

Investors Against Genocide

Draw the line at investing in genocide

Presentation at the Vanguard shareholder meeting on July 2, 2009

My name is Eric Cohen, chairperson of Investors Against Genocide. I am here today to introduce the shareholder proposal on genocide-free investing, representing Vanguard shareholders who submitted it to 30 different Vanguard mutual funds.

Many would suppose that, today, 64 years after the end of the Holocaust and 15 years after the genocide in Rwanda, no company that values the public trust would attempt to profit from connections to genocide. Looking back, who would invest in firms that sought to profit by selling Zyklon-B gas to the Nazis or machetes for the genocide in Rwanda? Looking forward, who wants their savings invested in companies that help fund genocide?

Sadly, today, more than six years since the beginning of the genocide in Darfur, Sudan, and five years since the genocide was publicly acknowledged by the US Congress, we see that this problem is neither theoretical nor historical. Vanguard, along with most other major financial institutions, still invests in the small set of problem companies that fund the regime in Khartoum.

Thus, ordinary individuals, through their investments in Vanguard mutual funds, inadvertently invest in companies funding genocide. Since no policy prevents these investments, holdings in these problem companies may increase or involve additional funds in the future. Mutual fund investors cannot practically avoid investing in genocide, unless the fund makes a commitment to genocide-free investing. Adopting the proposal directly resolves this problem.

Mutual funds are the most common investment vehicle for family savings and retirement plans of Americans. That's why it is so important for Vanguard, one of the largest mutual fund companies in the country and the world, to commit to genocide-free investing.

Therefore be it resolved: Shareholders request that the Board institute procedures to prevent holding investments in companies that, in the judgment of the Board, substantially contribute to genocide or crimes against humanity, the most egregious violations of human rights.

A quick reading of Vanguard's statement of opposition might lead one to believe that Vanguard agrees with the shareholder proposal. Many shareholders, whose votes will be recorded today, read Vanguard's statement and believed that the issue raised in the proposal no longer applied. Those shareholders have been misled by Vanguard.

Vanguard's statement of opposition says that the shareholder proposal simply duplicates existing Vanguard procedures. It grants the point that sometimes social issues should be considered by mutual funds. It references "crimes against humanity," "patterns of egregious abuses of human rights," and "potential divestment." It says that "Vanguard's procedure applies to all 157 funds and is substantially identical to the shareholder proposal."

If the proposal were a duplicate, why did Vanguard choose to put it on the ballot and oppose it? Why not simply accept the proposal? Why not negotiate with shareholders, as we repeatedly requested, to withdraw the proposal? Why not utilize SEC procedures to exclude the proposal from the ballot on the basis that it had already been implemented? Today, I ask the Trustees of the Vanguard funds to provide the answers, to explain why they chose to put the proposal for genocide-free investing on the ballot and oppose it, receiving negative publicity and alienating millions of their customers, while at the same time claiming to have implemented a duplicate of the proposal?

A careful reading of Vanguard's statement of opposition reveals substantial differences between the supposedly duplicate procedures. Vanguard says it implemented a "formal procedure for regular *reporting* to the Trustees" on problem companies, but it does not say anything about the procedure the Trustees will apply once they have the report. It specifies no criteria that the Trustees will use for judging companies that are reported to them. In contrast, the shareholder proposal explicitly sets the standard to be companies that "substantially contribute" to genocide or crimes against humanity.

There is no requirement in Vanguard's statement for the Trustees to review or act after receiving the report submitted to them. The shareholder proposal requires proactive attention to prevent acquiring problem companies and requires corrective action if they are already in the portfolio. Vanguard has made no commitment to taking any

such action. Rather, Vanguard's Plain Talk About Proxy Proposal 3 web page says that "the trustees have determined that no companies have warranted divestment." Even worse, Vanguard's quarterly report of its holdings, after filing its proxy materials, showed that Vanguard had increased its holdings in PetroChina and the other worst offenders complicit in Sudan: Petronas, ONGC and Sinopec.

Vanguard's procedure calls for a report to the Trustees of companies "directly involved" in crimes against humanity. There is a clear difference between "substantially contributing" and being "directly involved." The shareholder proposal never claims that employees of PetroChina and the other companies are killing Darfuris. Rather it claims they are "providing funding that the Government of Sudan uses to conduct genocide in Darfur." What would Vanguard's requirement for "direct involvement" imply about the decisions Vanguard would make with regard to investing in firms that sought to profit by selling Zyklon-B gas to the Nazis?

The proposal specifically references PetroChina, the company widely recognized as the most complicit in the Darfur genocide. Every one of the 27 states, 61 colleges, and mutual funds that has taken action on Sudan has targeted PetroChina. TIAA-CREF, a giant financial services firm, has adopted strong policies to draw the line at investing in companies that contribute to genocide. These are hardly special interest groups. How is it that the Trustees determined that PetroChina is not a problem?

There is no compelling reason to invest in companies funding genocide. No fiduciary responsibility requires such investments even with funds that track to an index. Vanguard's own Investment Counseling and Research emphasizes that investment returns are affected much more by asset allocation choices, than by individual stock selections. So, avoiding a small number of problem companies need not result in any significant effect on performance.

Americans are overwhelmingly opposed to being financially connected to genocide. In KRC Research's 2007 study, 71% of respondents said companies should take extreme cases of human rights abuses, such as genocide, into account rather than base investment decisions solely on economic criteria. In that same study, 77% said they would switch to a different investment company if they learned that those managing their funds had significant investments in firms that were active in Sudan.

Make no mistake about interpreting the results of the voting today. Millions of people have already voted for genocide-free investing, and huge numbers of Vanguard customers will do so today. Favorable votes today will appear unnaturally low, because Vanguard's active opposition and misleading statement of opposition tilted the vote against the proposal. If Vanguard wanted a good test of shareholder support, it would have taken a neutral stance, rather than seeking to obscure the interests of shareholders, especially since, as we all know, it is common practice for ordinary investors to ignore and discard their proxy materials.

I ask Vanguard to consider its business perspective as a trillion dollar asset manager. Customers who notice the shareholder proposal on genocide-free investing, who are not misled by the statement of opposition, are typically angry with Vanguard for opposing it and eager to vote for the proposal, whether they have shares in the 30 funds or not. Have you calculated the cost to your business and your reputation of unnecessarily insisting on a course of action that is making your customers angry, not by the thousands, but by the millions?

Today, I call on Vanguard to live up to the best of its ideals, documented in Vanguard's published "pledge to clients." Vanguard promises to:

- "Adhere to the highest standards of ethical behavior and fiduciary responsibility" – which should require you to draw the line at investing in genocide.
- "Communicate candidly" – which contrasts with the misleading statement of opposition.
- Put customer "interests first at all times" – which encourages you to find a way to support Americans' interest in not having their savings complicit in genocide.
- "Adapt, evolve, and continuously improve" to provide "excellence in all" that you do – which challenges you to take an industry-leading position on genocide-free investing.

It is never too late to do the right thing. If you embrace genocide-free investing, rather than actively opposing it, then you will reap the benefits of being a leader among the major mutual funds. By drawing the line at investing in genocide, you will set a new standard for the world's mutual funds that your competitors will either meet or suffer from losing customers to you. So I ask Vanguard's Trustees, to reconsider and make a commitment to genocide-free investing.