

Investors Against Genocide

Draw the line at investing in genocide

**Eric Cohen statement at the IAG press teleconference
following the Fidelity shareholder meetings on April 16, 2008**

Earlier today I introduced the shareholder proposal on genocide-free investing, representing Fidelity shareholders who have submitted this proposal to 8 different Fidelity mutual funds holding shareholder meetings today. I will provide a little background, then report on the results of the meeting and expectations going forward.

Many would suppose that, today, 63 years after the end of the Holocaust and 14 years after the genocide in Rwanda, no company that values the public trust would attempt to profit from connections to genocide. Looking back, who would support the idea of investing in firms that sought to profit by selling Zyklon-B gas to the Nazis or machetes for the genocide in Rwanda? Looking forward, who wants their savings invested in companies that help fund genocide? Sadly, as we mark the beginning of the 6th year of the genocide in Darfur, Sudan, we see that this problem is neither theoretical nor historical. Fidelity has been one of the largest holders of PetroChina, which, through its closely related parent, China National Petroleum Company, is providing funding that the Government of Sudan uses to conduct genocide in Darfur.

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

Mutual funds are the most common investment vehicle for family savings and retirement plans of Americans. That's why it is so important for mutual funds to commit to genocide-free investing. As SEC Chairman Cox has said, "No investor should ever have to wonder whether his or her investments or retirement savings are indirectly subsidizing a ... genocidal state."

Fidelity's proxy materials accurately summarize the proposal as a "shareholder proposal concerning board oversight procedures to screen out investments in companies that substantially contribute to genocide." Fidelity recommends voting against the proposal. Their statement of opposition to the proposal reflects their consistent position that Fidelity portfolio managers are expected to follow only two fundamental principles – make money and obey the law. They do not attempt to deny the connection between PetroChina and genocide, nor argue that investing in genocide is somehow better. Instead, they simply note that "this proposal would limit investments by the Fund that would be lawful under the laws of the United States." This flexibility to invest in genocide is important to Fidelity, which has, for years, made large investments in companies funding genocide. At the same time as Fidelity insists on retaining its flexibility to invest in genocide, 24 states and 60 colleges made the decision to divest from Sudan; the United States Congress unanimously passed the Sudan Accountability and Divestment Act; and 200,000 people registered complaints against Fidelity for investing in genocide. Recognition of the problem is broad-based and awareness among individual investors is mounting, yet Fidelity insists on retaining its flexibility to invest in genocide. What does this say about Fidelity?

Clearly, a fundamental principle is missing from Fidelity's guiding principles, since even in the face of the most egregious violations of human rights, no ethical guidelines regulate Fidelity portfolio managers' investment choices. Ethical investing may mean different things to different people. However, surely there is a minimum standard upon which nearly everyone agrees. We draw the line at investing in genocide. The shareholder proposal on genocide-free investing sets this minimum standard for all mutual funds.

Our shareholder proposal on genocide-free investing was the on the proxy ballot for 8 mutual funds that held meetings today. Of those funds, 4 funds recorded votes today. The results were consistent with the results of the 2 funds that voted on March 19. For the 6 funds that have voted, the proposal has won between 21% and 28% of the vote, reflecting a consistent and broad-based support for the proposal. We are gratified at the continuing large share of the vote in favor of genocide-free investing. Fidelity's Mid-Cap Stock fund received 25% of the vote, Canada fund 23%, International Discovery fund received 21%, and Overseas fund 22%. Previously, Fidelity's Capital and Income fund and the Select Healthcare Portfolio received 27% and 28% of the vote, respectively. As you know, it is highly unusual for a social concern to receive such a high percentage of the vote, when opposed by management.

Voting on the 4 other funds did not achieve the quorum threshold. Those funds, including the Contrafund and the Diversified International fund, have been adjourned to follow up voting on May 14, joining 11 other funds that will vote that day on genocide-free investing.

Fidelity could have taken a neutral stance on the proposal and let the shareholders decide the policy. Instead Fidelity has actively opposed it and are using its control of the machinery of proxy balloting to tilt the vote against the proposal. The deck is stacked against the majority of individual shareholders who do not want their savings invested in genocide. Factors working against the will of the individual investors include large blocks of internal and institutional shares automatically voting with management, and Fidelity hiring a proxy solicitation firm to call shareholders and urge them to vote with management, without stating the shareholder proposal under consideration. Other factors that stack the deck include electronic voting that preferentially places the option to vote with management, before displaying the issues to be voted, plus Fidelity's vote counting policy of counting non-votes from brokers as if they were votes opposing the proposal. In contrast, we know that it is common practice for ordinary investors to ignore and discard their proxy materials, thereby recording no vote, even when, as in this case, there is an issue on the ballot that is of interest an importance to ordinary Americans.

In spite of these systemic obstacles, Fidelity's opposition will ultimately fail; if not today, then in another shareholder vote in the future. The reason Fidelity will fail is simple. Fidelity's customers do not want their family savings and pension funds invested in companies that help to fund genocide, whether that genocide is occurring today in Darfur or somewhere else in the future. Today's voting is the second step forward to the day when Fidelity and other mutual fund companies make a commitment to genocide-free investing. Individual investors who vote their values at the next round of voting on May 14 will have the power to make that change come to fruition.

At today's shareholder meeting there was a good deal of discussion about Fidelity wanting to listen to its shareholders and be sensitive to what shareholders want. In addition, there was discussion about the problem of the voting not providing a true perspective on what shareholders want, since Fidelity was opposing the proposal and actively soliciting shareholders to vote with management. The result was a request to Fidelity's Board of Trustees that it adopt a neutral stance on the proposal, so that the vote would provide an accurate indication of what Fidelity's shareholders want. We look forward to a response from Fidelity.