

Investor activism

Index funds must be activists to serve investors

Since we cannot sell, we have to press management for improvements

CYRUS TARAPOREVALA

Efforts by large index fund managers to engage with public companies have recently come under attack from some business leaders. They complain that we are misusing our rights as shareholders to enforce arbitrary political or social “values” because we raise environmental, social and governance concerns with the boards of the companies in which we invest.

This completely misrepresents the mission of State Street Global Advisors and other large index fund managers. We seek long-term value for millions of ordinary investors in a world that has become increasingly obsessed with short-term results. That goal, not some political agenda, is why we have developed a rigorous, research-based shareholder engagement programme. We raise all kinds of issues with boards that might materially impact their company’s ability to generate sustainable returns over the long haul.

While our active funds can sell a company if we disagree with its executives, our index funds cannot choose the shares in which they invest. We are essentially permanent capital and cannot turn the S&P 500 into the S&P 499. That means we need to take a long-term perspective on behalf of our clients. At a time when some activist shareholders are keen on extracting short-term profits from companies, we provide a healthy and necessary counterweight.

Our primary fiduciary obligation to our investors is to maximise the probability of attractive long-term returns. Flows into index-based strategies have increased so dramatically over the past few years that we must take this responsibility more seriously than ever. Millions of individual investors count on the low-cost access to markets



The Fearless Girl statue commissioned by State Street was part of a commitment to encouraging greater diversity and thus better performance

around the world provided by exchange traded funds and other trackers. This has democratised access to markets that were once available and affordable only to larger institutional investors.

We carefully select the issues we focus on with companies, based on rigorous research into their impact on investment performance. For example, numerous studies show that diversity at the board level leads to better decision making, fewer reputational crises and ultimately better returns.

This is the reason why we placed the Fearless Girl statue on Wall Street and issued specific guidance to boards to take

steps to improve diversity. Performance was our motivation, not politics. This is just one example of how we seek to maximise transparency around our views, the research underpinning them, and our voting intentions. Others can be found in our new 2017 asset stewardship report that provides details on our proxy voting and engagement on thousands of management and shareholder proposals in 82 different countries across the globe.

In addition, while we will use the data and analytics provided by proxy advisers, we never outsource our voting decisions and we urge other institutional investors not to do so. These issues are too important to outsource and they are growing more complex.

Increasingly, our clients are pushing for more clarity on non-traditional investment issues. They want to know how companies are incorporating climate risk into their long-term strategy; whether they are adopting best practices around corporate governance, board quality and pay policies; how they are adapting to technology disruptions that could threaten their industries.

We need only look to recent corporate scandals around poor internal controls to remind us of the importance of active shareholder engagement.

Far from injecting politics into boardrooms, we believe our focus on active stewardship in a rapidly changing and complex world is more important than ever for ensuring healthy public markets, resilient economic growth and shared prosperity. We are creating long-term value; not imposing values.

The writer is president and chief executive officer of State Street Global Advisors.