

Crapo Statement at Hearing on the Application of Environmental, Social and Governance Principles in Investing and the Role of Asset Managers, Proxy Advisors and Other Intermediaries

April 2, 2019

WASHINGTON – U.S. Senator Mike Crapo (R-Idaho), Chairman of the U.S. Senate Committee on Banking, Housing and Urban Affairs, delivered the following remarks at a hearing entitled: “The Application of Environmental, Social, and Governance Principles in Investing and the Role of Asset Managers, Proxy Advisors, and Other Intermediaries.”

The text of Chairman Crapo’s remarks, as prepared, is below.

“Today’s hearing will focus on the role of asset managers, proxy advisers and retail investors in engaging with companies on environmental, social and governance issues.

“Last year, Chairman Clayton expressed concerns that the ‘voices of long-term retail investors may be underrepresented or selectively represented in corporate governance.’

“Regardless of the tools that retail investors choose for investing their hard-earned money, it is critical that they have a voice in the investment decisions that are being made.

“Whether it is a company’s use of a proxy advisory firm or an asset manager’s investment decision-making policy, the retail investor should have a clear understanding of the decisions that are being made which ultimately represent their shares.

“Last year, John Bogle, the creator of the index fund, wrote an op-ed in the WSJ about how successful the index fund has been for investors, noting that if historical trends continue, a handful of institutional investors will one day hold voting control of virtually every large U.S. corporation.

“Even at existing levels, as consumers continue to use index funds, there has been an evolution in the concentration of control now held by a small group of asset managers voting a huge number of shares.

“Today, index funds hold 17.2 percent of all U.S. shares and are the largest shareholder in 40 percent of all U.S. companies.

“With the exception of socially responsible funds, most funds are not targeted at specific environmental or social impact objectives, and many investors in these funds do not expect asset managers to engage companies on social and environmental issues on their behalf.

“However, since the 2014 proxy season, institutional shareholders support for inclusion of environmental and social proposals has increased from 19 to 29 percent while retail shareholder support has increased marginally to only 16 percent.

“In the 2018 proxy season, ESG proposals were the largest category of shareholder proposals on proxy ballots with 15 percent of proposals climate-related and 14 percent related to political contributions.

“It is important to understand how institutional investors are voting the shares of the money they manage to make sure that retail investors’ interests are being reflected in these voting decisions.

“Today, I look forward to hearing from our witnesses on the following questions: How are the retail investors being engaged within the proxy voting process and in setting the policies used by the asset managers of the passive funds with which they invest? Are these shares being voted to drive productivity in our economy and increase investors’ return on their hard-earned investments, or are intermediaries using other people’s money unbeknownst to them in order to advance environmental, social and other political policies? What financial and other criteria are used in identifying social issues for engagement and measuring engagement success for end-investors?

“I look forward to hearing the views of our witnesses on these issues, and I thank them for their willingness to appear today.”

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