majorityaction

EQUITY IN THE BOARDROOM

2023 Proxy Season

February 2024

Executive **Summary**

Besides being a moral imperative, racial inequity poses idiosyncratic and systematic risks that depress returns for long-term diversified investors. At the company level, entrenched racial discrimination exacts legal, political, reputational, operational, and governance costs while constraining consumer spending and hampering productivity and profitability. At the portfolio level, systemic racism threatens long-term returns across asset classes by generating industry and economy-wide negative externalities and impeding inclusive and broad-based economic growth. Fiduciaries must adopt a racial equity lens to proxy voting in order to effectively mitigate the risks of systemic racism, which cannot simply be diversified away.

This report analyzes how the 18 largest asset managers and two leading proxy advisors voted/recommended on five key proxy voting categories related to racial equity: racial equity audits, racial and ethnic board diversity, political spending and lobbying disclosure, political congruency, and freedom of association and collective bargaining. Asset managers' support for racial equity-related proxy votes slowed considerably in 2023 against the backdrop of coordinated right-wing attacks on civil rights, affirmative action, and voting rights, and the related politicization of environmental, social, and governance (ESG) investment strategies. Asset managers' inaction on systemic racism comes at the expense of not only communities of color who bear the brunt of harmful corporate behaviors, but also the tens of millions of worker-savers – many of whom are people of color themselves – seeking long-term returns on their retirement portfolios. Against current political headwinds, asset managers must rise to the occasion and use their proxy voting power to address systemic racism – consistent with their fiduciary duty to mitigate risk, protect the value of client assets, and fortify long-term investment returns.

Summary Of Findings

	Racial Equity Audits Proposals	Director Accountability for All-White Boards	Political Spending & Lobbying Disclosure Proposals	Political Congruency Proposals	Freedom of Association Proposals
Amundi	🟢	🟢	🟢	🟢	🟢
LGIM	🟢	🟢	🟢	🟢	🟢
Northern Trust	🟢		🟢	🟢	🟢
Morgan Stanley	🟢		🟢		🟢
ISS		🔴	🟢	🟢	🟢
Glass Lewis		🔴	🟢	🔴	🟢
Nuveen		🟢	🟢	🔴	
Franklin Templeton	🔴		🟢	🔴	
Wellington		🔴		🔴	
Invesco		🔴	🟢		
State Street	🔴			🔴	
Geode	🔴	🔴			
Fidelity	🔴		🔴	🔴	
BNY Mellon	🔴	🔴		🔴	🔴
Goldman Sachs	🔴	🟢	🔴	🔴	🔴
JPMorgan	🔴	🔴		🔴	🔴
Capital Group	🔴	🔴	🔴	🔴	🔴
T. Rowe Price	🔴	🔴	🔴	🔴	🔴
Vanguard	🔴	🔴	🔴	🔴	🔴
BlackRock	🔴	🔴	🔴	🔴	🔴

Top-tier voting record 🟢
Bottom-tier voting record 🔴

Figure 1: Summary of Findings
Notes: For shareholder proposals, an asset manager is defined as being in the "top-tier" if it supported at least 75 percent of proposals and being in the "bottom-tier" if it supported less than 25 percent of all proposals. For director accountability for racial and ethnic board diversity, an asset manager is defined as being in the "top-tier" if it voted against the reelection of at least 5 out 7 (71 percent) nominating committee members at the three S&P 500 companies with all-white boards, and being in the "bottom-tier" if it voted against less than 2 members (29 percent)

Key Findings

01

The Big Four asset managers – BlackRock, Vanguard, Fidelity, and State Street – ranked at or near the bottom on all five racial equity-related proxy voting categories. BlackRock and Vanguard – together with T. Rowe Price and Capital Group – had the worst racial equity voting records. On average, the Big Four supported just 6 percent of racial equity audit proposals, 15 percent of political spending and lobbying disclosure proposals, no political congruency proposals, and 15 percent of freedom of association and collective bargaining proposals. State Street and Fidelity voted for a slightly higher percentage of racial equity audit, political spending and lobbying disclosure, and freedom of association and collective bargaining proposals than BlackRock and Vanguard. State Street and Fidelity also proved more willing than BlackRock and Vanguard to vote against nominating committee members at companies with no racial or ethnic board representation. By contrast, Amundi and Legal & General Investment Management (LGIM) had the best voting records across all five proxy voting categories, while Northern Trust had the best voting record in four out of five categories.

02

Fourteen out of 18 asset managers supported a smaller percentage of racial equity audit proposals in 2023 than in 2022. The biggest backsliders – Capital Group, BNY Mellon, BlackRock, Geode, and Invesco – decreased their support for racial equity audit proposals by more than 40 percentage points. Of the Big Four, Vanguard and Fidelity continued to oppose most or all racial equity audit proposals, while BlackRock and State Street decreased their support substantially compared to last proxy season. BlackRock went from supporting over half of all racial equity audit proposals in 2022 to none in 2023, while State Street's support for such proposals declined by 32 percentage points. Support among proxy advisors also decreased. Both ISS and Glass Lewis supported 76 percent of racial equity audit proposals in 2022. That number dropped to 36 percent and 57 percent, respectively, in 2023. Still, some asset managers continued to be leaders in this area, with LGIM, Northern Trust, Amundi, and Morgan Stanley supporting most or all racial equity audit proposals.

03

Asset managers set a low bar for racial and ethnic board representation and did not hold boards accountable for board diversity failures. According to their 2023 proxy voting policies, most asset managers consider an S&P 500 board to be sufficiently diverse if it includes a single director of color. Given that the average S&P 500 board contains 11 members, this sets the floor at merely 9 percent racial and ethnic representation – a far cry from the racially and ethnically diverse U.S. population, which is currently 41 percent. While most asset managers' proxy voting policies permit using director elections to hold boards accountable to minimum racial and ethnic diversity expectations, only some asset managers actually deployed this lever. Just two asset managers – Nuveen and Goldman Sachs – voted against all nominating and governance committee members at the three S&P 500 companies that nominated no directors of color. Seven asset managers, including BlackRock and Vanguard, voted to re-elect all nominating and governance committee members across all three companies.

04

Despite the fact that 98 percent of S&P 500 companies do not disclose how much they spend on state-level lobbying, the Big Four opposed almost all lobbying disclosure proposals. Of the 19 lobbying disclosure proposals that were put to a vote in 2023, Fidelity supported none, BlackRock and Vanguard each supported one, and State Street supported three. All four asset managers voted against the lobbying disclosure proposal at McDonald's, which was the only political spending and lobbying disclosure proposal to receive majority support in 2023. The Big Four's voting behavior diverged sharply from the recommendations of ISS and Glass Lewis, which supported 89 and 74 percent, respectively, of lobbying disclosure proposals.

05

Asset manager support for political congruency proposals declined significantly in 2023. The 2022 midterm elections exposed glaring misalignments between corporations' public statements and their political activities. Many companies resumed political contributions to election deniers, belying the commitments they made to voting rights and election integrity in the wake of the January 6th insurrection. However, asset manager support for political congruency proposals, which ask companies to identify and address these types of misalignments, declined significantly in 2023.

06

Asset managers diverged sharply from both proxy advisors on freedom of association and collective bargaining. Fourteen asset managers voted for a fewer percentage of freedom of association proposals than were recommended by Glass Lewis and ISS, who supported 100 and 86 percent of such proposals, respectively. State Street, BlackRock, and Vanguard voted against the proposal at Starbucks, which was the only freedom of association proposal to get majority support.