0.002)	-0.003 (0.002)
log(market Cap.)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
log(No. Agenda Items)	0.006*** (0.002)	0.006*** (0.002)	0.006*** (0.002)	0.006*** (0.002)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	30361	30342	30361	30342
Adjusted R ²	0.052	0.052	0.052	0.194

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm level. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Average management and ISS disagreement variable, which ranges between 0 and 1, is defined as the average absolute difference between how management and ISS votes.

Table 10: Association of Passive Ownership with the Slate of Nominated Independent Directors

	<i>Dependent variable:</i>			
	Slate % of Independent Directors			
	(1)	(2)	(3)	(4)
Passive Ownership % of Mutual Funds	0.000* (0.000)			-0.000 (0.000)
Passive Ownership % of Total Shares Out.		0.028*** (0.008)		0.024*** (0.008)
Passive % of Mutual Funds			0.075** (0.035)	0.066* (0.036)
% Mgmt Votes FOR	0.186** (0.089)	0.198** (0.086)	0.187** (0.089)	0.201** (0.085)
% ISS Votes FOR	0.178** (0.077)	0.170** (0.072)	0.172** (0.078)	0.168** (0.071)
% Mgmt & ISS Agree	-0.082 (0.076)	-0.075 (0.071)	-0.076 (0.077)	-0.072 (0.070)
log(Market Cap.)	0.010* (0.005)	0.012** (0.006)	0.014** (0.006)	0.015** (0.006)
Number of Nominations	0.000 (0.000)	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
Firm FE	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes
Observations	14,651	14,651	14,651	14,651
Adjusted R ²	0.231	0.231	0.231	0.232

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm level. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Average management and ISS disagreement variable, which ranges between 0 and 1, is defined as the average absolute difference between how management and ISS votes.

Online Appendix

D Other Summary Statistics

Table 11: Descriptive Statistics

	Shareholder Rights	Compensation	Board Issues	Social Issues
Mgmt. recommends voting FOR	78.05	91.33	97.29	9.91
ISS recommends voting FOR	85.98	86.67	92.63	45.63
ISS recommends voting with mgmt.	72.85	81.31	91.12	54.86
Fund votes with mgmt.	73.07	83.00	91.03	83.32
Fund votes with ISS	87.59	86.25	92.91	68.94
Shareholder proposal	23.18	7.52	2.51	90.34
Observations	1,028,389	8,920,525	53,662,112	1,329,096

The table describes the voting patterns of funds and the recommendations of management and ISS in percentage terms across the four different types of proposals: shareholder rights, compensation, board issues, and social issues. The full sample across all four agenda categories consists of 64,940,122 votes by 18,493 mutual funds, across 656 different fund families in the 2003–2015 period.

Table 12: Descriptive Statistics of Fund Proxy Votes in Fund Families **without** Passive (Index) Funds

	N	Mean	St. Dev.	25%-ile	50%-ile	75%-ile
Fund Votes FOR	5,734,729	0.872	0.334	1.000	1.000	1.000
% of TNA	1,769,315	0.012	0.013	0.003	0.008	0.016
% of Shares Outstanding	2,046,785	0.002	0.008	0.000	0.000	0.001
Turnover Ratio	3,369,847	0.517	5.522	0.310	0.580	1.000
Expense Ratio	3,369,847	0.012	0.217	0.011	0.013	0.016
Net Flow	3,412,008	-0.068	0.232	-0.183	-0.066	0.030
Fund Age	3,413,929	13.177	10.498	5	11	18
log(TNA)	3,384,104	5.544	1.968	4.113	5.421	6.964

This table shows statistics of votes cast by funds that are in a fund family without any passive mutual funds. Around 37 percent of our sample mutual funds are categorized as passive funds. On average, passive mutual funds make up 12 percent of the fund family (standard deviation of 0.26).

Table 13: Descriptive Statistics of Fund Proxy Votes in Fund Families **with** Passive (Index) Funds

	N	Mean	St. Dev.	25%-ile	50%-ile	75%-ile
Fund Votes FOR	58,590,504	0.879	0.326	1.000	1.000	1.000
% of TNA	16,569,128	0.006	0.011	0.000	0.002	0.007
% of Shares Outstanding	19,569,794	0.002	0.006	0.000	0.000	0.001
Turnover Ratio	31,020,875	-0.004	8.333	0.120	0.350	0.800
Expense Ratio	31,020,875	0.009	1.277	0.003	0.007	0.013
Net Flow	31,989,820	-0.085	0.269	-0.187	-0.095	0.016
Fund Age	32,021,672	12.007	9.753	5	10	16
log(TNA)	31,706,330	6.333	2.109	4.945	6.329	7.690

This table shows statistics of votes cast by funds that are in a fund family with at least one passive mutual fund. Around 37 percent of our sample mutual funds are categorized as passive funds. On average, passive mutual funds make up 12 percent of the fund family (standard deviation of 0.26).

E Passive vs. Active Voting (other specifications)

Attached here are alternative regression specifications that have endogenous variables on the right hand side or that include “bad controls”. While these specifications do not have causal interpretations, they are nevertheless useful for illustrating informative correlations.

Table 14: Passive Funds Vote Differently on Specific Governance Issues within Fund Family: 2003–2009 (Passive Shares)

	<i>Dependent variable:</i>			
	Voting FOR a Governance Policy = 1			
	FOR Renewing Poison Pill	FOR Calling Special Meeting	FOR Declassifying Boards	FOR Removing a Stock Class
Passive	0.080** (0.032)	0.088**	−0.015* (0.009)	0.020*** (0.003)
Mgmt Votes FOR	Absorbed	Absorbed	−0.240** (0.122)	Absorbed
ISS Votes FOR	0.488*** (0.048)	Absorbed	−0.495*** (0.050)	Absorbed
Mgmt Votes FOR × ISS Votes FOR	Absorbed	Absorbed	0.157 (0.127)	Absorbed
ln(Fund Age)	0.001 (0.001)	0.000 (0.000)	0.004 (0.003)	−0.008 (0.011)
CRSP Fund Style FE	Yes	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes
Observations	4963	13321	26583	691
Adjusted R ²	0.553	0.673	0.475	0.391

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm and fund levels. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Retaining a shareholder rights plan includes adopting, amending, or renewing a poison pill. “Passive Shares” is defined as 1 minus “Active Shares”, which is defined by Cremers and Petajisto (2009).

Table 15: Passive Funds Vote Differently on Specific Governance Issues within Fund Family: 2003–2015 (Contested Agenda Items Only)

	<i>Dependent variable:</i>		
	Voting FOR a Governance Policy = 1		
	FOR Renewing Poison Pill	FOR Calling Special Meeting	FOR Declassifying Boards
Passive	0.095** (0.034)	0.022* (0.012)	−0.008** (0.003)
Mgmt Votes FOR	Absorbed	Absorbed	Absorbed
ISS Votes FOR	Absorbed	Absorbed	Absorbed
Mgmt Votes FOR × ISS Votes FOR	Absorbed	Absorbed	0.607*** (0.222)
ln(Fund Age)	0.000 (0.001)	0.000 (0.000)	−0.001 (0.003)
CRSP Fund Style FE	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes
Observations	2269	5432	19759
Adjusted R ²	0.582	0.74	0.49

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm and fund levels. Mutual funds are categorized as passive funds if their names contain at least one of the following strings: Index, Idx, Indx, Ind_ (where _ indicates a space), Russell, S & P, S and P, S&P, SandP, SP, DOW, Dow, DJ, MSCI, Bloomberg, KBW, NASDAQ, NYSE, STOXX, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, and 5000. We also use the classification variable provided by CRSP to identify passive mutual funds. Retaining a shareholder rights plan includes adopting, amending, or renewing a poison pill. Contested agenda items are those that received (lacked) at most 5 percent above (below) the vote passing threshold. There are no contested agenda items related to removing a stock class.

Table 16: Passive Funds Vote Differently on Director Elections within Fund Family: 2003–2009 (Passive Shares)

	<i>Dependent variable:</i>			
	Fund Votes for a Director = 1			
	Independent		Non-Independent	
	Full Sample (1)	Contested (2)	Full Sample (3)	Contested (4)
Passive	0.008** (0.003)	−0.066*** (0.022)	0.022*** (0.005)	−0.058** (0.023)
Mgmt Votes FOR	Absorbed	Absorbed	Absorbed	Absorbed
ISS Votes FOR	0.411*** (0.020)	0.347*** (0.082)	0.481*** (0.021)	0.572*** (0.063)
Mgmt Votes FOR × ISS Votes FOR	Absorbed	Absorbed	Absorbed	Absorbed
ln(Fund Age)	−0.001 (0.001)	−0.004 (0.005)	0.000 (0.001)	0.004 (0.006)
CRSP Fund Style FE	Yes	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes
Observations	1804898	19650	494115	5959
Adjusted R ²	0.299	0.52	0.395	0.579

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm and fund levels. “Passive Shares” is defined as 1 minus “Active Shares”, which is defined by Cremers and Petajisto (2009). We also use the classification variable provided by CRSP to identify passive mutual funds. Contested agenda items are those that received (lacked) at most 5 percent above (below) the vote passing threshold.

Table 17: Passive Funds Vote Differently on Director Elections within Fund Family: 2003–2009 (Passive Shares, Non-Indexers)

	<i>Dependent variable:</i>			
	Fund Votes for a Director = 1			
	Independent		Non-Independent	
	Full Sample (1)	Contested (2)	Full Sample (3)	Contested (4)
Passive	0.006 (0.007)	−0.046** (0.023)	0.011 (0.007)	0.007 (0.035)
Mgmt Votes FOR	Absorbed	Absorbed	Absorbed	Absorbed
ISS Votes FOR	0.396*** (0.018)	0.393*** (0.074)	0.472*** (0.019)	0.577*** (0.067)
Mgmt Votes FOR × ISS Votes FOR	Absorbed	Absorbed	Absorbed	Absorbed
ln(Fund Age)	0.000 (0.001)	−0.003 (0.006)	0.000 (0.001)	0.002 (0.006)
CRSP Fund Style FE	Yes	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes
Observations	1181107	11786	318574	3350
Adjusted R ²	0.296	0.532	0.383	0.578

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm and fund levels. “Passive Shares” is defined as 1 minus “Active Shares”, which is defined by Cremers and Petajisto (2009). We also use the classification variable provided by CRSP to identify passive mutual funds. Contested agenda items are those that received (lacked) at most 5 percent above (below) the vote passing threshold.

Table 18: Passive Funds Vote Differently on Director Elections within Fund Family: 2003–2009 (Passive Shares, Indexers Only)

	<i>Dependent variable:</i>			
	Fund Votes for a Director = 1			
	Independent		Non-Independent	
	Full Sample (1)	Contested (2)	Full Sample (3)	Contested (4)
Passive	−0.004 (0.008)	−0.189*** (0.067)	0.020 (0.012)	−0.270** (0.106)
Mgmt Votes FOR	Absorbed	Absorbed	Absorbed	Absorbed
ISS Votes FOR	0.441*** (0.048)	0.291*** (0.109)	0.497*** (0.044)	0.564*** (0.064)
Mgmt Votes FOR × ISS Votes FOR	Absorbed	Absorbed	Absorbed	Absorbed
ln(Fund Age)	−0.007** (0.003)	−0.004 (0.016)	−0.001 (0.005)	0.013 (0.015)
CRSP Fund Style FE	Yes	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes
Observations	623788	7859	175529	2590
Adjusted R ²	0.346	0.555	0.452	0.64

Significance levels 10%, 5%, and 1% are denoted by *, **, ***, respectively. Standard errors in parentheses are clustered at the firm and fund levels. “Passive Shares” is defined as 1 minus “Active Shares”, which is defined by Cremers and Petajisto (2009). We also use the classification variable provided by CRSP to identify passive mutual funds. Contested agenda items are those that received (lacked) at most 5 percent above (below) the vote passing threshold.

Table 19: Passive Funds Vote Differently on Specific Governance Issues within Fund Family: 2003–2015 (including “bad controls”)

	<i>Dependent variable:</i>			
	FOR Renewing Poison Pill	Voting FOR a Governance Policy = 1 FOR Calling Special Meeting	FOR Declassifying Boards	FOR Removing a Stock Class
Passive	0.045*** (0.012)	0.094*** (0.026)	-0.003 (0.002)	0.007 (0.012)
% of TNA	-0.146 (0.585)	-0.512** (0.220)	0.485*** (0.145)	0.220 (0.667)
% of Shares Outstanding	-2.531** (0.794)	1.721* (0.902)	-0.092 (0.178)	-0.598 (1.276)
Mgmt Votes FOR	0.346* (0.193)	0.017 (0.017)	-0.167 (0.135)	Absorbed
ISS Votes FOR	0.365** (0.151)	-0.212*** (0.044)	-0.520*** (0.050)	Absorbed
Mgmt Votes FOR × ISS Votes FOR	-0.378 (0.243)	0.457*** (0.052)	0.104 (0.141)	0.363*** (0.026)
Turnover Ratio	-0.001 (0.000)	0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
Expense Ratio	-0.010*** (0.003)	-0.000 (0.001)	0.000 (0.000)	-1.720 (2.041)
% Flow	-0.029 (0.042)	0.030 (0.032)	-0.012 (0.011)	-0.049 (0.057)
New Fund	-0.015 (0.040)	0.035 (0.026)	-0.012* (0.006)	-0.018 (0.031)
log(TNA)	0.000 (0.003)	-0.007** (0.003)	0.002*** (0.001)	-0.001 (0.003)
CRSP Fund Style FE	Yes	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes
ISS Agenda Type × Year FE	Yes	Yes	Yes	Yes
Observations	6,554	17,696	57,194	4,691
Adjusted R ²	0.583	0.833	0.415	0.760

Table 20: Passive Funds Vote Differently on Director Elections within Fund Family: 2003–2015 (including “bad controls”)

	<i>Dependent variable:</i>			
	Independent		Voting FOR a Director = 1	
	(1)	(2)	(3)	(4)
Passive	0.004 (0.003)	0.004 (0.002)	0.003 (0.005)	0.003 (0.005)
Passive × % of Shares Outstanding		−0.266** (0.121)		−0.051 (0.182)
Female	0.001** (0.001)	0.001** (0.001)	−0.005 (0.005)	−0.005 (0.005)
Director Age	−0.0001 (0.0001)	−0.0001 (0.0001)	−0.0003*** (0.0001)	−0.0003*** (0.0001)
CEO	−0.0001 (0.002)	−0.0001 (0.002)	0.015*** (0.002)	0.015*** (0.002)
Director % Ownership	−0.107*** (0.032)	−0.107*** (0.032)	0.038*** (0.011)	0.038*** (0.011)
Mgmt Support	0.200** (0.098)	0.200** (0.098)	0.240** (0.118)	0.240** (0.118)
ISS Support	0.408*** (0.012)	0.408*** (0.012)	0.459*** (0.013)	0.459*** (0.013)
% of TNA	0.056** (0.028)	0.056** (0.028)	0.036 (0.046)	0.036 (0.046)
% of Shares Outstanding	0.223*** (0.066)	0.282*** (0.072)	0.597*** (0.094)	0.608*** (0.103)
CRSP Fund Style FE	Yes	Yes	Yes	Yes
Fund Family × Year FE	Yes	Yes	Yes	Yes
Firm × Year FE	Yes	Yes	Yes	Yes
ISS Agenda Type × Year FE	Yes	Yes	Yes	Yes
Observations	177,012	1,661,123	210,460	12,754,327
Adjusted R ²	0.323	0.294	0.407	0.171