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Risk & Governance Weekly

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An activist group files more than 100 proposals at mutual funds.

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Darfur Activists Step up Campaign

Investors Against Genocide continues to expand the campaign aimed at large U.S. mutual funds that put it on the map in 2008. The activist group, which urges mutual funds to divest from **PetroChina** and three other oil companies that do business with the government of Sudan, has submitted resolutions at five times as many funds this year.

So far, the Boston-based nonprofit organization, which was formed by activists concerned about atrocities in Sudan's Darfur region, has 105 pending proposals at funds managed by 13 mutual fund companies. The proposals ask fund directors to adopt a policy to refrain from investing in companies that "substantially contribute to genocide or crimes against humanity."

In 2008, as a first-time proponent, Investors Against Genocide got its proposal on the proxy ballots of 21 funds at **Fidelity Investments** after the **Securities and Exchange Commission** staff turned aside a raft of challenges by the fund management company. "Yes" votes at the 14 funds that reached the required 50 percent quorum averaged about 26 percent, demonstrating strong support for the first social proposal to go to votes at Fidelity mutual funds.

The campaign appears to have prompted a policy change at **Vanguard**, where the group has made it on the ballot at 30 funds. Several months after the proposals were filed, the fund company announced in a March 11 preliminary proxy statement that it had decided "to implement a formal procedure for regular reporting to the [fund's] trustees on portfolio companies whose direct involvement in crimes against humanity or patterns of egregious abuses of human rights would warrant engagement or potential divestment." Vanguard opposes the resolutions, arguing that its new policy, which applies to all of its 157 funds, is "substantially identical" to the shareholder proposals. The fund company did not challenge the resolutions at the SEC but has asked the group to withdraw them.

While praising Vanguard's new policy, Investors Against Genocide is waiting to see how the fund company implements it. On March 31, Vanguard is scheduled to report on its Emerging Markets Stock Index Fund, which previously held 149.6 million shares of PetroChina. "If [that fund] shows a

significant reduction in its holdings of PetroChina, then we will have a clear signal that Vanguard's Trustees are serious about not connecting their customers with the genocide in Darfur," Eric Cohen, the activist group's chair, said in a press release.

Investors Against Genocide also is preparing for voting on its resolution later this year at other mutual fund companies where shareholder meeting dates are known. One large institutional investor, **TIAA-CREF**, has a meeting scheduled for mid-July, with proxy materials going out to holders about a month before that time, Cohen said.

The CREF portion of the asset manager, investing primarily on behalf of college and university pension funds, has one fund that practices socially responsible investing. TIAA-CREF says it gives investors who seek to avoid supporting genocidal regimes the option of investing in its Social Choice Equity Fund. This fund seeks to track the performance of the Russell 3000 Index while screening investments for specific social criteria, including human rights abuses.

Cohen pointed out, however, that the Social Choice fund's allocation, investment style, and relatively small size aren't well-suited for all types of CREF investors. Some of them may not realize that the majority of CREF funds in which their money may be placed are not prohibited from buying stock associated with genocide controversies, he said.

Investors Against Genocide also is working to line up support for a likely August vote on its proposal at funds in the **Investment Co. of America** family overseen by **American Funds**. Proxy voting materials are expected to be distributed to these holders about four weeks before the funds' voting date.

In addition, the group also plans to continue pressuring Fidelity to divest from companies that may be supporting genocide. Fidelity, like most U.S. fund managers, doesn't have a requirement in its charter to hold annual shareholder meetings, so no new dates for its next meetings have been set. The activist group submitted the proposal again this year at 34 Fidelity funds, including the seven that underwent several rounds of proxy voting but didn't reach quorum in 2008.

As the group attempts to expand its shareholder support, its leaders also hope to receive more support from Capitol Hill and the White House, now that President Barack Obama has replaced George W. Bush. Cohen told RiskMetrics that he expects the House of Representatives' **Financial Services Committee** to call large financial services companies to a formal hearing later this year to ask "tough questions" about shareholdings that may underpin genocidal activities in countries like Sudan.

Even more than U.S. political realignment, the recent upheaval in world financial markets may have created "an appetite for reform now," Cohen said, that could result in louder shareholder calls for divestment related to humanitarian crises such as the genocidal war in Darfur. --*Jane Meacham, ESG Research Team*

An earlier version of this article appeared in the January edition of RiskMetrics Group's Corporate Social Issues Reporter.