

November 28, 2006

To the Editor  
The Wall Street Journal

Dear Sir:

Your editorial opposing shareholder democracy (“Board Games,” November 27, 2006) is wrong on the facts, and therefore misguided in its conclusions.

The statement that the large shareholders of American business “tend to be union-dominated pension funds” belies the fact that government pension funds hold but 9 percent of U.S. equities, compared to fully 30 percent for mutual funds and some 20 percent for corporate pension and savings plans (excluding their equities held through mutual funds).

Even the largest state retirement fund (California Public Employees Retirement System) ranks only number 38 in such holdings, \$66 billion of equities in the latest survey. That is a far cry from the holdings of private money managers—Fidelity, Barclays Global, State Street Global, Capital Group, and Vanguard—which together hold more than \$2.5 trillion in U.S. equities.

These firms are agents for their principals, the underlying owners of the mutual funds they manage and, arguably, the ultimate beneficiaries of the pension plans they manage. To say that these agent/owners of U.S. corporations can exercise their vote on corporate affairs only by selling their stock basically limits their options to “like it, or dump it,” a clear breach of their fiduciary duty.

Yes, some—but by no means all—union-dominated corporate activists may be trouble makers. But if their voice reflects only their special interests, their tiny voting power will have no impact on corporate governance, unless the holders of a majority of shares agree. Then, and only then, will a proxy resolution be approved.

As you point out, “management and boards . . . are supposed to operate together to achieve business and financial success.” That is correct. But it is the right and responsibility of a corporation’s shareholders as a group to demand that such success is translated into the economic rewards they deserve in return for putting their capital at risk. After all, they own the company.

Sincerely,

John C. Bogle

Mr. Bogle is founder of The Vanguard Group.