Are the Sleeping Giants Awakening?

An Investigation into the Investment Stewardship Efforts of the Big Three Passive Investment Managers

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Abstract

Since the 2008 financial crisis there has been a rise in passive investment strategies, resulting in a re-concentration of ownership in the hands of the Big Three passive investment managers: BlackRock, Vanguard and State Street Global Advisors (SSGA). These asset managers have expressed that even though they deploy passive investment strategies, they are not passive owners. The passive asset managers actively promote environmental, social and governance (ESG) standards to their investee companies, aiming to protect and ensure long-term value creation for their clients. The two main tools of this investment stewardship approach, as it has been dubbed, are voting against management in shareholder meetings and company engagements. Many people have expressed their concerns over BlackRock, Vanguard and SSGA stepping up their investment stewardship responsibilities. The biggest concern is that the index managers, and more specifically the small group of investment stewardship team members, can potentially influence the corporate governance decision-making of a large number of firms, especially through the behind-closed-doors engagements. This thesis shows that whether and to what extent the Big Three have stepped up their investment stewardship efforts differs strongly. BlackRock hasn't increased both its votes against management and number of engagements, Vanguard has increased its number of engagements but votes less often against management and SSGA has increased both its votes against management and number of engagements. At the same time, BlackRock has been the most vocal about stepping up its investment stewardship efforts. This thesis lastly shows that the Big Three's investment stewardship teams strongly differ in recruitment style and composition.

Contents

1. Introduction 5

2. From Finance Capitalism to Investment Stewardship 8

3. The Big Three Passive Asset Managers 12

3.1 BlackRock 12
3.1.1 History 12
3.1.2 CEO 14

3.2 Vanguard 14
3.2.1 History 15
3.2.2 CEO 16

3.3 State Street Global Advisors 17
3.3.1 History 17
3.3.2 CEO 19

4. Investment Stewardship 20

4.1 Investment Stewardship approach of the Big Three 22

4.2 Research questions 26

5. Methods and data 28

5.1 Data 28
5.1.1 Proxy voting and engagement statistics 28
5.1.2 Press releases 28
5.1.3 CEO Letters 29
5.1.4 Investment stewardship team members background information 30

5.2 Methods 31
5.2.1 Proxy voting and engagements statistics 31
5.2.2 Press releases 32
5.2.3 CEO letters 32
5.2.4 Investment stewardship team members background information 33

6. Results 34

6.1 Scope of Investment Stewardship activities 34
6.1.1 Proxy voting 34
6.1.2 Engagements 37

6.2 Presentation of investment stewardship efforts 43
6.2.1 Press Releases 43
6.2.2 CEO Letters 45

6.3 Investment stewardship team members 49

7. Discussion 56

8. Conclusion 60

9. Bibliography 63

1. Introduction

Larry Fink, the CEO of BlackRock, one of the world's leading passive index funds, recently sent out a warning to the CEO's of the companies BlackRock is invested in. In his annual letter to CEO's Fink discussed BlackRock's plans for a new shareholder engagement model –one with year-round discussions between shareholders and companies about improving long-term value (2018). He explains the sense of responsibility to take a more active role in the oversight of investee companies: "As a fiduciary, BlackRock engages with companies to drive the sustainable, long-term growth that our clients need to meet their goals (…) We also see many Governments [are] failing to prepare for the future (…) As a result, society increasingly is turning to the private sector and asking that companies respond to broader societal challenges" (2018). Many other passive asset managers are likewise increasingly trying to actively influence the corporate governance strategies, and thus decision-making, of the firms they are invested in to protect and increase the long-term value for their clients (Bioy 2017; Gillan, Hartzell, Koch, and Starks 2014). This investment stewardship approach, as it has been dubbed, focusses on promoting environmental, social and governance (ESG) standards (McNabb III 2017; Morningstar 2017; O'Hanley 2017; Rust 2017). State Street Global Advisors (SSGA) for example, put on March 7th, the day before the 2017 International Women's day, the 'Fearless Girl' statue on Wallstreet, New York's Financial District. With this statue State Street aimed to spark a discussion of women in leadership positions (www.SSGA.com e).

Traditionally, people turned to active asset managers to invest their money in the stock market (Braun 2015: 267). However, since the 2008 financial crisis there has been a move towards passive investment strategies (Fichtner, Heemskerk and Garcia-Bernardo 2017). Asset managers invest the in mutual funds pooled money of their clients either actively or passively in the stock market (Davis 2008). Active asset managers aim to 'outperform' the stock market: they buy shares they predict will go up in value and sell those that they predict will go down (Braun 2015: 267). Passive asset managers buy all the shares in a stock index, for example the Standard and Poor's 500 (S&P 500) (Davis 2008: 15). Because index mutual funds and exchange traded funds (ETFs) share this principal element, they are subsumed under the term passive index funds, even though they are technically different (Fichtner et al. 2017: 298-299). The rise in assets under management of passive investment managers has resulted in a concentration of ownership in the hands of BlackRock, Vanguard and State Street (ibid.). Together, the 'Big Three' is the biggest shareholder in 88% of the S&P 500 companies (ibid.). This concentration of ownership seems to have gone hand in hand with a concentration of corporate power: The Big Three are actively trying to influence the corporate decision-making of their investee companies. BlackRock, Vanguard and State Street all have created investment stewardship teams that aim to protect and increase the long-term value of the firm's clients, by promoting ESG efforts in firms they are shareholders of (2018; 2017; 2016).

Fichtner, Heemskerk and Garcia-Bernardo found evidence for the Big Three passive asset managers having a centralized corporate governance strategy (2017). This means that all the funds of an index manager vote in the same manner on a proposal at shareholder meetings and thus coordinate their proxy voting strategy. By voting against management shareholders can express their dissatisfaction with the corporate governance of the firm's management. Since management needs the votes of large shareholders in high profile proxy fights, management is motivated to keep shareholders satisfied with their performance. This makes proxy voting a direct way to influence the decision-making process of firm's passive asset managers are shareholders of. Although the voting strategies of the firms showed great managerial support, the authors argued that Big Three could potentially still exercise great influence over the management of their investee companies, through private engagements (Fichtner et al. 2017). Whilst their research indicates that the Big Three do have an active investment stewardship approach like they claim they do, it leaves many questions unanswered.

Firstly, it is unclear what an investment stewardship approach exactly entails. Clarity on this is necessary to analyze and compare the investment stewardship efforts of different passive asset managers. Secondly, it is unknown to what extent BlackRock, Vanguard and SSGA fulfill their investment stewardship responsibility. If the firms are increasingly trying to influence firms on a large scale, it should be debated whether it's desirable that a small number of firms has such control. Thirdly, how does the extent to which the firms actually (try to) influence corporate governance compare to the way the firms 'advertise' they do? Especially BlackRock seems to be very vocal about its investment stewardship efforts, is this justified or not? Lastly, we don't know who the investment stewardship team members are, whilst they could potentially the decision-making of a great number of firms. Has a new elite emerged controlling corporate America and some other parts of the world, or are there no signs of a new elite?

This thesis aims to answer questions like these. In other words, the purpose of this study is to shed light on the increasing investment stewardship efforts of the Big Three passive asset managers, BlackRock, Vanguard and SSGA and the potential consequences it has on discussions of corporate control. For this purpose, the annual reports, CEO written letters to investee companies and press releases of the three passive asset managers will be analyzed. Additionally, a network analysis of the educational background and former employers of the investment stewardship team members will be conducted. This paper continues as follows. Firstly, the events leading up to the re- concentration of corporate ownership fill be discussed. Next, background information will be given on the Big Three passive asset managers. Then, investment stewardship and the Big Three's investment stewardship approach will be discussed. This will result in the formulation of this thesis' research questions. In the section after that, the methods and data used in this thesis will be introduced. Then, the results will be given and discussed. Lastly, this paper will end with a conclusion.

2. From Finance Capitalism to Investment Stewardship[1]

In America a surprising re-concentration of corporate ownership has taken place since the 1990's, resulting in the generation of a unique corporate ownership structure in which a limited number of investment funds are significant shareholders of hundreds of firms at the same time (Davis 2008: 11). After the 2008 global financial crisis both institutional and private investors turned their capital from active mutual funds into the hands of a few passive asset managers, resulting in a re-concentration of ownership (Fichtner et al. 2017: 298-299). Financial institutions being at the center of corporate control networks, in which firms are connected through shared owners, is not a new phenomenon (Davis 2008: 12).

Following a wave of industry mergers at the turn of the twentieth century, a few banks –most notably JP Morgan, First National and National City– controlled the large-scale and concentrated industry (idem: 11-13; Fichtner et al. 2017: 301). These three banks worked together to control American business and divide the profits (Davis 2008: 13). Finance capitalism, as this bank-centered corporate system has been labelled by Rudolf Hilferding, was not around for long (1910). After the First World War large-scale public participation in the stock market took place, this resulted in a 'separation of ownership and control': by the early 1930s nearly half of the 200 biggest firms in America didn't have a big enough ownership block to exert influence (ibid.; Berle and Means 1932). As the ownership of firms was dispersed between sometimes thousands of shareholders, managers effectively controlled the firms (Davis 2009: 9). Finance capitalism had been replaced by managerialism, a new corporate system in which large publicly listed companies had dispersed ownership and were controlled by a small number of professional managers (Davis 2009: 9-10; Davis 2008: 12-14). Whilst in other countries big firms were usually greatly influenced or owned by their governments, in America they were autonomous (Davis 2009: 10).

This situation of a separation of ownership and control and no interfering government raised questions on the relationship between managers and shareholders. The common way to explain the relationship between managers and shareholders in such a situation has been through agency theory. According to agency theory, a conflict of interest arises between the shareholders (principals) and the firm's management (agency) if there is a separation of ownership and control

[1] Whilst the developments that are discussed mainly relate to the United States, they are more broadly applicable.

(Nicholson and Kiel 2007; Berle and Means 1932). The different and conflicting goals of the owners and the managers would inherently result in lower revenue (ibid.; Hart 1995: 678). This is the principal agent problem that is the foundation of thinking about corporate control and modern corporate governance theory (Berle and Means 1932; Fichtner et al. 2017; Hart 1995). Another common way to explain the relationship between managers and shareholders when there is a separation of ownership and control is through stewardship theory (Nicholson and Kiel 2007; Davis, Schoorman and Donaldson 1997). Whilst agency theory describes the situation where owners and managers have conflicting interests, stewardship theory describes the situation when their interests align (Davis et al. 1997; Lee and O'Neill 2003). Instead of trying to pursue their individual goals, managers pursue those of the firm even when they don't align with their own (ibid.). Just as consensus amongst academics started to form that managers indeed were largely pursuing the interests of the firms instead of their own and thus that a separation of ownership and control was a good thing, ownership was once again becoming more concentrated (Davis 2008: 14; Davis 2009: 10).

In the late twentieth century signs surfaced pointing at a radical restructuring of corporate ownership, marking the decline of managerialism (Davis 2008: 11-12). At the end of the 1970s Peter Drucker and Donald Farrar and Lance Girton signaled that institutional owners were becoming major stockholders over the past half century (1976; 1980: 379). Between 1980 and 1990 the shares owned by institutions, such as public and private pension funds, bank-run proprietary funds and mutual funds, grew from 35% to 50% (Davis 2008: 14). An unprecedented scale of public participation resulted in a stock market boom in the 1990s and the prevalence of institutionally intermediated corporate ownership (ibid.). The main beneficiaries of the flood of new investments in the United States were mutual funds, the industry grew tremendously from 1982 (Davis 2008: 15). Between 1980 and 2006 mutual funds' assets under management grew from $134 billion to $10 trillion (idem: 16). The majority of the industry's growth went to a small number of mutual funds, most notably American Funds, Janus, Vanguard, T. Rowe Price and Fidelity. This made these five funds families the largest owners of corporate America (Davis 2008: 16). Only those fund families that were both active and large has concentrated ownership, as only they could accumulate large enough ownership positions to make them the biggest shareholder in a firm (ibid.). Passively managed index managers could be large but didn't have concentrated ownership, as they own a small number of shares in a large number of firms (ibid.). Consequently, they usually don't surpass the 5% ownership that is widely regarded as necessary to exercise some control (ibid.).

This made the mutual funds that were both large and actively managed, American Funds and Fidelity, the most powerful corporate owners in America (ibid.). Power refers to the potential influence mutual funds have over the corporate governance and thus decision-making of the firms they are shareholders of (ibid.; Bebchuk 2005; Fichtner et al. 2017). Contrary to the ownership networks of other countries, the active asset managers at the center of the America's network, usually didn't use this potential power instead they chose to sell their shares (Davis 2008: 11, 20). Davis argued that they shied away from actively participating in corporate decision making because of legal restrictions, conflicts of interest (firms they were invested in were often also their clients) and the costs of shareholder activism. He claimed this ownership without control structure is an unparalleled mix of liquidity and concentration and dubbed it as the 'new finance capitalism' (ibid.). Research by Fichtner, Heemskerk and Garcia-Bernardo almost a decade later showed that the new finance capitalism faced considerable change (2017: 302).

Between 2005 and 2015 the market share of passive asset managers doubled to 34%, at the expense of actively managed funds (Fichtner et al. 2017). Because they don't need managers to actively buy and sell shares to beat the market, passive asset managers have higher expense ratios and thus impose lower costs on their investors (ibid.; Deeg and Hardie 2016). At the same time, they consistently don't generate lower returns then actively managed mutual funds. This makes them more interesting for investors, resulting in a rise in the assets under management of passive asset managers. Currently, the passive index fund industry is highly concentrated: BlackRock, Vanguard and SSGA together manage more than 90% of all assets under management in passive equity funds and are the largest shareholder in 88% of the S&P 500 corporations and at least 40% of the publicly listed firms in America (Fichtner et al. 2017: 313). These three firms are the only decidedly passive index managers in America, as their share of assets under management in passive investment managers is more then 80% (idem: 304-305). Given these two accounts, BlackRock, Vanguard and SSGA have been labelled as the Big Three passive asset managers (Fichtner et al. 2017). Active asset managers having been passive owners, didn't mean that passive investment managers would follow the same trajectory. Following the spectacular growth, passive investment managers have increasingly been trying to actively influence the corporate decision-making of the firms they are invested in to protect and increase the long-term value for their clients (Bioy 2017).

This investment stewardship trend, as it has been dubbed, has caused stewardship theory to gain more traction in recent years and raises several questions (Wong 2010). However, before these will be discussed it is necessary to have a better understanding of the three firms in question: BlackRock, Vanguard and SSGA.

3. The Big Three Passive Asset Managers

3.1 BlackRock

BlackRock is the biggest global index manager in the world, as of December 2017 it manages $6,300 billion in investments of both large institutions and private investors (Bollen 2018). For this purpose, the firm employs approximately 13.900 people that operate out of 70 offices across 34 countries in Europe, the Middle East, the Americas and Asia-Pacific (www.blackrock.com a; BlackRock 2018a; Blackrock 2017a). BlackRock's efforts aren't limited to the mutual fund industry, through its BlackRock Solutions division the firm gives investment and risk-management advice to many public institutions, organizations and companies (www.blackrock.com b). Risk management is the practice of identifying, analyzing and reducing potential risks (www.businessdictionary.com). At the height of the 2008 economic crisis financial institutions such as J.P. Morgan Chace, the U.S. Treasury, Morgan Stanley and the Federal Reserve Bank of New York turned to BlackRock for help (Andrews 2010). The stature it gained during this crisis helped BlackRock become financial advisor to many American authorities and European governments and Central Banks, including the White House and the European Central Bank (ibid.; Bollen 2018). The market value of the New York based index manager is estimated at 86.6 Billion US dollars and currently is it the world's 185th largest public company, leaving names like Coca Cola, Philips and Netflix far behind (www.forbes.com a). The State Street Corporation, of which competitor SSGA a division of is, can be found on place 292, Vanguard is not a publicly traded company and therefore isn't futured on the list (ibid.).

3.1.1 History

The index manager was founded in 1988 under the umbrella of The Blackstone Group by current Chief Executive Officer Laurence, "Larry", Fink and seven partners (www.blackrock.com c). The firm initially focused on fixed-income, this is a type of investing in which pre-determined returns are paid out periodically, but the investors only act as money lenders and thus don't own a share in the firm they. However, the focus quickly changed to equities, as the firm developed one of best-known electronic systems in the mutual fund industry (ibid.; Loomis 2017; www.businessdictionary.com). Asset Liability and Debt and Derivative Investment Network, or Aladdin as it is better known, is a financial database and risk analysis-software provides BlackRock itself and its BlackRock Solutions clients with advice on investments and risk management challenges (Bollen 2018; Mooney 2017; www.blackrock.com b; www.blackrock.com c). Aladdin has become BlackRock's distinguishing feature in the mutual fund industry, with even rival index managers using the software (ibid.).

In 1992 BlackRock adopted its current name and between the end of that year and 1994, the year it split from Blackstone, the firm's assets under management grew from $17 to $53 billion (www.blackrock.com c; Andrews 2010). In 1995 BlackRock began managing equity funds and other open-end mutual funds, as it became a subsidiary of PNC Financial, a bank holding company (www.blackrock.com b). A bank holding company is a company that controls one or more banks, but it doesn't have to be in the 'banking' business itself (ibid.). Because of the subsidiary status BlackRock could merge and form alliances with PNC affiliates that specialized in equity and other investments (ibid.). Whilst diversifying BlackRock developed one of its now core principles, the concept of One BlackRock. Instead of having autonomous business units, BlackRock claims to differentiate itself from other index managers by having a coordinated platform in place to manage equity, fixed income and other business together (ibid.). The choice for this structure was based upon the belief that it would enable the firm to use all its products and resources for the advantage of its clients, making it a client-centric business model (ibid.).

In 1999 BlackRock went public and got listed on the New York Stock Exchange. Between the end of that year and 2004 the firm's assets under management grew from 165 to 342 billion dollars (ibid.). After having established itself as an equity, fixed income and advisory business, BlackRock choose to engage in a sequence of transformational mergers, starting with the purchase of State Street Research in 2005 (ibid.; Loomis 2017). With these mergers the firm intended to enhance its mix of services and products, offering a greater range of multi-asset products, equity and alternatives. Additionally, the mergers expanded BlackRock's global reach and scale (www.blackrock.com c). It acquired business' from, amongst others, R3 Capital Management, Merrill Lynch Investment Managers and the Quellos Group (De La Merced 2009; Loomis 2017). The index manager's biggest merger, and one of the biggest industry deals of that time, was the 15.2 billion dollars acquisition of Barclays Global Investors in 2009 (ibid. www.blackrock.com c). The assets acquired with this merger, put BlackRock ahead of SSGA and Fidelity Investments made it the largest index manager in the word, controlling more than 3.000 billion dollars (Andrews 2010; De La Merced 2009).

The acquisition of Barclays Global Investors included its market-leading ETF unit, iShares (ibid; www.blackrock.com c). The up until then largely active index manager, was now a large passive player too (www.blackrock.com c). During this sequence of mergers, BlackRock became the market leader in multi-asset solutions (ibid.). These are tailored investment portfolios that contain a diverse set asset classes, such as cash equivalents, equities and fixed income (www.blackrock.com d). In 2008 the firm founded its Financial Markets Advisory (FMA) division that gives nonpartisan advice to financial institutions, governments and other private and public capital market participants around the globe on investments and risk (www.blackrock.com c; www.blackrock.com e). To indeed provide nonpartisan advice, this division of BlackRock Solutions, is separately positioned from the rest of the firm (ibid.; Bollen 2018).

3.1.2 CEO

Besides the CEO and one of the founders, Larry Fink is also BlackRock's Chairman and leader of the Global Executive Committee (www.blackrock.com f).
Before he and 7 others founded the firm, Fink worked at the First Boston Corporation for 12 years where he held various positions (ibid.). Prior to this Fink obtained a bachelor's degree in Political Science (1974) and a Master of Business Administration (MBA) (1976) in Real Estate finance from the University of California, Los Angeles (UCLA) (www.bloomberg.com a). Over the years the BlackRock CEO, has received many accolades including: 'World's Best CEO', 'One of the World's Most Respected Leaders' and 'CEO of the Decade' (www.blackock.com f). Fink's leadership during the 2008 financial crisis established his name on Wall Street, however outside of it little people know the name of the "Wall Street Wise Man" (Andrews 2010).

3.2 Vanguard

The Vanguard Group has been the world's fastest-growing index manager for the past six consecutive years (Flood 2018). Between 2016 and 2017 the firm's net inflows increased with 13,9%, from 323 to 368 billion US dollars (ibid.). This growth is believed to be in large part due to Vanguard's unique structure (Edwards 2018). Whilst most large investment managers that are usually publicly traded, Vanguard has a client-owned structure (www.vanguard.com a). The index manager is owned by its funds, which in turn are owned by its shareholders. Thus, the people that entrust Vanguard to invest their money own the index manager (ibid.). With no outside shareholder pressure to maximize benefits, the net profits are redirected back to fund shareholders in the shape of lower fees (ibid.). As of January 31st 2018, the Malvern, Pennsylvania, based index manager has approximately $5,100 Billion asset under management (Flood 2018; Edwards 2018; www.vanguard.com b). With its fast growth it is rapidly closing the gap to Blackrock, the world's biggest index manager, that has about $6.000 billion assets under managements (Flood 2018). Vanguard currently employs about 16.600 people that operate out of its 19 offices across North-America, Europe, Asia and Australia (www.vanguard.com b).

3.2.1 History

Vanguard's was founded on May 1st 1975 in Valley Forge, Pennsylvania, by John C. Bogle (www.vanguard.com b). Because of a bad decision he had made on a Wellington Management Company merger, from which he was removed as head, Bogle could only start a fund that was not actively managed (Edwards 2018). Thus, he had no other choice than to start a passively managed fund, his first one launching in in 1975 (ibid.). The Vanguard 500 Index Fund, as it was called, initially grew at a slow pace, but eventually its growth soared (www.vanguard.com a; Edwards 2018). Following this success, the firm continued to open more funds and in the 1980s the Vanguard's assets under management increased from $500 million to nearly $4 billion. It was during this decade that the mutual fund industry as a whole was enjoying growth (Davis 2008; Edwards 2018). In 1982 the index manager expanded its reach and started to cater to financial advisors, institutions and retirement plans in 1982 (www.vanguard.com a).

Whilst the investment company grew, its asset-weighted average fund expense ratio decreased from 0,68% to 0,35% between 1975 and 1990 (ibid.). The average fund expense ratio refers to the percentage of assets funds use for their expenses, including fund administration, shareholder services and portfolio management (Thune 2018). Passive index funds ordinarily have lowest expense ratios since they're not actively managed. With 0,10% Vanguard had the lowest US asset-weighted average fund expense ratio in 2017 (Morningstar 2017). SSGA and BlackRock's iShares division came in second and third with 0,16% and 0,25% respectively (ibid.). By the 1980s other index managers started to notice Vanguard's success and also began deploying a passive fund strategy and offering index funds (Edwards 2018).

In 1996 John J. Brennan took over as CEO and under his leadership Vanguard opened its first international location in Melbourne, Australia and continued to grow the following years (www.vanguard.com a). Many offices abroad would follow, including the in London based European headquarters. In 1998 Vanguard expanded its low-cost approach to investing to people saving for higher education by beginning to offer 529 college-saving plans (ibid.). In 2001 Vanguard launched its patented approach of offering ETFs as exchange traded share classes of funds and in 2003 the firm rolled its Target Retirement Funds out (ibid.). Then, in 2005 a website aimed at financial advisors was launched by the Asset Manager. This seemed to go against the nature of nature of the firm known for its direct-to-investors business strategy to keep costs low (French 2005). They were changing their business model in the hopes of getting financial advisors to use their ETF family (ibid.). The reason for this move is largely due to the decline of number of people directly investing in mutual funds, instead they were increasingly turning to financial advisors and brokers (ibid.).

In 2008 Brennan was succeeded by F. William McNabb III (www.vanguard.com a). Under his leadership, seemingly not affected by the global financial crisis, the assets under management increased from less than $1.000 to $5.100 billion between 2009 and 2018. This is growth is partly thanks to the firm's fast-growing international efforts, as Vanguard opened offices in China and Mexico in 2017. In 2005, going along with the increasingly popular computerized advisory trend, Vanguard launched its Personal Advisor Services (ibid.; Meola 2017). In this service a custom investment plan is made with online advisors that give ongoing advice for 0,3% of assets (www.vanguard.com a; Meola 2017).

3.2.2 CEO

On January 1st 2018 Mortimer J. "Tim" Buckley succeeded William McNabb as the CEO and President of Vanguard (Pritchard 2017; www.vanguard.com c). McNabb however still is the Chairman, focusing on the firm's international opportunities. Buckley joined Vanguard in 1991 after obtaining a Bachelor of Arts in Economics from Harvard University (ibid.). He started as the assistant of Jack Bogle, the Founder and then Chairman of the index manager. In 1994 Buckley left the firm to do a Master of Business Administration (MBA) at Harvard, only to rejoin Vanguard two years later (ibid.). Over the years Buckley worked his way up at the index manager, holding positions such as Chief Information Officer and Head of the Retail Investor Group and Information Technology Division, until he became Vanguard's 4th CEO (ibid.; Hougan 2018).

3.3 State Street Global Advisors

State Street Global Advisors (SSGA) is the third largest index manager in the world, trailing fellow American based investment funds BlackRock and Vanguard. As of March 31st 2018, the Boston, Massachusetts, based index manager has almost $2,730 billion assets under management (www.ssga.com a). This is considerably less than Vanguard ($5,100 billion) and BlackRock ($6,000 billion).
SSGA is the investment management division of the SSGA Corporation, a financial holding company mainly operating through SSGA Bank (ibid.; www.forbes.com a).
Where BlackRock is publicly traded, and Vanguard is owned by its clients, SSGA is privately owned by State Street Corporation, making it the firm's single and thus largest shareholder (www.bloomberg.com b).
The firm provides a wide range of investment management, research and advisory services to individual investors, financial advisors, corporations and (financial) institutions (ibid.; www.ssga.com b). For this purpose, SSGA has 21 offices across North America, Europe, Asia, Australia and the United Arab Emirates (www.ssga.com b). The current number of employees is unknown, but in July 2016 this was estimated at 3.000 (Flood 2016a).

3.3.1 History

SSGA Global Advisors was founded in 1978 in Boston, Massachusetts, as a subsidiary of the in 1792 founded State Street Corporation (www.ssga.com c). In the same year of its establishment SSGA launched its first index fund, which was also one of the industry's first index mutual funds (ibid.). Only a year after its start the firm went international by launching one of the industry's first MSCI EAFE Index funds (ibid.). Where the S&P 500 index shows the performance of largest American publicly traded firms, the MSCI EAFE index represents the market value of shares across 21 countries in European, Australia and the Middle (Far) East) (EAFA) (www.msci.com a). Following domestic and international success with index funds, the index manager decided to launch its first actively managed fund in 1984 (Carpenter 2016).

In 1990 SSGA opened its first offices abroad in Hong Kong and London (www.ssga.com c). Three years later the index manager introduced America's first ETF, the SPDR S&P 500 in collaboration with the American Stock Exchange (ibid.). In the next few years SSGA introduced Sector SPDRs, the first family of sector-specific ETFs, in collaboration with the Hong Kong government the firm launched the Tracker Fund of Hong Kong, Asia's first ETF outside of Japan and it launched the mutual fund industry's first multi-asset fund. In 2000 the firm established its Official Institutions

Group (OIG), the first of its kind, advising central banks, governments, supranational organizations and sovereign wealth funds (ibid.). Sovereign wealth funds are state owned investment funds that are invested for the benefit of the country (www.swfinstitute.org). As of December 31, 2017, the OIG manages over $369 billion and serves 93 clients (www.ssga.com c).

The following decade SSGA expanded its reach in Europe, Oceania, Latin America and Asia by launching many index funds and ETFs (ibid.). In 2004 the index manager introduced the first US gold-backed exchange-traded security in collaboration with the World Gold Council and launched Managed Volatility Strategies (ibid.). Each share of a gold ETF represents a certain amount of gold and like other funds gold ETFs can be sold and purchased (Baldridge 2018). People might want to invest in gold ETFs because they want own gold without having to store it. Another reason is because the gold backed ETFs have lower risk, it is less likely that the price of gold will go down significantly then that of the market. Following the firm's growth, SSGA's assets under management doubled between 2003 and 2010 $1,000 to $2,000 billion (www.ssga.com c). In 2011 the index manager formed its Investment Solution Group (ISG) that creates custom portfolio solutions for its clients.

The following years SSGA collaborated with Blackstone/GSO to introduce the first actively managed senior loan ETF, it expanded its reach in the UK by introducing the Timewise Target Retirement Funds and it became the only US-based index manager to advice the European Central Bank (ECB) on its asset-backed securities purchase program (ibid.). BlackRock has been hired several times by the ECB since 2008, but this has been to audit, advise or perform the stress tests of top European (Bollen 2018; Staff 2014). In 2015 the firm collaborated with DoubleLine Capital to launch the SPDR DoubleLine Total Return Tactical ETF that raised over $1,000 billion in its first six months (www.ssga.com c). The same year SSGA partnered with the US Natural Resource Defense Council SSGA to introduce the firms first S&P 500 fossil-fuel-free ETF, boosting its Environmental, Social and Governance (ESG) approach (ibid.).

In 2015 the ETF industry registered a record growth, the net flows have been estimated at $372 billion, a 10% increase compared to the year before (Flood 2016b). However, SSGA didn't enjoy the same growth as most other index managers (Flood 2016c). The firm had already lost its second place in the world's biggest ETF manager ranking to fast growing index manager Vanguard a year earlier, after it had been replaced by iShares (BlackRock's ETF division) as the biggest ETF manager in

2003 (ibid.). Where iShares' and Vanguard's ETF's pulled in an estimated $139 and $84 billion respectively in 2015, SSGA's ETFs only attracted inflows of $19 billion (ibid.). This loss of shares was in large part due to the 0,7% decline of the S&P index, that resulted in investors withdrawing from SSGA's flagship ETF, SPY, that tracked the S&P 500 (ibid.). At the same time similar ETFs by BlackRock and Vanguard actually grew, SSGA mainly couldn't compete with Vanguard because the index manager was able to offer low fees (ibid.). Whilst SSGA did start cutting prices after that, it has been argued that firm had been to slow in responding to its rivals' the price challenge (ibid.). To counter its competition and respond to its loss of assets SSGA acquired GE Asset Management in 2016 (Financial Times 2016; www.ssga.com c). The buy was estimated to be up to $485 million at the time the index manager had approximately $2,200 billion assets under management (Financial Times 2016). The same year SSGA further boosted its ESG approach by introducing the SPDR SSGA Gender Diversity Index ETF was introduced (www.ssga.com c).

3.3.2 CEO

As of November 2017, Cyrus Taraporevala is the CEO and President of SSGA (www.ssga.com d). Taraporevala joined the asset managed the year prior from Fidelity Investments as Head of the Global Institutional Group (Financial Times 2017; www.statestreet.com). Before that he worked for BNY Mellon Asset Management, where was Head of North American Distribution, Legg Mason focusing on institutional business and Citigroup Global Investment Management, directing the business strategy (www.ssga.com d; www.statestreet.com). He also was a McKinsey & Company partner for 14 years, where he worked in New York and Copenhagen (ibid.). Taraporevala has an MBA from Cornell University and a bachelor's degree from the University of Bombay, India (ibid.).

4. Investment Stewardship

In recent years BlackRock, Vanguard and SSGA have all set up a centralized corporate governance team. These investment stewardship teams are tasked with attempting to influence the corporate governance strategy, and thus decision-making process, of the firms the asset managers are shareholders of, in favor the long-term value for their clients (2018; 2017; 2016; Gillan, Hartzell, Koch, and Starks 2014;). The investment stewardship approach of passive asset managers has an Environmental, Social and Governance (ESG) focus: it promotes ESG standards. It has been widely regarded that considering ESG issues in decision-making both generates better business performance and contributes positively to the world in general (Clark, Feiner and Viehs 2015: 10). As Vogel and Benabou and Tirole put it: a company can 'do well while doing good' (2005: 19; 2010: 9). This 'sustainability trend', as it has been dubbed, is one of the most significant trends in financial markets for decades (Clark et al. 2015). The increasing investment stewardship efforts of the passive asset managers raises several questions.

One of the main sources of passive asset managers' growth in recent years is it being able to offer lower fees than actively managed funds (Carrel 2018). By having an active corporate governance strategy, passive asset managers seem to against their trademark, as deploying such a strategy costs money. Additionally, since passive investment managers own shares in a large number of companies, it could be argued that the performance of one firm has little influence on the total value of the indices the asset managers track. So what incentives do passive asset managers funds have to deploy an active corporate governance strategy? Firstly, passive asset managers have a fiduciary duty towards their clients to push firms in a direction that increases and protects long-term value (Bioy 2017). In recent years regulators around the world have increasingly been focusing on the relationship between firms and their shareholders (Marriage 2017). Initiatives such as the UK stewardship code and the EU's shareholders rights directive aim to push shareholders to actively engage with firms to improve their business performance (ibid.; Evans 2015). Secondly, since passive index funds can't sell their shares in a specific firm if it performs poorly, it is in their best interest that the firms they own a share in do well. To protect and increase the long-term value for its clients, it is the responsibility of passive asset managers to actively try to change the corporate governance strategy of firms it's 'stuck' with (Carrel 2018).

Unlike active asset managers, passive ones can't sell their shares in a firm. Threatening to sell shares has long been regarded as the way to influence management, as the sale of a large number of shares negatively affects the price of shares and thus puts pressure on the management of a firm (Fichtner et al. 2017). The threat of this 'exit' incentives managers to give shareholders a 'voice' in their corporate governance strategy. How can passive asset managers influence a firm's corporate governance decision-making if they can't threaten to exit? Passive asset managers can use the threat of voting against management in shareholder meetings to influence management. The fear of losing the votes of large shareholders, such as passive investment managers, in high profile proxy fights, incentivizes management to engage with them (Carell 2018).

A few decades ago ownership was concentrated in the hands of actively managed funds, in contrast to passive asset managers now, they didn't have an active corporate governance strategy back then. This was due to legal restrictions, conflicts of interest and the costs of shareholder activism (Davis 2008). This raises the following question: why can passive asset managers now have an active corporate governance strategy? Firstly, passive asset managers don't have the same legal restrictions to use their shareholder power as active funds. In the US laws have been laid out to prevent large shareholders to influence the corporate governance of firms they are invested in (Davis 2008). Since passively managed funds usually have less ownership in a firm, these laws don't apply to them. Secondly, passive index funds usually don't have the same conflicts of interest as active asset managers (Fichtner et al. 2017). Active asset managers often faced the issue of being shareholder of a firm that was also its client, resulting in pressures to alter their corporate governance strategy. Because of their business structures passive asset managers are much less often invested in firms that were also their clients, and thus doesn't face these kinds of pressures. Lastly, the large scale of the passive asset managers has made the cost of shareholder activism much lower. In the past asset managers who choose to have an active corporate governance strategy had to cover the costs for it, whilst the shareholders enjoyed the benefits of the company they were invested in performing better (Davis 2008). Now that the asset managers significantly have grown, it is relatively cheaper for them to have an active investment stewardship strategy.

4.1 Investment Stewardship approach of the Big Three

The investment stewardship efforts of BlackRock, Vanguard and SSGA all consist of proxy voting in shareholder meetings, company engagements, advocating in industry events for good governance policies and ESG practices, working with regulators and governments to shape the public policy they and other companies are subject to and the CEO's of the three firms sending annual letters to the CEO's of their investee companies, urging them to adopt investment stewardship efforts (BlackRock 2018a: 8, 17; Vanguard 2017a: 4, SSGA 2017a: 6). For the purpose of these efforts, the Big Three all have investment stewardship teams. As of December 2017, Vanguard has 21 investment stewardship team members working out of its office in Malvern, Pennsylvania (Bioy 2017, Vanguard 2017a: 2). BlackRock has 33 investment stewardship team members across offices in San Francisco, New York, London, Tokyo, Hong Kong and Singapore (BlackRock 2018a: 5; Boiy 2017). SSGA lastly, has 11 people working in its investment stewardship departments in Boston (Massachusetts), London and Tokyo (Bioy 2017; SSGA 2017a: 7). The latter location has not been mentioned (yet) in any SSGA reports, but the research deployed in this thesis showed that there is one SSGA investment stewardship member stationed there as of May 2018.

The index managers describe company engagements as (one of) the most important and influential investment stewardship tools they have. BlackRock describes its company engagements as "purposeful conversation[s] on ESG topics relevant to us or the company" (2018a: 6). These engagements can be 'basic', 'moderate', or 'extensive' (Blackrock 2017a). Basic engagements are single conversations on routine matters, moderate engagements are more complex and usually more than one meetings and extensive engagements are high profile, complex and many meetings over a longer period of time (Blackrock 2017a: 3). Both Vanguard and SSGA don't specify what constitutes an engagement, not knowing if e-mails, phone calls etc. are also seen as engagements makes it not possible to compare the company engagement efforts of the Big Three (2017a; 2017a). SSGA does however have engagements of different 'natures', this seems to suggest that engagements refer to more than only meetings (2017a: 8). SSGA also differentiate between two types of engagements: active and reactive engagements (2017a: 8). In the former case the index manager actively targets firms, and in the latter case the firms reach out to SSGA (ibid.). About 65% to 75% of the index manager's engagements each year are active (ibid.).

Given the large number of firms index managers are invested in, they would have to make choices in their company engagements. BlackRock and SSGA describe how they prioritize, identify and determine the intensity of their engagements. BlackRock prioritizes mainly based on the probability that engaging has a positive effect and the concern over the firm's governance and performance (2018a: 8). It identifies firms for engagement based on four factors: concerns over the firm's governance and performance, the occurrence of an event that has had or may have an impact on the firm's long-term value, being in a sector where there is a thematic governance issue that is relevant for shareholder value and not providing enough information for the index manager to assess the governance quality (BlackRock 2018a: 8-9). SSGA identifies and prioritizes its engagements based upon the following factors: size of the index manager's holdings in the firm, poor long-term performance; lagging behind on ESG practices, concerns from prior engagements and themes and sectors the index manager has prioritized (2017a: 8). The intensity and nature of the engagements are determined by the engagement culture in an industry, size of SSGA's holdings in the firm and how material the ESG concerns are (ibid.).

As showed by the above-mentioned selection and prioritizing criteria, thematic and/or sector focuses are important for the investment stewardship efforts of the Big Three. Vanguard's investment stewardship approach has four fundamental themes: board composition, governance structure, executive compensation and risk oversight (2017a:4). These 'pillars' are supplemented by two themes that change every year, for the 2017/ 2018 proxy season these are: board diversity and climate change (Vanguard 2017a: 8, 20). BlackRock's investment stewardship approach consists of six proxy voting themes and five yearly changing engagement priorities. The six voting themes that receive special attention are: board and directors, compensation and benefits, general corporate governance matters, environmental and social factors and capital structure, mergers, asset sales and other special transactions (BlackRock 2018a: 12). For the 2018 proxy season the engagements focus on the following themes: governance (primary focus), long term corporate strategy, disclosure of climate risks, compensation (executive pay policies) and human capital management (idem: 10). A proxy season is the period in which shareholder meetings take place. In this thesis a proxy season refers to the July 1 of the previous year until June 30 of the year in question, thus the 2017 proxy season starts on July 1, 2016 and ends on June 2013 of 2017. This reflects the 12-month period over which US mutual funds have to report to the US Securities and Exchange

Commission (www.sec.gov). SSGA has both yearly changing themes and sectors to help prioritize their engagements (2017a: 12-13). For the 2018 proxy season the themes that receive extra attention are: board leadership, board composition and gender diversity, pay strategies, climate change and water management (SSGA 2017a: 12-13). Gender diversity is also the focus point of the index manager's proxy voting policy (ibid.). The sectors that SSGA focusses its investment stewardship efforts on are: media, insurance companies and real estate investment trusts sectors (ibid.). Last proxy season 65% of the companies SSGA engaged with suited within their thematic focus, 20% within their sector focus and SSGA voted against management recommendations for 42% of the proposals within their proxy voting focus.

Another important part of the Big Three's investment stewardship efforts is proxy voting in shareholder meetings of the companies they are invested in. BlackRock, Vanguard and SSGA all vote (or abstains from voting) proxies for any fund for which it's feasible (Blackrock 2017a; SSGA 2018: 3). These votes are generally casted according to the index manager's proxy voting guidelines. BlackRock has market-specific guidelines, Vanguard only has global guidelines and SSGA has a few market-specific proxy voting guidelines and the votes of markets that are not covered by those guidelines are casted according to the index manager's Global Proxy Voting and Engagement Principles (Blackrock 2017a: 9; SSGA 2018: 2; www.vanguard.com d;). The index manager's that don't have market-specific guidelines or guidelines that don't cover all markets, do state that they do take the local context in to account when casting votes. For example, through participating in discussions with local stakeholders (SSGA 2016a). BlackRock states in its guidelines that will only vote against management or withhold from voting if it's dissatisfied with the way the firm has responded to shareholder concerns over the subject (2017b: 2). A high-profile example of BlackRock only voting against management is the engagements didn't provide the desired results, is the 2016 shareholder proposal to force Exxon Mobile to disclose its risk to climate change (Winston 2018). In 2016 the index manager voted against the proposal, instead it opted to engage on the subject. When the engaging didn't provide the desired results, the index manager voted against management on the proposal a year later (ibid.). Unlike BlackRock, Vanguard and State Street don't specifically state in their guidelines that there are instances in which it doesn't vote against management if it is consistent with their guidelines (SSGA 2018; www.vanguard.com d).

The proxy voting activities of all three index managers are centralized within their investment stewardship team's (BlackRock 2018a: 13; SSGA 2018: 2; Vanguard 2017a: 3). It is believed that centralizing the proxy voting of all funds, regardless whether they have an active or passive strategy, maximizes (cost) efficiency and voting power (ibid.). SSGA's and Vanguard's investment stewardship teams have ultimate voting authority: they have the final say in how all fund's votes are used (SSGA 2018: 2; www.vanguard.com d). Whilst the team may enlist active portfolio asset managers to advice on proxy voting, it ultimately casts the vote even when there is a difference in opinion on how it should be cast (ibid.). These differences in opinion may occur because actively managed funds mostly focus on short-term value, whilst asset managers benefit from long-term value. Unlike at Vanguard and State Street, BlackRock's investment stewardship team doesn't have ultimate voting authority (BlackRock 2018a: 13). There, active portfolio asset managers can decide to, but very seldom do, vote differently on a proposal than the investment stewardship team (BlackRock 2018a: 13). BlackRock says it allows this to ensure that active asset managers have the opportunity to vote in a way that is in the best interest of the clients that are invested in their funds (ibid.).

To cope with the large amount of voting responsibilities of the relatively small investment stewardship teams, the big three passive asset managers use proxy advisory firms. Proxy advisory firms provide institutional advisors, such as asset managers, with data, research and recommendations on proxy proposals (www.execcomp.org). SSGA has contracted Institutional Shareholder Services (ISS) as a proxy voting agent and research and analysis provider (2018: 3). As a proxy voting agent ISS voting on routine proposals according to SSGA's guidelines and directs non-routine and high-impact proposals back to the investment stewardship team (ibid.). The research and analyses ISS provides, are both on general and specific corporate governance issues (ibid.). However, SSGA doesn't follow the firm's voting recommendations (ibid.). BlackRock likewise uses (unspecified) proxy advisory firms to act as proxy voting agent and research provider and doesn't rely on the firms' proxy voting recommendations (BlackRock 2018a: 9, 15). Unlike BlackRock and SSGA, Vanguard doesn't use proxy advisory firms to cast proxy votes (www.vanguard.com d). Instead, all the proposals are evaluated and voted on by the investment stewardship team (ibid.). However, like the other two index managers Vanguard uses research provided by proxy advisory firms but doesn't follow their voting recommendations (ibid.).

4.2 Research questions

Whilst it is known that BlackRock, Vanguard and SSGA actively try, and potentially can, influence the corporate decision making of their investee companies, much is still unknown about the so-called investment stewardship efforts.

It is not clear to what extent the Big Three fulfill their investment stewardship efforts. Given the relatively small investment stewardship teams compared to number of investee companies, it seems unlikely that the investment stewardship teams can exercise great influence on the decision-making process of a large number of firms. However, if the investment stewardship teams do seem to exercise influence on the decision-making process of a large number of firms, this might lead to concerns and discussions over the re-concentration of corporate control. In the past the US government put up legal restrictions to prevent financial institutions from gaining ownership positions large enough to influence firms and thus gain corporate control (Davis 2008: 12). To get an idea of the extent of the Big Three's investment stewardship efforts the number of engagements and proxy votes (against management) of the passive asset managers will be compared. The efforts will also be compared per year, to get an idea of how the investment stewardship efforts have changed over the year.

After the extent to which the Big Three fulfill their investment stewardship efforts is clear, it would be interesting to see how that compares to the extent the passive index funds represent these efforts to the outside world. If the representation of these efforts is disproportionate to the actual fulfillment, questions could be asked regarding the reason for this. Could the investment stewardship efforts to a great extent be a marketing strategy to attract new investors? Or does the public representation of the investment stewardship efforts run ahead of the actual fulfillment, aiming to 'clear the way' for when the passive asset managers step up their efforts? They could be attempting to prepare the playing field and get other shareholders, with whom they might have to partner later, to participate in the investment stewardship trend without antagonizing them. Or does the extent to which the asset managers represent their investment stewardship efforts to the world not reflect the extent to which investee companies are being influenced? This could be a strategy to avoid more public and political scrutiny and avoid restriction of the corporate control of the Big Three passive asset managers.

If the Big Three are indeed influencing the decision-making a large number of firms, the small number of people in the investment stewardship teams of the Big Three have great corporate control. Therefore, it is necessary to gain insight on who these people. Has the creation of the investment stewardship teams resulted in the emergence of a new elite that can potentially influence the corporate governance strategies of a large number of firms American and outside of it? Or do the Big three all have different Human Resource strategies and employ an array of different people in their investment stewardship team?

To summarize, this thesis aims to answer the following questions:

- *To what extent do BlackRock Vanguard and SSGA fulfill their investment stewardship responsibilities?*
- *How do BlackRock, Vanguard and SSGA present their efforts to the outside world?*
- *Who are BlackRock, Vanguard and SSGA's investment stewardship team members?*

5. Methods and data

5.1 Data

5.1.1 Proxy voting and engagement statistics

The proxy voting and engagement statistics of BlackRock, Vanguard and SSGA have been used to research the scope of their investment stewardship efforts over the years, as these are the primary engagement tools. This data has been primarily retrieved from the index managers' annual and quarterly voting and engagement statistics reports.[2] A 2017 report by Morningstar, an investment management and independent investment research company, has supplemented these data sources by proving Vanguard's voting and engagement statistics for the 2015 and 2016 proxy seasons. BlackRock's statistics starting from the 2011 proxy season have been retrieved, Vanguard's statistics from the 2015 until 2017 season, and SSGA's statistics starting from the 2014 proxy season.

5.1.2 Press releases

The press releases of the Big Three have been analyzed to research the extent to which and manner the index managers present their investment stewardship efforts to the outside world. Press releases are brief articles issued by institutions or firms, in this case passive asset managers, to inform journalists and (indirectly) the general public on relevant news (Catenaccio 2008: 9). Whilst press releases are informative, they implicitly also have a self-promotional objective: the issuer and information source of the press releases is also the subject of the press release (ibid.). Thus, the press releases can be used to research how and to what extent firms or institutions self-promote on a certain subject, in this case their investment stewardship efforts. The press releases that have been send out between 2008 and June 15 2018 have been analyzed, as 2008 was the year that the financial crisis took place that resulted in a re-concentration of ownership in the hands of the Big Three (Fichtner et al. 2017: 298). The three passive asset managers publish their press releases on a section of their websites, making this the primary data source(www.blackrock.com g; www.pressroom.vanguard.com; www.newsroom.statestreet.com). The press releases on these websites didn't all go back to 2008. Whilst some press-releases from before the published period could be been found online, they have not been used in this research. The reason for this is that it would create a bias: if only a few

[2] Reference scan be found in the bibliography

press releases of a year would be used, it could give a wrong image of the self-promotion over the entire year. Therefore, for all three asset managers press releases will only be analyzed if all the press releases of that year are found. BlackRock's 2017 and 2018 press releases have been retrieved and for Vanguard and SSGA the press releases starting from 2008 and 2010 respectively.

5.1.3 CEO Letters

To research the extent to which and manner BlackRock, Vanguard and SSGA present their investment stewardship efforts to the outside world, the annual corporate governance themed letters their CEOs have written to the management/ boards of their investee companies have also been analyzed. Previous studies have highlighted the importance and impact of CEO letters to shareholders. Firstly, private investors and financial analysts use letters to shareholders in their decision-making process (Baird and Zelin 2000; Breton and Taffler 2001; Hooghiemstra 2010: 276; Kaplan, Pourciau and Reckers 1990). Secondly, research by Segars and Kohut showed that the CEO issued letters can exercise social influence on stakeholders (2001). Lastly, letters to shareholders are representations of the attitudes, values and motives of the firm's corporate leadership and in particular of the CEOs issuing them (Amernic, Craig and Tourish 2010: 26). This is because they are periodic, unaudited, public documents signed by the firm's CEO (idem: 27; Amernic, Craig and Tourish 2007; Hooghiemstra 2010: 276). Given the similar format and the identical issuer of shareholder and CEO letters, it is plausible that the annual letters to CEOs similarly reflect the firm's issuing them and affect (the decision-making process of) its recipients, in this case the CEOs of public companies the Big Three is invested in. BlackRock's 2012 and 2014 until 2018 CEO letters have been retrieved and Vanguard and SSGA the letters from 2015 and 2017 and 2016 until 2018 have been analyzed respectively. Most of the letters have been found from the index manager's websites using a google search, the 2014 and 2015 BlackRock letters were retrieved from the Wall Street Journal and the Business Insider respectively and SSGA's 2017 letter from the CEPC, CEO force for good, website (www.cecp.co). SSGA's 2018 letters isn't written by its CEO, but by the Chief Investment Officer, Richard Lacille. This is because SSGA's current CEO, Cyrus Taraporevala, had just succeeded Ronald O'Hanley at that time.

5.1.4 Investment stewardship team members background information

Background information on the members of BlackRock, Vanguard and SSGA's investment stewardship teams has been used to research the make-up of the investment stewardship teams. Background information on the teams can provide insight on the Human Resource strategy the index managers deploy when recruiting new members: do they recruit internally or externally; do they seek specialists or a more diverse group of people; how is the balance between experienced and young professionals? Additionally, it provides insight on whether an elite has been emerging in the investment stewardship teams that potentially can influence the corporate decision-making of a large number of firms. Between April and June 2018, the majority of the Big Three investment stewardship team members have been identified and information on their background has been gathered. The statistics on identified team members compared to the number of team members can be found in Table 1.

***Table 1**: The Big Three's identified investment stewardship team members.*

	Number of team members	Team members identified	Percentage identified
BlackRock	33	24	73%
Vanguard	21	16	76%
SSGA	11	8	73%

Note: the gathering of the background information and identification of the investment stewardship team members has taken place between April 1 and June 15, 2018.

The primary data source are the LinkedIn pages of the team members, this has been supplemented with information out of news articles, annual reports, the index managers' websites and press releases (Flood 2018; Marriage 2017; SSGA 2016; SSGA 2017a; www.ssga.com f). Given the nature of the primary data source the collected data is not all-encompassing, some people may have chosen not to list certain aspects on their LinkedIn page. Additionally, because of the nature of the source no data could be collected on the ethnicity and age of the investment stewardship team members. The overall data on the investment stewardship team members has been anonymized and used to construct a database listing the gender, years at index manager, office location, position, years in position, former employers, positions at those former employers and the higher education degrees and institutions where they were retrieved. The collected data has been adjusted in two ways. Firstly, the higher education degrees have been classified into academic disciplines using Anthony Biglan's classification (1973). Since some education degrees didn't fit in Biglan's classification, the following additional categories have been formed: International studies, Liberal arts, American studies and East Asian marketing. Secondly, each former employer in the database has been categorized in an industry. This categorization is based primarily on the Global Industry Classification Standard (GICS) that was developed in 1999 by MSCI and S&P's (www.msci.com b). Since not all of the investment stewardship team members' former employers are technically industries, the following categorizations have been added: defense, non-profit, government and trade association. Additionally, a proxy advisory firm categorization has been formed, to highlight the number of people in the investment stewardship teams that are 'specialized' in corporate governance advice and research.

5.2 Methods

5.2.1 Proxy voting and engagements statistics

The most detectable way index managers can call their investee companies to account on their corporate governance policies and ESG efforts, is by voting against management proxy voting in shareholder meetings. The number of proxy votes differs per index manager and over time, as the number of proxy votes is determined by the number of assets a manager has. Therefore, the number of votes against management won't be compared between index managers, instead, the index managers' percentage of votes cast against management will be compared over the years. BlackRock and Vanguard present how votes have been cast in each region. However, only the percentage of votes against management in the US and the Asia-Pacific region for the 2017 proxy season could be compared between the two index managers, as Vanguard's regional votes for only that period have been found. SSGA only lists the percentage of proxy votes cast in each region and not the votes against management. The number of company engagements, the other analyzed investment stewardship tool, also can't be compared between index managers. The reason for this is that it's unclear what constitutes an engagement for each index manager. Therefore, the analysis will mainly focus on each index manager's number of engagements over the years and, where possible, the percentage of engagements spread across regions, levels and themes. The percentage of engagements across regions will be, where possible, compared between the index managers.

5.2.2 Press releases

A quantitative content analysis has been performed on the press releases, this is a research method in which textual materials are systematically and objectively quantified (Bryman 2012: 290). Systematic refers to the analysis being done in a consistent way and objectively to the use of explicitly specified guidelines for the categorization (ibid.). This research method being objective and systematic should mean that if the study is repeated, the results are the same (ibid.). Where a qualitative content analysis focusses on the latent content, the underlying meanings, a quantitative content analysis looks at the manifest content, the objects on the surface, such as words (Halperin and Heath 2012: 219). In this study the content analysis has been used to classify the collected press releases into two categories: investment stewardship themed and not investment stewardship themed. This categorization helps identify what, how many and when each asset manager published investment stewardship themed press releases. The categorization has been made by initially by manually identifying the press releases containing the following investment stewardship themed words: stewardship, ESG, engagements and proxy voting. These words may appear in a different form, for example 'engaging' or 'steward'. Next, these press releases are read to confirm whether they are indeed investment stewardship themed. Some press releases containing the word ESG are about ESG ETFs instead of investment stewardship for example. Based on this two-step process the press releases are categorized as either investment stewardship themed or not investment stewardship themed.

5.2.3 CEO letters

Whilst with the press releases a content analysis was used to classify them as investment stewardship themed or not, in the case of the CEO letters a content analysis is used to help determine the extent and manner in which investment stewardship is addressed. The content analysis has been done using AntConc, a toolkit for text analysis and concordancing, the construction of an alphabetical list of key words used in a text (Anthony 2018). Firstly, the program is used to determine the number of times investment stewardship themed words are used in the CEO Letters. The a priori compiled list of investment stewardship themed words has been supplemented during the analysis with words that emerged from the letters. However, these outcomes have been considerably adjusted manually in two ways. Firstly, by including the number of times the investment stewardship themed words appeared in a different form, for example including sustaining in the tally of sustainable and long run in that of long-term. Secondly, by excluding words that have an unintended meaning, for example environment in the investment stewardship context refers to the land, air and water on or in which animals, plants and people live, but also the conditions someone works in (www.dictionary.cambridge.org). Next, using the cluster/ N-Grams tool the most frequently used groups of words in the text have been identified. From the list that was compiled using this tool, the word groups containing 'stopwords' have been excluded. Stopwords are "common words like 'in' and 'the' which add little meaning but get in the way of the analysis" (Halperin and Heath 2012: 324).

5.2.4 Investment stewardship team members background information

A network analysis has been conducted to map the previous employers, industry affiliations and academic disciplines of the investment stewardship team members. Social network analysis is used to study the relationship between two entities, for example people or firms (Scott 2013: 3). In a network analysis the entities are referred to as 'nodes' and a relationship between two nodes is labelled as a 'tie' (ibid.; Hanneman and Riddle 2005). In the social network graphs both the size of the nodes and the thickness of the ties are proportional to the number of relationships that node has or tie represents. These relationships can also be quantified using two statistical analyses. The 'degree' shows the number of ties and thus different relationships each node has. The 'weighted degree' does not just look at the number of ties, but also at the number of relationships that tie represents (Barrat et al. 2004; Scott 2013: 84). For example, if node A and node B would share two former employers, the degree would be one, but the weighted degree two. A two-mode networks has been constructed showcasing the relationship between BlackRock, Vanguard and SSGA and the former employers, industry affiliations and academic disciplines of their investment stewardship team members. A two-mode network refers to the graph containing two different types of entities. The index managers have a tie with a former employer, industry or academic discipline if one of their investment stewardship team members have a tie with them, in this case: worked for an employer or in an industry or studied an academic discipline.

6. Results

6.1 Scope of Investment Stewardship activities

6.1.1 Proxy voting

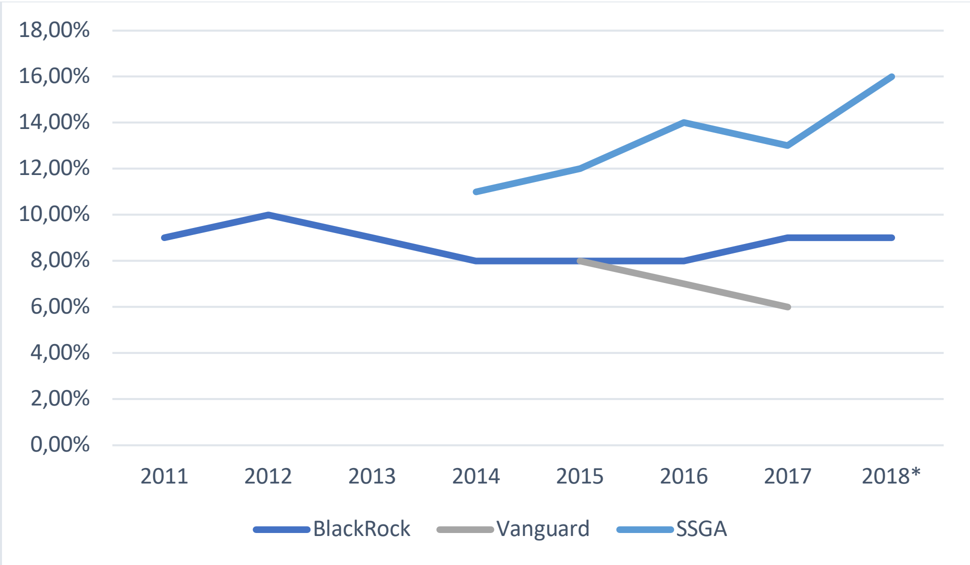

Figure 1: *BlackRock, Vanguard and SSGA's percentage of votes against management.*

** The 2018 proxy season is still ongoing, the statistics on the first three quarters have been used.*

In Figure 1 the percentage of votes against management cast by BlackRock, Vanguard and SSGA are presented. The Figure shows that over the years SSGA has percentagewise voted more against management than the other two index managers. SSGA has also been increasingly voting against management: in the 2014 proxy season the index manager voted against management on 11% of the proposals and in the 2018 season that had increased to 16%. There was however a slight decrease in the 2017 season. It is plausible that this slight decrease is due to SSGA's 2017 proxy season statistics being susceptible to bias because the biggest proxy voting quarter could not be included in the data. Figure 11 also shows that BlackRock's percentage of votes against has been fluctuating between 10% and 8% from the 2011 onwards. The most significant change in BlackRock's percentage of votes against management was the decrease from 10% in the 2012 proxy season to 8% in the 2014 season. Whilst SSGA increased its percentage of votes against management between the 2015 and 2017 proxy seasons and BlackRock's relatively remained the same, Vanguard's percentage of votes against management decreased from 8% to 6% of the proposals.

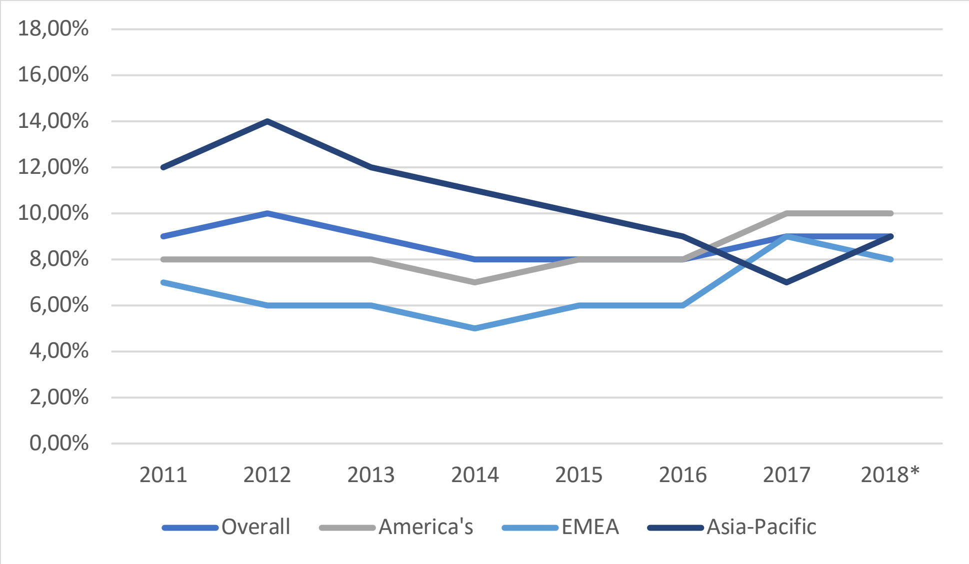

Figure 2: *BlackRock's votes against management per region and overall.*

** The 2018 proxy season is still ongoing, the statistics on the first three quarters have been used.*

In Figure 2 BlackRock's votes against management per region and overall are presented. The Figure shows that whilst the overall percentage of BlackRock's votes against management has fluctuated between 8% and 10% from the 2011 proxy season onwards, the percentage of votes against management per region has changed more over the years. Between the 2011 to 2012 proxy season the difference in percentage of votes against management between the region that votes most and least against management increased from 5% to 8%, by the first three quarters of the 2018 season this has been reduced to 2%. Figure 2 also shows that between the 2011 and 2012 proxy season BlackRock's percentage of votes against management increased from 12% to 14% of the proposals in the Asia-Pacific region, there was also an increase in BlackRock's the overall percentage of votes against management. At the same time the percentage of votes against management in the America's stayed the same but decreased in Europe, the Middle East and Africa (EMEA). Since then the percentage of votes against management in the Asia-Pacific region has gone down to 7% of the proposals in the 2017 season. Concurrently, the percentage of votes against management in the EMEA and America's fluctuated between 5% and 6% and 7% and 8% respectively between the 2012 and 2016 proxy seasons (Figure 2). Then, in the 2017 proxy season the percentage of votes against management in the EMEA region increased to 9% and in the America's to 10%. This was the first and only (thus far) proxy season the Asia-Pacific region had the lowest percentage of votes against management: by first three quarters 2018 season the Asia-Pacific and EMEA region had an equal percentage of votes against management, because their percentage of votes cast against management respectively increased to 9% and decreased to 8% in the first three quarters of the 2018 proxy season. Figure 2 lastly shows that the 2014 proxy season is the only season the percentage of votes against management in all regions following the same trend, they all decreased.

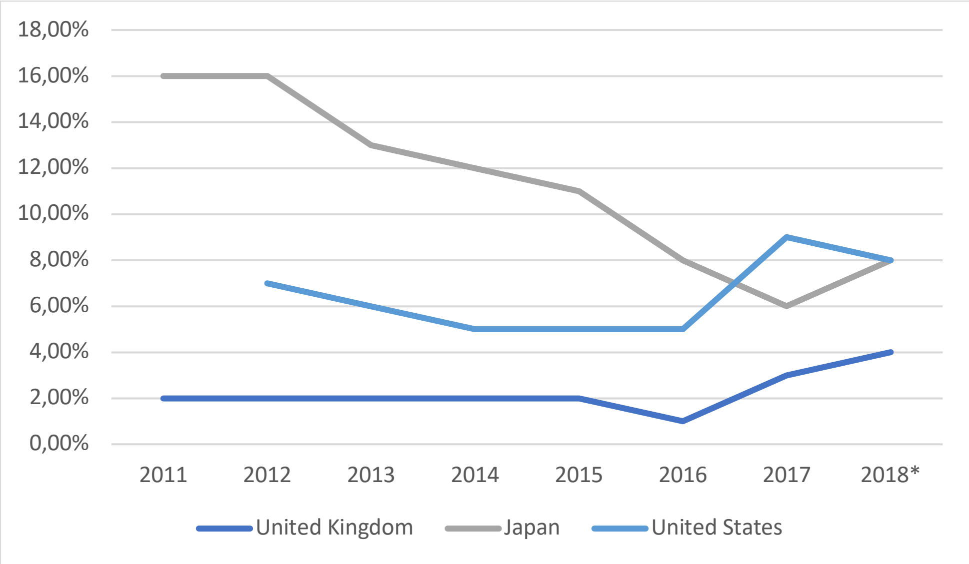

***Figure 3**: BlackRock votes against management for the biggest country per region.*

** The 2018 proxy season is still ongoing, the statistics on the first three quarters have been used.*

Figure 3 shows the percentage of votes against management for the biggest country of each region. Similar to the statistics per region, the difference in votes against management between the countries that vote most and least against management, has decreased from 14% in the 2011 proxy season to 4% in the first three quarters of the 2018 season. In the 2012 season BlackRock voted in Japan eight times as much against management than in the United Kingdom and more than twice as much then in the United States. Japan's votes against management have changed the most drastically: between the 2012 and 2017 proxy season votes against management decreased from 16% to 6% (Figure 3). In the first three-quarters of the 2018 season there has been an increase in Japan of percentage of votes against management to 8%. Figure 3 also shows that the percentage of votes against management in the United States decreased in the 2013 and 2014 proxy seasons from 7% to 5%, then remained on the same level for the following two proxy seasons. In the 2017 proxy season the percentage of votes against management increased to 9%, right before dropping to 8% in first three quarters of the 2018 season. Figure 3 lastly shows that until two proxy seasons ago the percentage of votes against management in the United Kingdom was very small: from the 2011 proxy season onwards the percentage of votes against management in the United

Kingdom was 2%, in the 2016 season this even decreased to 1%. Then, starting from the 2017 proxy season, the percentage of votes against management increased to 4% in the first three quarters of the 2018 season.

6.1.2 Engagements

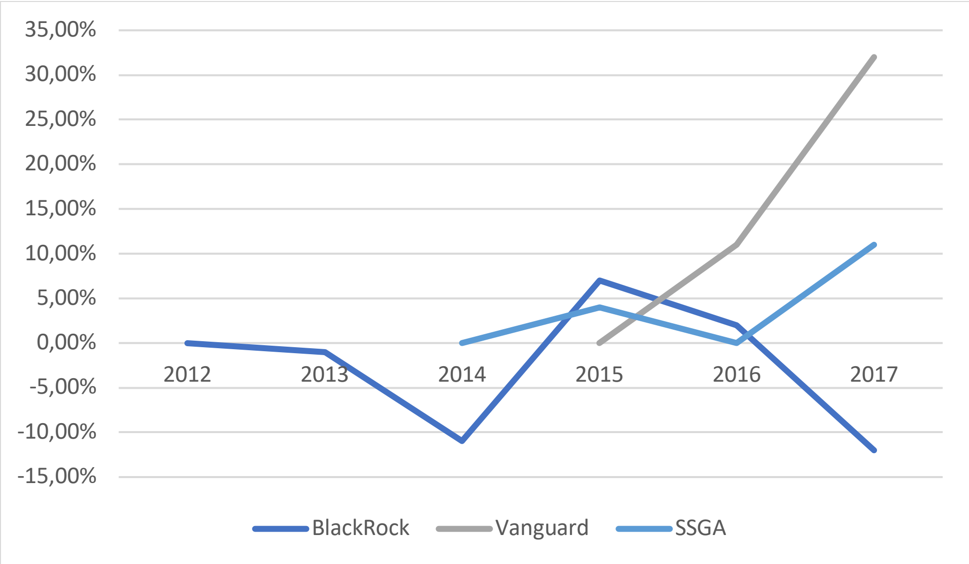

***Figure 4**: BlackRock, Vanguard and SSGA's change in number engagements expressed in percentages, the first year for which data has been retrieved has been used as the zero point.*
Note: SSGA's engagements represent calendar years and not proxy season.

In Figure 4 the Big Three's change in number of engagements is presented. The Figure shows that BlackRock's number of engagements has been fluctuating the most over the past few proxy seasons. In the 2013 proxy season the number of engagements decreased with 1% and in following year with an additional 10%. Then, in the 2015 proxy season the number of engagements increased with 18% compared to the previous year, resulting in that proxy season having 7% more engagements than the 2012 one. In the 2016 proxy season the number of engagements started to decrease again and in the 2017 proxy season the number of engagements was eventually 12% less than in the 2012 season. Figure 4 also shows that the SSGA's number of engagements increased with 4% in the 2015, only to returned to the same number of engagements as in the previous year. Eventually, SSGA's number of engagements was 11% higher in 2017 than in 2015. Lastly, Figure 4 shows that Vanguard has increased its number of engagements most of the Big Three index managers and it's the only one to increase its number of engagements for two years in a row. In the 2016 proxy season Vanguard had increased its engagements with 11% and in the 2017 season the index manager's number of engagements was 32% higher than in the 2015 proxy season.

***Table 2**: SSGA's engagements per region*

	2015	2016	2017
North-America (%)	67	66	67
Australia (%)	5	5	6
Japan (%)	3	4	4
Europe (ex- United Kingdom) (%)	10	11	14
United Kingdom (%)	13	10	8
Rest of the world (%)	2	4	1

Note: Engagements are presented by calendar year, not proxy season.

In Tabel 2 SSGA's engagements per region are presented. The Table shows that over the last three years two-thirds of SSGA engagements have taken place in North-America. It also shows that the percentage of engagements in Europe (ex-United Kingdom) has increased from 10% in 2015 to 14% in 2017. At the same time, the percentage of engagements in the United Kingdom has decreased from 13% in 2015 to 14% in 2017. In both Australia and Japan, the percentage of engagements increased with 1% over the three years. Table 2 lastly shows that the percentage of SSGA's engagements that take place outside of these regions increased from 2% in 2015 to 4% in 2016, before decreasing to 1% in 2017.

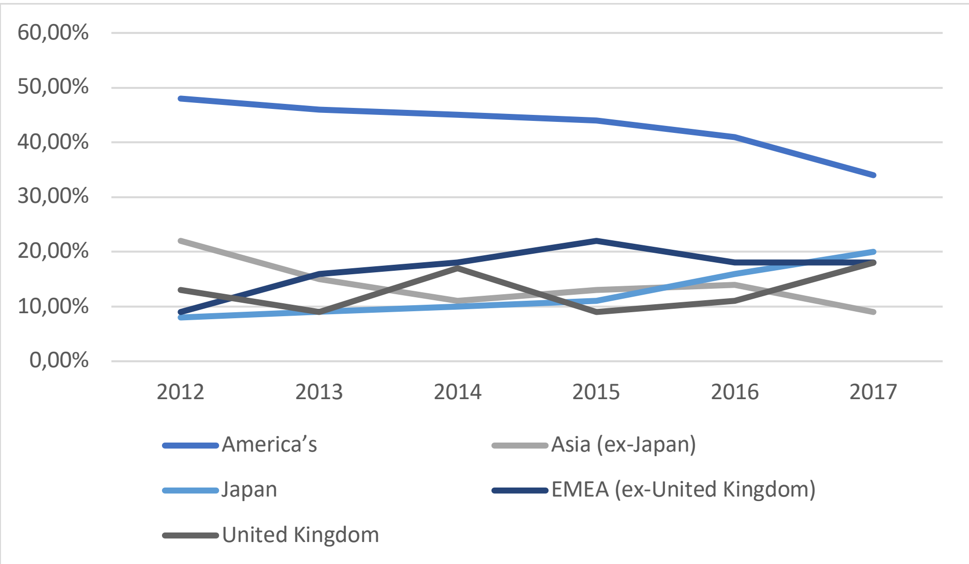

***Figure 5**: BlackRock's spread of engagements across regions.*

In Figure 5 the spread of BlackRock's engagements across regions is presented.

The Figure shows that most of BlackRock's engagements take place in the America's, but also that the percentage of engagements in the America's from the total number has decreased from 48% to 34% between the 2012 and 2017 proxy season. Contrastingly, there has been an increase in percentage of engagements in Japan (Figure 5). In the 2012 proxy season 12% of BlackRock's engagements took place in Japan, by the 2017 season this has increased to 20%. Figure 5 also shows that the EMEA region (ex-United Kingdom) has also enjoyed an overall increase in percentage engagements that take place there, from 9% in the 2012 proxy season to 22% in the 2015 season, before decreasing to 18% of BlackRock's engagements in the 2016 and 2017 proxy seasons. The percentage of engagements that take place in the United Kingdom increases and decreases every other year, fluctuating between 9% and 18% of BlackRock's engagements. Figure 5 lastly shows that the percentage of engagements in Asia (ex-Japan) has overall decreased from 22% in the 2012 proxy season to 9% in the 2017 season, in the meantime it enjoyed small increases in the 2015 and 2016 proxy seasons.

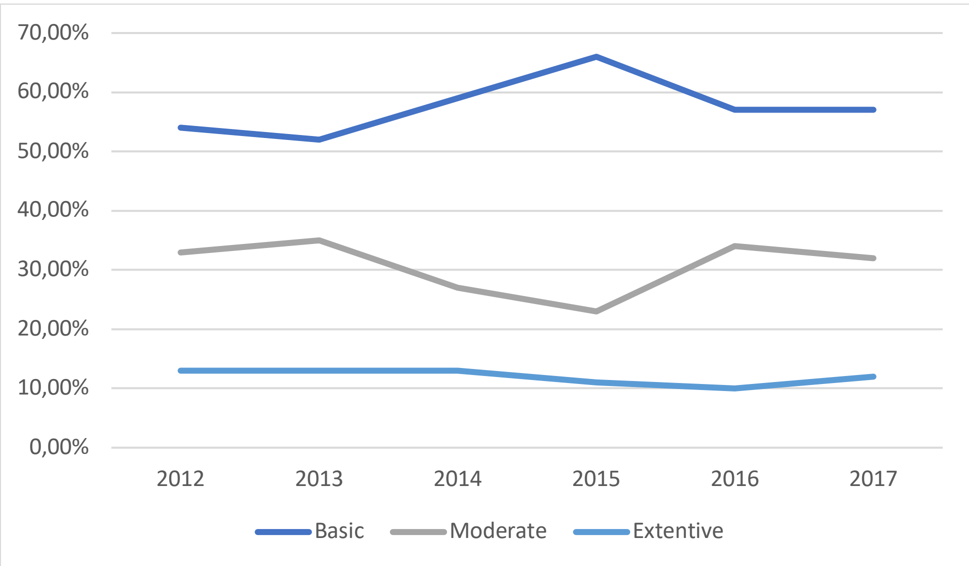

Figure 6*: BlackRock's overall engagements by level.*

In Figure 6 BlackRock's engagements spread by level are presented. The Figure shows that overall most of BlackRock's engagements are 'basic', 'moderate' engagements are the second most common and that 'extensive' engagements constitute the smallest level of engagements. In the 2017 proxy season 57% of BlackRock's engagements were basic, 33% of them were moderate and 13% extensive (Figure 6). The percentage of basic and moderate engagements follow an almost opposite trend. Where the percentage of basic engagements decreased between the 2012 and 2013 proxy seasons from 54% to 52%, the percentage of moderate engagements increased from 33% to 35%. Then, between the 2013 and 2015 season the percentage of basic engagements increased with 17% to 66% and the percentage of moderate statistics decreased with 12% to 23% (Figure 6). Next, BlackRock's basic engagements decreased to 57% of all engagements in the 2016 proxy season, whilst the moderate engagements increased to 34%. In 2017 proxy season, the percentage of basic engagements stayed the same, but the percentage of moderate engagements decreased a further 2%. Figure 6 also shows that overall there has been little fluctuation in the percentage of extensive engagements, it fluctuated between 13% and 11% of the engagements over the seasons (Figure 6).

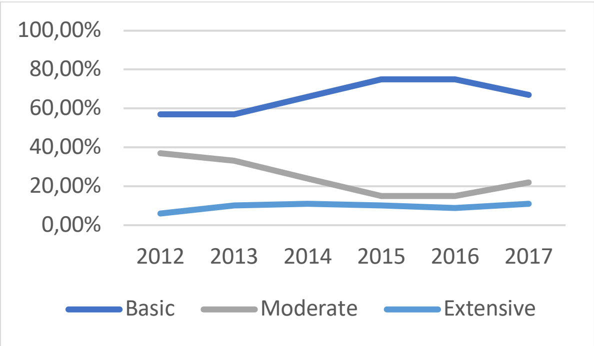

Figure 8: *BlackRock's engagements per level for the America's region.*

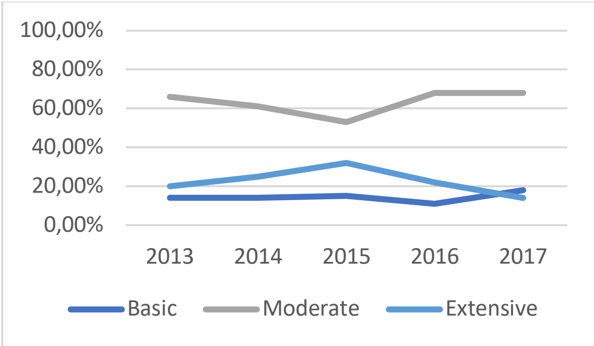

Figure 9: *BlackRock's engagements per level for the Asia-Pacific (ex-Japan) region.*

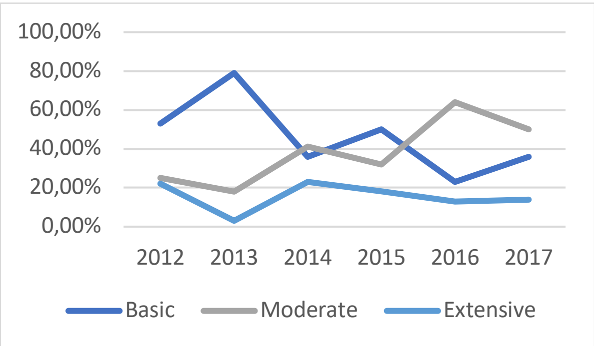

Figure 10: *BlackRock's engagements per level for Japan.*

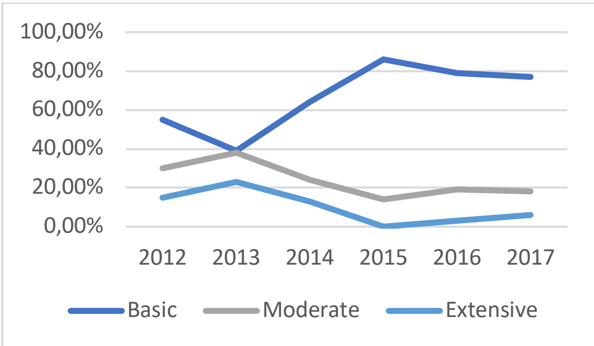

Figure 11: *BlackRock's engagements per level for the EMEA (ex-United Kingdom) region.*

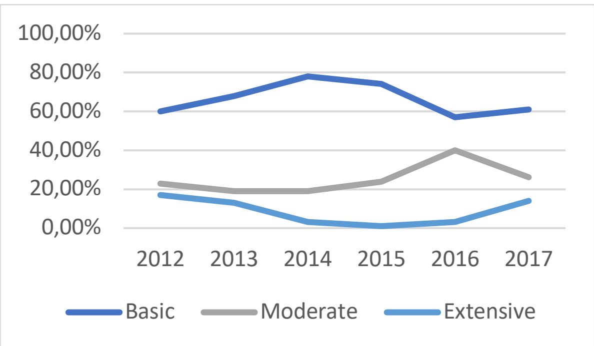

Figure 12: *BlackRock's engagements per level for the United Kingdom.*

In Figures 8 to 12 BlackRock's engagements per level for consecutively the America's, Asia-Pacific (ex-Japan), Japan, EMEA (ex-United Kingdom) and United Kingdom regions are presented. The Figures show that the percentage of basic, moderate and extensive engagements can strongly differ between regions. In most of the regions basic engagements are the most common, this is the case in the America's and EMEA region and in the United Kingdom. These three regions also follow a pattern that is somewhat similar to each other and to the overall pattern of engagements in Figure 7. In the Asia-Pacific region moderate engagements constitute the largest percentage of engagements (Figure 9). Before the 2017 proxy season extensive engagements were the second biggest type of engagements, but they have been equaled by basic engagements. In Japan the basic and moderate engagements have been alternating the spot of most common level of engagement over the past proxy seasons (Figure 10). The percentage of basic, moderate and extensive engagements in Japan have been changing at a seemingly random manner.

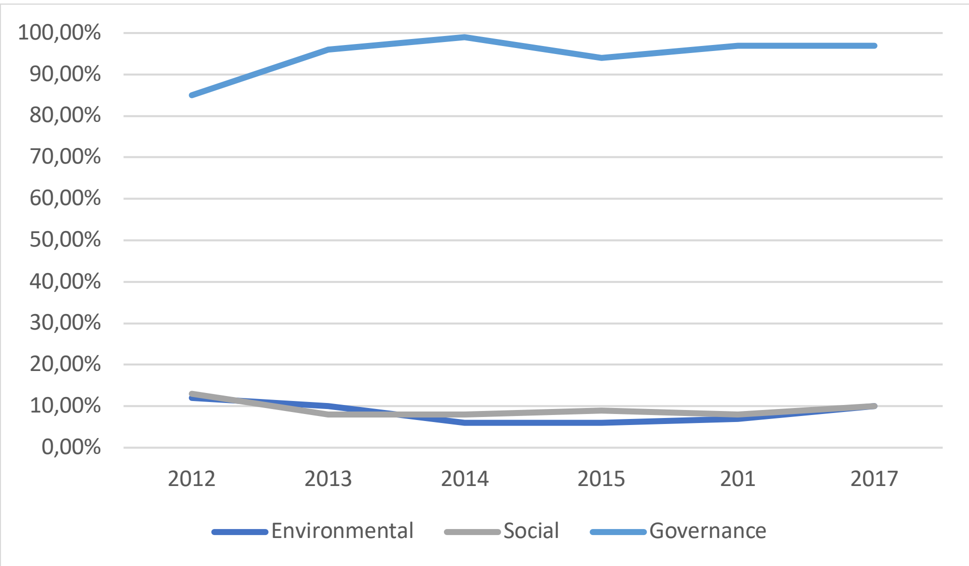

***Figure 13**: BlackRock's overall engagements by topic*

Note: Percentages may add up to more than 100% because some engagements might cover more than one topic.

In Figure 13 BlackRock's overall engagements by topic are presented. The Figure shows that in most of BlackRock's engagements governance efforts are discussed and that between the 2012 and 2014 proxy seasons the percentage of engagements of which governance was discussed increased with 14%. The season thereafter the percentage dropped 5% to 94% of the engagements, before increasing to 97% in the 2016 proxy season. In the 2017 proxy season the percentage governance themed remained the same. Figure 13 also shows that the percentage of engagements discussing an environment or social topic follow the same pattern. In the 2012 proxy season 12% of the engagements were environment related, this percentage was halved by the 2014 season. The following proxy season the percentage of environmental themed engagements increased to 7% and in the 2017 proxy season it increasing to 10% of the engagements. The percentage engagements discussing social topics decreased between the 2012 and 2013 proxy seasons with 5% to 8% of the engagements. The following three proxy seasons the percentage of engagements discussing social efforts remained the same, except for the 2015 season when it temporarily increased to 9% of the engagements. Lastly, Figure 13 shows that between the 2016 and 2017 proxy seasons the engagements that discuss a social topic increased with 2% to 10%.

***Table 3**: BlackRock's engagements per topic and region.*

		2012	2013	2014	2015	2016	2017
America's							
	Environmental (%)	5	6	6	4	4	11
	Social (%)	8	10	8	8	8	12
	Governance (%)	98	100	100	99	99	93
Asia-Pacific (ex-Japan)							
	Environmental (%)		11	10	9	5	15
	Social (%)		13	11	11	19	10
	Governance (%)		91	100	96	89	100
Japan							
	Environmental (%)	7	5	2	1	5	7
	Social (%)	8	6	7	7	2	8
	Governance (%)	100	96	99	99	100	100
EMEA (ex-United Kingdom)							
	Environmental (%)	10	2	3	10	15	11
	Social (%)	11	3	4	10	14	9
	Governance (%)	99	93	100	99	96	100
United Kingdom							
	Environmental (%)	11	30	8	7	7	5
	Social (%)	14	5	7	8	6	7
	Governance (%)	90	93	94	99	99	99

Note: Percentages may add up to more than 100% because some engagements might cover more than one topic.

Table 3 shows the percentage of BlackRock's engagements in which an environmental, social and governance has been discussed per region. It also shows that in all region and during al proxy seasons the BlackRock's engagements have been largely governance focused. Across all years and regions at least 89%, and sometimes even 100%, of the engagements discussed a governance topic. The percentage of governance themed engagements in the United Kingdom has increased since between the 2012 and 2017 proxy seasons from 90% to 99%. For the other regions no trend could be identified because of strong fluctuations. The same goes for the percentage of environmental and social themed engagements, the data in Table 3 doesn't suggest any patterns: increases and decreases seemingly alternate each other randomly. Additionally, Table 3 shows that neither environmental or social topics have clearly been discussed more often in engagements in any the region. Only in the America's the percentage of environmental and social issues discussed at engagements between the 2012 and the 2017 proxy season has increased, however, this hasn't been a gradual move, but mainly due to the 2017 proxy season. Similarly, the percentage of environmental and social issues discussed at engagements in the United Kingdom decreased if you compare the 2012 and 2017 proxy season, but this also hasn't been a gradual move.

6.2 Presentation of investment stewardship efforts

6.2.1 Press Releases

In Table 4 the number of investment stewardship press releases of the Big Three passive asset managers can be found. The press releases are presented starting from 2015, this is the first year of which an investment stewardship themed press release of one of the index managers has been identified. This excludes BlackRock, as the press releases of the index manager could only be retrieved starting in 2017. Table 4 shows that BlackRock and SSGA seem to have increased the mentioning of investment stewardship in their press releases. SSGA has both absolutely and relatively published the most press releases on investment stewardship. Additionally, it is the only index manager as of yet that has published press releases mentioning investment stewardship for two consecutive years.

Table 4: BlackRock, Vanguard and SSGA's investment stewardship themed press releases.

	Year	Number of press releases	Investment stewardship themed	Share of investment stewardship themed
BlackRock	2018	12	2	17%
	2017	25	0	0%
Vanguard	2018	11	0	0%
	2017	58	3	5%
	2016	65	0	0%
	2015	53	2	4%
SSGA	2018	18	3	17%
	2017	41	4	10%
	2016	37	1	3%
	2015	34	0	0%

Note: the 2018 year only includes press releases published between until June 15.

The analysis of the investment stewardship themed press releases reveals the following. Firstly, all of BlackRock and SSGA's 2018 investment stewardship themed press releases have been published in March and April. BlackRock's two press releases are both on a high-profile case: the index manager owning shares in firms that manufacture and distribute civilian firearms (2018b; 2018 c). In the first press release the investment manager explains why it's invested in these kinds of firms and it discusses the investment stewardship approach it will use to engage in discussions with the firms on their business practices (BlackRock 2018b). In the second press release BlackRock gives an update on the investment stewardship approach that had been deployed a month earlier (2018c). In the later press release it is specifically stated the update is given "in response to client interest". Of SSGA's three investment stewardship themed press releases in 2018, two are updates on the index manager's 'Fearless Girl' campaign and one on signing the Declaration of Institutional Investors on Climate-Related Financial Risks (2018b, 2018c, 2018d). Secondly, SSGA's press releases in the previous years were calls on action for the index manager's investee companies to focus on long-term value and to increase the number of women on their boards, a report on the findings of a study showing the impact of ESG-efforts in firms and a press release on the global expansions of its investment stewardship team and on expansion of the index manager's board diversity guidance to Canada and Japan (2016; 2017b; 2017c; 2017d; 2017e). The two press releases Vanguard published in 2015 were on the annual CEO letter and the CEO speaking on, amongst other things, the index manager's investment stewardship approach (2015a; 2015b). Lastly, the three press releases Vanguard has published in 2017 are on the annual CEO letter, the Investment Stewardship Group it formed and a commentary on the firm's climate change approach after high-profile proposal on that subject (2017b; 2017c; 2017d).

6.2.2 CEO Letters

Table 5 shows that BlackRock and Vanguard's annual letters to the CEOs of their investee companies have overall increased in size over the past few years. Contrarily, SSGA's letters have decreased in size.

Table 5: *Size of BlackRock, Vanguard and SSGA's annual CEO Letters*

	Year	Number of words
BlackRock	2012	437
	2014	509
	2015	1026
	2016	1525
	2017	1520
	2018	1793
Vanguard	2015	1344
	2017	1379
SSGA	2016	1064
	2017	999
	2018	894

The SSGA letters to CEOs are very to the point. Each of the letters between 2016 and 2018 highlights one or more of the themes that are the focus of SSGA's corporate governance efforts. In 2017 for example there was a focus on ESG and long-term value creation, whilst in 2016 the focus was independent board leadership (O'Hanley 2016; 2017). In each CEO letter the theme is introduced, its relevance is given, the current state of affairs is discussed and how SSGA proposes to approach the implementation. All letters also highlighted that the index manager prefers dialogue and engagements with firm's over votes against management on corporate governance issues, but that if the engagements are deemed unsuccessful, the index manager will use its proxy voting power to pressure corporate governance policy change (ibid.; Lacaille 2018). Lastly, in each letter SSGA importance of investee companies knowing what the index manager expects from them and therefore attach a framework or guideline to each letter that the index manager will use to evaluate and the firm's efforts (O'Hanley 2016; 2017; Lacialle 2018).

The 2015 and 2017 Vanguard letters to CEOs seem to be introductions into the index manager's investment stewardship efforts (McNabb 2015; 2017). In the 2015 letter it is discussed that the index manager does have an active corporate governance strategy, what the principals of the strategy are, the importance of engagements between shareholders and firms and the possible concerns others might have with engagements (McNabb 2015). Additionally, Vanguard discusses that it is indifferent to how firms choose to engage with shareholders, as long as they engage and are prepared to discuss issues that are relevant for long-term investors. Lastly, Vanguard asks firms that already have an engagement process in place to share their method with the index manager (ibid.). In the 2017 letter the four pillars are discussed that form the framework of Vanguard's investment stewardship practices and are used by the investment stewardship team to evaluate the corporate governance efforts of their investee firms (McNabb 2017). Lastly, in the 2017 CEO letter Vanguard expressed that there will be a focus on board composition, gender diversity and climate risk in the next few years (ibid.).

In 2012 Larry Fink wrote BlackRock's first letter to the CEOs of firms the index manager was invested in. The purpose of the letter was to introduce BlackRock's Corporate Governance and Responsible Investing (CGRI) efforts to the investee companies and to encourage them to start engaging with the index manager and other investors if they anticipated any CGRI issues (Fink 2012). Two years later Fink wrote his next CEO letter, once again urging investee companies to engage with BlackRock, but this time focusing more on business strategies to increase the firms' long-term value (2014). Starting from the 2015 CEO letter the tone and content changed, additionally the 2015 letter was double the size of the 2014 letter (Table 5). Words like 'acute' and 'critical' and phrases like "As I am sure you recognize (…)" and "Since when was one year considered a long-term investment?" were being used in the 2015 CEO letter (Fink 2015). Fink also started to express more firmly to the investee companies that they had an obligation to engage with shareholders, including BlackRock, and asked them to provide annual strategic frameworks for long-term value creation (2015; 2016; 2017; 2018). In the 2018 letter Fink went further with firms' responsibilities, saying that firms should not only deliver financial results, but also contribute to society. Fink has lastly been arguing in his CEO-letters from 2015 onwards that not only firms should have to facilitate the move from short-term to long-term behavior in the economy, but also public officials and asset managers. He stated that public policy should be reformed to encourage long-termism and that asset managers have to actively engage with their investee companies to support long-term value creation (Fink 2015; 2016; 2017; 2018.).

(See next page for Table 6).

Table 6 shows the number of times investment stewardship themed words are used in each CEO-letter. The table seems to confirm the intensified focus on investment stewardship in BlackRock's CEO letters from 2015 onwards. The number of investment stewardship themed words such as 'long-term', 'engagement' and 'value' have been used much more often in BlackRock's CEO letters after 2015 than before. Table 6 also shows that in SSGA's 2017 CEO-letter there was a focus on ESG and long-term thinking, whilst in 2016 there was focus on independent board. additionally, the table confirms the central place the term 'engagement' has in Vanguard's 2015 CEO letter, in which the term has been most out of all CEO letters. Lastly, Table 6 shows that starting from the 2015 CEO letter the word 'policy' has been used once or more in each of BlackRock's CEO letter.

Table 6: Word count of investment stewardship themed words per CEO letter.

	BlackRock						Vanguard		State Street		
	2012	2014	2015	2016	2017	2018	2015	2017	2016	2017	2018
Long-term	3	9	23	30	25	25	8	12	13	18	8
Engagement	7	4	4	2	9	16	27	13	8	5	4
Governance	9	2	2	8	4	4	14	10	14	3	11
Growth	0	5	5	10	11	16	17	1	0	1	1
Independent (boards)	2	0	0	0	0	0	8	2	26	4	3
Value	3	1	5	7	6	6	7	6	9	7	1
Voting	3	0	2	1	3	4	8	5	8	5	5
Sustainable	0	4	5	2	4	3	3	3	4	6	5
Responsibility	3	2	2	0	3	9	10	0	4	2	1
Stewardship	0	1	0	0	1	4	6	11	11	5	6
Globalization	1	1	0	2	11	3	3	1	2	2	0
Climate	0	0	0	2	0	1	1	5	5	8	0
ESG	0	0	0	4	1	0	0	0	0	11	1
Environment	1	0	2	4	3	4	5	0	0	4	3
Policy	0	0	3	6	3	1	1	0	0	0	0
Social	1	0	0	2	1	2	3	0	0	5	3
Dialogue	1	1	0	0	0	1	3	3	4	0	1
Fiduciary	2	1	0	1	2	2	2	0	0	1	0

6.3 Investment stewardship team members

***Table** 7: Gender distribution of the identified investment stewardship team members.*

	Male (%)	Female (%)
BlackRock	67	33
Vanguard	44	56
SSGA	75	25

***Table 8**: Department number of the identified investment stewardship team members.*

	First department (%)	Second or more department (%)	Unknown (%)
BlackRock	50	21	29
Vanguard	19	81	-
SSGA	63	13	25

Note: Percentages may not sum up to 100% because of rounding.

***Table 9**: Number of former employers of the identified investment stewardship team members.*

	No former employers (%)	One former employer (%)	Two former employers (%)	Three or more former employers (%)
BlackRock	13	21	29	38
Vanguard	56	6	6	31
SSGA	13	38	-	50

Note: Percentages may not sum up to 100% because of rounding.

Tables 7 to 9 show some basic descriptive statistics on the team members of the Big Three's investment stewardship teams. Table 7 shows that the majority of BlackRock and SSGA's identified investment stewardship members are male, whilst the majority of Vanguard's identified team members is female. Table 8 shows that for 50% of BlackRock's, 19% of Vanguard's and 63% of SSGA's identified investment stewardship team members, the investment stewardship department has been the first department of index manager they worked at. 21% of BlackRock's, 81% of Vanguard's and 13% of SSGA's identified investment stewardship team members has worked at one or more of the index manager's departments before joining the investment stewardship one. This suggests that Vanguard for the most part internally recruited candidates for the investment stewardship team. Contrarily, the data out of Table 3 suggest that SSGA for the most part externally recruited candidates for its investment stewardship team. Such a suggestion can't be made for

BlackRock's investment stewardship recruiting strategy because there is no majority of internally or externally recruited identified team members. Table 9 shows that for the majority of Vanguard's identified team members the index manager is their first employer. Only 12% of Vanguard's identified team members worked had one or two employers prior to joining Vanguard and 38% of the identified team members had three or more previous employers. Table 9 also shows that 13% of BlackRock's identified investment stewardship members doesn't have a former employer, 21% has had one, 29% has had two and 28% of the identified members has had three or more former employers. Half of SSGA's identified team members has had three or more former employers, the other half has had no or one previous employer.

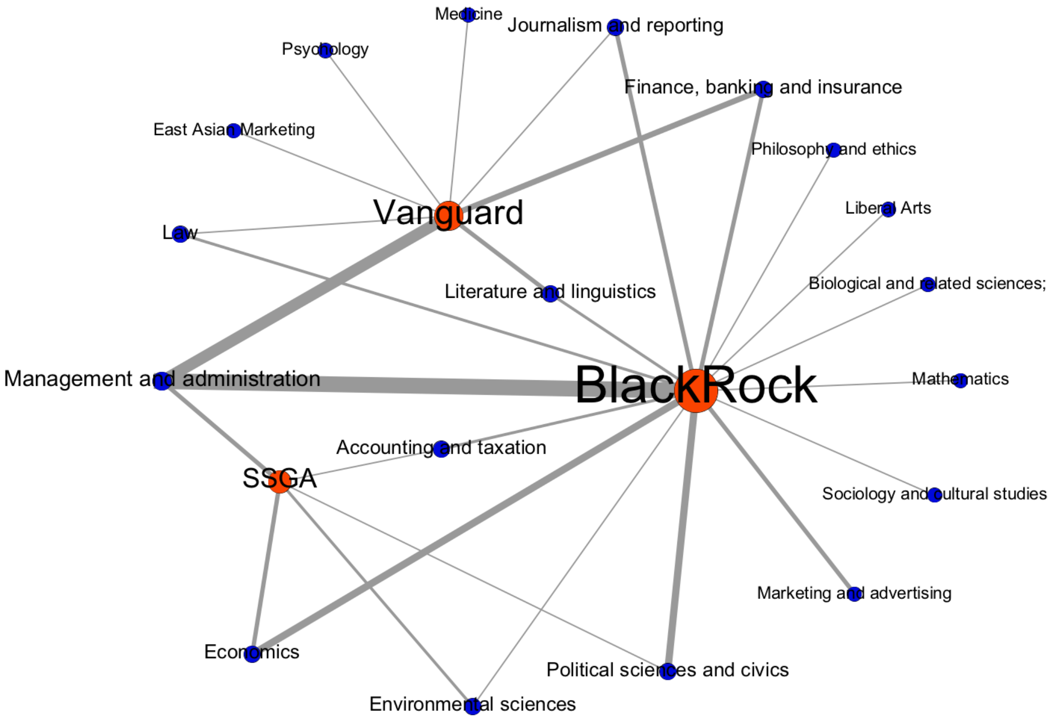

Figure 14: *Two mode network of the Big Three passive asset managers and academic disciplines the identified investment team members earned one or more higher education degree in. Each tie between an asset manager and represent one person*

In Figure 14 the academic disciplines in which the identified investment stewardship team members of the Big Three have a degree in are presented.
The Figure shows that a management and administration degree is most common amongst the Big Three's identified investment stewardship team members. It also shows that the only other academic disciplines SSGA's identified investment stewardship members have a degree in are: economics, environmental sciences, political sciences and civics and accounting and taxation. Figure 14 also shows that both BlackRock and Vanguard have investment stewardship members with one or more degrees in academic fields such as microbiology, medicine and biological and

related sciences, that seem unrelated to investment stewardship. Figure 14 lastly shows that management and administration is the only discipline of which all three index managers' identified team members have a degree in. Whilst BlackRock shares ties to academic field with both SSGA and Vanguard, SSGA and Vanguard don't share any other ties with each other.

Table 10: Academic disciplines in which at least two of the Big Three's identified investment stewardship members have a higher education degree.

	BlackRock (%)	Vanguard (%)	SSGA (%)
Management and administration	46	50	38
Economics	21	0	38
Political sciences and civics	21	0	13
Finance, banking and insurance	13	25	0
Literature and linguistics	8	25	0
Journalism and reporting	13	6	0
Marketing and advertising	8	0	0
Accounting and taxation	8	0	13
Law	8	6	0
Environmental sciences	4	0	25

Note: Percentages don't sum up to 100% because some of the identified investment stewardship members got higher education degrees in more than one academic discipline.

The number of ties each index manager has can't be compared because the number of investment stewardship team members between the index managers differs. Therefore, the academic disciplines in which at least two of the Big Three's identified investment stewardship team members have a degree are presented in Table 10. The table shows that 40% of Vanguard's, 26% of BlackRock's and 30% of SSGA's identified investment stewardship team members have one or more degrees in management and administration. Table 10 also confirms what was seen in Figure 14, other than in management and administration, 30% of SSGA's identified investment stewardship team members has one or more degrees in Economics, 201% in Environmental sciences and 10% in both political sciences and civics and accounting and taxation.
It also shows that 12% of BlackRock's identified investment stewardship team members have a degree in economics and 12% in political science and civics (Table 10). Finance, banking and insurance and literature and linguistics are the academic fields in which respectively 20% and 15% of Vanguard's identified investment stewardship team members have on or more degrees in.

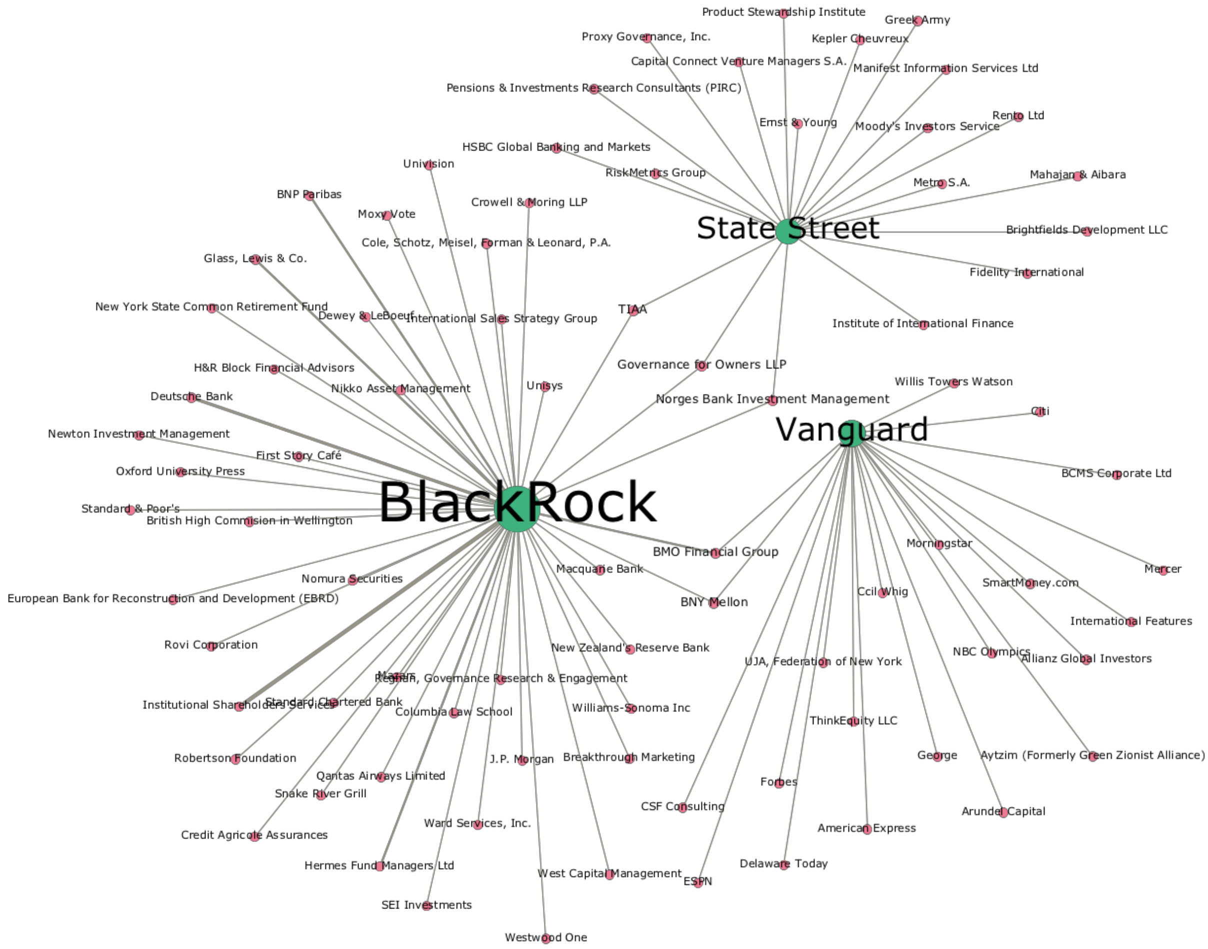

Figure 15: *Two mode network of the Big Three passive asset managers and the former employers of their identified investment stewardship teams.*

In Figure 15 the former employers of the Big Thee's identified investment stewardship team members can be found. The Figure shows that BlackRock has the more ties to former employers than Vanguard and SSGA, but this is not surprising since BlackRock has the most investment stewardship team members. What may seem somewhat surprising is that SSGA has almost as many ties to former employers as Vanguard whilst in this study SSGA's identified team members are half of Vanguard's. However, this could be explained using the data shown in Table 9: the majority of Vanguard's identified investment stewardship team members had no former employers, whilst most of SSGA's identified team members had three or more former employers. Figure 15 also shows that BlackRock is the only index manager that has at least two identified investment stewardship team members that share a former employer. Additionally, the figure shows that BlackRock's identified team members share a few former employers with some of Vanguard's and SSGA's identified team members. All the firms of which at least two of the Big Three's identified investment stewardship team members are former employees, regardless of index manager, can be found in Table 11.

***Table 11**: The number of (former) employees each passive index fund shares with the firms that have more than one former employee in the Big Three's identified investment stewardship teams*

	BlackRock	Vanguard	SSGA
Institutional Shareholder Services	4		
Deutsche Bank	3		
Hermes Fund Managers Ltd	3		
Glass, Lewis & Co.	2		
BNP Paribas	2		
BMO Financial group	2	1	
BNY Mellon	1	1	
Norges Bank Investment Management	1		1
Governance for Owners LLP	1		1
TIAA	1		1

Table 11 shows 17% BlackRock's identified investment stewardship team members has worked for the Institutional Shareholder Services and 13% for Hermes Fund Managers and 13% for Deutsche Bank. All the firms presented in Table 11 are either banks, asset managers or proxy advisory firms.

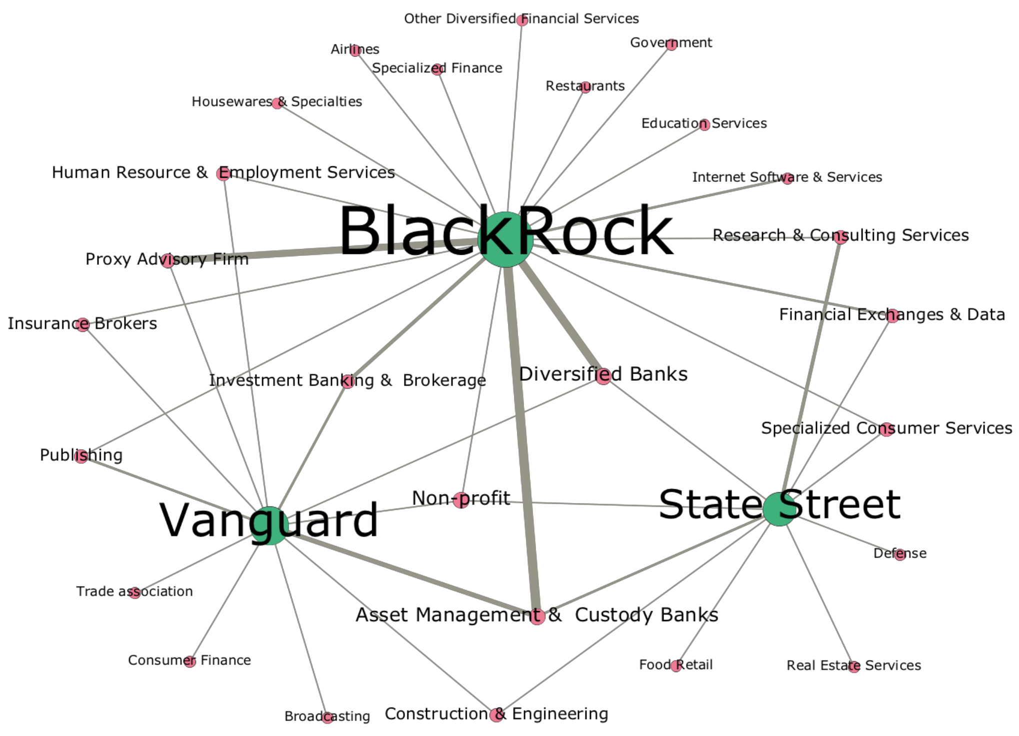

***Figure 16:** Two mode network of the Big Three passive asset managers and the industries their identified investment stewardship team members have at least once worked in.*

Note: some nodes such as non-profit, trade association, defense and proxy advisory firms aren't technically industries.

Figure 16 presents the industries the identified investment stewardship team members of the Big Three have worked in. The Figure shows that there is a big range of industries the identified investment stewardship team members have worked for. Figure 16 also shows that all three asset managers have one or more identified investment stewardship team member that has worked in the asset management & custody bank industry, diversified banks industry and in the non-profit sector. Additionally, many other industry ties between two of the three index managers can be observed in Figure 16.

***Table 12**: The industries in which at least two of the Big Three's identified investment stewardship team members have worked at least once.*

	BlackRock (%)	Vanguard (%)	SSGA (%)
Asset Management & Custody Banks	33	25	25
Diversified Banks	29	6	13
Construction & Engineering	-	6	13
Proxy Advisory firm	25	6	-
Human Resource & Employment Services	4	6	-
Insurance Brokers	4	6	-
Investment Banking & Brokerage	6	13	13
Publishing	4	13	-
Non-profit	4	6	13
Research & Consulting Services	4	-	38
Internet Software & Services	8	-	-
Specialized Consumer Services	4	-	13
Financial Exchanges & Data	8	-	13

Note: Proxy advisory firm and non-profit aren't an industry but type of firm and sector respectively

In Table 12 the industries are presented in which at least two of the Big Three's identified team members have worked. The Table shows that for BlackRock and Vanguard the largest share of the identified investment stewardship team members has worked at least once in the asset management & custody bank industry, 33% and 25% respectively. The diversified bank industry and proxy advisory firm have also been well represented in BlackRock's identified investment stewardship team:

29% of the identified team members has worked at least once for a firm in the diversified bank industry and 25% at least once for a proxy advisory firm. Table 12 also shows that for Vanguard the second best represented industries are the publishing and investment banking & brokerage industries: 13% of the index manager's identified investment stewardship team members have worked for at least one firm in the publishing industry and at least 13% in the investment banking & brokerage industries. For SSGA, the largest share of identified investment stewardship team members, 38%, worked in the research & consulting industry. The second best represented industry in careers of the identified investment stewardship team members is the asset management & custody industry, 25% of the identified team members have worked for at least one firm in that industry.

7. Discussion

The analysis of the voting behavior and engagements of the Big Three passive asset managers over the past few years suggests that there is no overall there is no significant increase of their investment stewardship efforts. Since 2012 BlackRock's percentage of votes against management and number of engagements have been fluctuating and the topic and level of engagement have only changed minimally. BlackRock's regional statistics do however suggest a shift of focus from the Asia-Pacific region towards the EMEA region concerning the votes against management and number of engagements. Between 2005 and 2017 Vanguard's votes against managed have decreased, but the number of engagements has been increasing. This could suggest that Vanguard has a 'engage first, vote later' policy like BlackRock and SSGA claim to have. Out of the three passive asset managers SSGA is the only one to increase its percentage of votes against management, voting almost twice as much against management as BlackRock. SSGA's number of engagements over the past few years has risen a little bit but has also been fluctuating. Where BlackRock has been quickly shifting its focus from mainly engaging in the United States and the Asia-Pacific region, to Japan, the United Kingdom and the rest of the EMEA region, SSGA continues to have the majority of its engagements in the United States.

The analysis of the voting statistics showed a few other interesting things. Firstly, in the 2014 proxy season there is a significant decrease in percentage of votes against management at BlackRock. The review of their proxy voting records by proposal type shows that the 2014 proxy season was the first season BlackRock decreased the times it voted against management in corporate governance proposals and continued to do so. This seems to suggest that BlackRock has been shifting its focus towards engagements and that it prefers to engage with companies before voting against them in proxy voting fights. Secondly, up until the 2016 proxy season the Big Three's investment stewardship efforts were very limited in the United Kingdom. 2016 was the year that around the globe, but especially in the United Kingdom there was a focus on institutional investors fulfilling their stewardship responsibilities (Medland 2016). The sudden increase in votes against management and increase in engagements seem to be a response to this newfound focus in the United Kingdom. Thirdly, where BlackRock clearly uses mostly basic engagements overall and, in the America's, EMEA and the United Kingdom, that type of engagements is the least used in the Asia-Pacific region and as of 2015 it also isn't the most used type of engagement in Japan, losing out to moderate engagements. Fourthly, almost in all of BlackRock's engagement governance issues have been discussed, whilst no increase in the discussion of environmental and social issues can be observed. This is not entirely surprising since the investment stewardship strategies of the Big Three as they are presented in the index managers' reports and annual CEO letters mainly focus on governance, and more specifically boards. Out of the Big Three SSGA's CEO-letters and press releases seem to suggest that the index manager focuses more on environmental and social issues. However, Vanguard's focus on climate change in its 2017 letter and Fink's call for investee companies to consider not only how to improve its financial performance, but also how to contribute to society.

The voting and engagement statistics seem to suggest that the recent focus on increasing investment stewardship efforts has been exaggerated. This leaves the question to what extent the passive index funds have attributed to this seemingly wrong image. The tone and content of BlackRock's annual letter to the CEOs of their investee companies, seems to suggest an increase in investment stewardship efforts since 2015. SSGA's and Vanguard's CEO-letters on the other hand don't suggest an increase, the tone and content of their letters have remained relatively the same. It could be argued that this is due to the fact that more and older BlackRock CEO-letters were analyzed. Whilst it is true that the two earliest CEO-letters stand in strong contrast with those issues from 2015 onwards, it does not take away from the fact that even between the 2015 and 2018 CEO letters the tone and content has been changing, intensifying. The most striking difference between the BlackRock CEO letters on the one hand and SSGA and Vanguard on the other, is BlackRock's focus on things other than their own investment stewardship approach. Larry Fink continuously speaks about the changes in society and how they should be dealt with and he increasingly seems to direct its letter to others than the index manager's investee companies. For example, he talks about what asset managers and policy officers should do to create a shift from short-termism to long-termism in the economy. He even makes suggestions on how to change certain policies for the benefit of long-term investors. SSGA's CEO-letters on the other hand are very to the point and instructive for the investee companies. Vanguard's letters suggest that in 2015 the index manager was very much in the beginning stages of setting up their investment stewardship approach and has been stepping up its efforts in 2017.

The analysis of the Big Three's press releases suggests that overall the index managers are increasingly publishing about investment stewardship, but also that the way they publish on their investment stewardship approach differs. Overall the share of press releases that are investment stewardship themed have increased, this

is most evident in the case of SSGA, that has published investment stewardship themed press releases for the last three years in a row.
Where SSGA by itself has been giving updates on its investment stewardship approach and calling their investee companies publicly to action, BlackRock has only discussed its investment stewardship over the past two years after facing backlash on a high-profile case and because its clients asked about an update on that case. Vanguard similarly hasn't published any press releases on its investment stewardship approach other than a commentary on a high-profile climate change proposal. Thus SSGA, unlike the other two index managers, actively discusses its investment stewardship efforts. However, since only BlackRock's press releases of the past two years could be retrieved, it can't be argued that this upholds for BlackRock's press releases before 2017.

The analysis of the background of the Big Three's investment stewardship teams shows that each team is different. Vanguard's investment stewardship department seems to mainly recruit internally and consist largely out of young professionals that are supplemented with a few experienced seniors. BlackRock and SSGA seem to recruit more externally and have more experienced team members then young professionals. The academic background of investment stewardship team members also differs strongly between the three index managers, a degree in management and administration is the only one that at least one team member in each firm has. Other common academic disciplines are: economics, political science, finance, banking & insurance and environmental sciences. BlackRock and Vanguard both have people with degrees in seemingly unrelated academic subjects, such as biology. The fact that SSGA doesn't have this could be explained by the fact that its investment stewardship team is much smaller than that of BlackRock and Vanguard, thus they don't have the same opportunity to hire people that are specialized in a certain field. BlackRock's investment stewardship team seems to consist more out of people with content-specific knowledge, whereas Vanguard's team has more people with degrees in the fields of literature and linguistics and journalism and reporting.
A network analysis of the investment stewardship team member's former employers showed that 10 firms have employed more than one current investment stewardship team members. Those firms are either banks, asset managers or proxy advisory firms, the type of firms that are most common overall in the network of the investment stewardship team member's former employers. All three investment stewardship teams have at least one member that has worked in the asset management & custody bank industry, diversified bank industry and non-profit

sector. Interestingly, 25% of BlackRock's identified team members has worked for a proxy advisory firm. One of those firms, the Institutional Shareholder Services, is also the firm that has the most former employees working in the Big Three's investment stewardship teams: 4 of BlackRock's team members.

8. Conclusion

Both within and outside of the asset management industry increasing attention is being payed to passive asset managers stepping up their investment stewardship efforts and the dangers of potentially great influence over a large number of firms being in the hands of BlackRock, Vanguard and SSGA and their investment stewardship team. It is often suggested that the Big Three have been voting more against management in shareholder meetings and increasingly engaging with their investee companies' leadership to protect and ensure long-term value for their clients. Before deciding whether and how to restrict the potential influence of these kinds of firms in the future, it should be known if the firms indeed have stepped up their investment stewardship in recent years. This study has shown that the suggestion that the Big Three have stepped up their investment stewardship efforts through vote more against management and engaging more with companies is incorrect. Whether and the extent to which the Big Three have stepped up their investment stewardship efforts actually differs strongly: BlackRock's voting and engaging statistics have both been fluctuating but not increasing, SSGA has been voting more against management and the engagements have increased but fluctuating, and Vanguard seems to have stepped up its engaging activities but has been voting less against management in shareholder meetings.

The concerns of passive asset managers influencing the decision-making process of a large number of firms through their investment stewardship efforts mainly focuses on private engagements. This research has shown that SSGA and Vanguard have been engaging more with companies, how big the influence these firms have is not clear and might never be clear. But the exact definition and success rate of the engagements could help in getting an idea of the Big Three's potential influence. It is also not known which companies the Big Three focuses their efforts on, they can't actively engage with all investee companies as they are shareholders in a large number of firms. A step towards getting insight on and possibly limiting the influence the Big Three have over their investee companies, is making it mandatory to make information such as the names of the companies with whom the index managers engage and the theme and intensity of the engagements publicly available. SSGA already publishes the names of the companies it engages with and the theme of the engagement. BlackRock and Vanguard say they don't publish such information to protect the relationship they have with the firms. SSGA publishes this information and still is increasingly engaging with companies, thus this information being public hasn't scared their investee companies into not engaging with them.

This makes BlackRock and Vanguard's argument of protecting the relationship with their investee-companies seem invalid.

Through annual letters to the CEOs of their investee companies and press releases the Big Three have, to greater or lesser extent, been discussing their investment stewardship efforts. Larry Fink, the CEO of BlackRock has been very vocal in BlackRock stepping up its investment stewardship efforts in the CEO-letters of recent years. This study has shown that this is incorrect or at the least, an exaggeration. The representation of the investment stewardship efforts being disproportionate to the extent to which and whether BlackRock has actually stepped up its investment stewardship efforts could mean one of two things. Firstly, the BlackRock could be riding on the investment stewardship wave. They could be using the fact that investors are increasingly considering the investment stewardship approach of asset managers in the deciding which asset manager to invest in, to attract more clients. This however, is a very pessimistic thought and seems unlikely. All the index managers all have attracted more investment stewardship team members in recent years. BlackRock would be wasting money if it wasn't intending on stepping up its investment stewardship money, whilst the attractiveness of index managers is mainly due to them having low fees. Secondly, the index manager could be 'clearing the way' for its investment stewardship efforts. Through his annual letters, that are vastly read by the media and public, Fink could be advertising BlackRock's investment stewardship approach as more active than it actually is to prepare the index manager's investee companies for when it will actually start to step up its efforts. Additionally, it might lead to other institutional investors also stepping up their investment stewardship efforts. This way BlackRock, and other passive asset managers, don't face as big of a backlash when they start taking a stand in company engagements and shareholders meetings.

There doesn't seem to be an elite emerging out of the investment stewardship teams of the Big Three passive asset managers. Whilst the teams have some commonalities, such as many people having a degree in management and administration, they differ strongly in composition and recruitment. An interesting find was that a 25% of the identified investment stewardship team members of BlackRock, have had a job at a proxy advisory firm. This combined with the fact that all index managers specifically state that they use the services of proxy advisory firms but not take over their recommendations, could point to the inhouse investment stewardship groups slowly taking over the role of proxy advisory firms. If the investment stewardship trend would pick-up in the future, it could have a detrimental effect on proxy advisory firms or it could force them to take a different role. If firms are no longer following the proxy advice of proxy advisory firms because they have their investment stewardship teams, they would become redundant. Thus, researching the (potential) impact of the investment stewardship trend on the role and position of proxy advisory firms would be interesting.

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