



Mutual Funds and Market Power: The Influence of Environmental, Social, and Governance Factors on Competition



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Background

This study examines how the practices of the Big Three mutual funds, BlackRock, Vanguard, and State Street, have led to cross-ownership, reduced competition, and increased market manipulation (Azar, 46). Their voting power and corporate governance influence limit companies' ability to make independent decisions, especially around Environmental, Social, and Governance (ESG) issues (Elhauge, 1296). The research questions whether this concentration of power fosters or hinders a fair, transparent economic system.

Introduction

Mutual funds play a key role in financial markets by enabling individual wealth-building and supporting financial independence. Large institutional investors like the Big Three influence corporate strategy and public policy, especially in areas like climate change and diversity (O'Brien, 580). Their investment strategies affect both financial growth and social responsibility.

Objectives

- Analyze how Big Three mutual fund ownership influences corporate behavior and market competition
- Evaluate the role of mutual funds in shaping corporate climate policies and ESG commitments
- Assess the effects of cross-ownership of different markets, specifically on fossil fuel divestment and sustainable energy transitions
- Examine voting patterns on climate-related shareholder resolutions

Top 15 Public Energy Companies and Top Shareholders

ExxonMobil	Energy	230,962	Vanguard Group, Inc. (8.34%)	Blackrock Inc. (6.37%)	State Street Corporation (5.96%)	FMR, LLC (2.16%)	Geode Capital Management, LLC (1.55%)
Chevron Corporation	Energy	187,551	Vanguard Group, Inc. (8.35%)	State Street Corporation (7.22%)	Blackrock Inc. (7.05%)	Capital International Investors (1.97%)	Bank of America Corporation (1.72%)
ConocoPhillips	Energy	74,533	Blackrock Inc. (8.37%)	Vanguard Group, Inc. (8.27%)	State Street Corporation (5.41%)	Capital International Investors (5.33%)	JP Morgan Chase & Company (4.20%)
EOG Resources	Energy	39,317	Capital Research Global Investors (10.33%)	Capital International Investors (9.21%)	Vanguard Group, Inc. (8.25%)	Blackrock Inc. (7.54%)	State Street Corporation (6.02%)
Schlumberger	Energy	38,89	Vanguard Group, Inc. (8.58%)	Blackrock Inc. (6.86%)	State Street Corporation (6.17%)	Dodge & Cox Inc (4.46%)	Amundi (2.47%)
Marathon Petroleum	Energy	37,427	Blackrock Inc. (10.18%)	Vanguard Group, Inc. (9.91%)	State Street Corporation (6.77%)	Boston Partners (1.91%)	Geode Capital Management, LLC (1.74%)
Kinder Morgan	Energy	36,616	Blackrock Inc. (7.97%)	Vanguard Group, Inc. (7.48%)	State Street Corporation (6.01%)	Bank of America Corporation (3.30%)	Geode Capital Management, LLC (1.51%)
Pioneer Natural Resources	Energy	35,884	Vanguard Group, Inc. (9.88%)	Blackrock Inc. (7.20%)	State Street Corporation (6.22%)	Wellington Management Group, LLP (4.47%)	Capital World Investors (4.47%)
Phillips 66	Energy	30,147	Vanguard Group, Inc. (9.86%)	Blackrock Inc. (7.78%)	State Street Corporation (6.75%)	Wells Fargo & Company (3.41%)	Wellington Management Group, LLP (2.36%)
Williams Companies	Energy	29,943	Vanguard Group, Inc. (8.94%)	Blackrock Inc. (8.28%)	State Street Corporation (6.69%)	Dodge & Cox Inc (6.03%)	Deutsche Bank Aktiengesellschaft (2.17%)
Valero Energy	Energy	26,784	Vanguard Group, Inc. (11.28%)	Blackrock Inc. (9.21%)	State Street Corporation (6.93%)	Capital World Investors (4.47%)	Bank Of New York Mellon Corporation (1.86%)
Occidental Petroleum	Energy	23,96	Dodge & Cox Inc (12.36%)	Vanguard Group, Inc. (10.24%)	Blackrock Inc. (6.35%)	State Street Corporation (5.95%)	Icahn, Carl, C. (5.26%)
Oneok	Energy	23,357	Vanguard Group, Inc. (11.27%)	Blackrock Inc. (9.66%)	State Street Corporation (6.74%)	Geode Capital Management, LLC (1.80%)	Tortoise Capital Advisors, LLC (1.77%)
Hess Corporation	Energy	21,482	FMR, LLC (12.56%)	Vanguard Group, Inc. (9.59%)	Blackrock Inc. (7.05%)	State Street Corporation (5.89%)	Dodge & Cox Inc (3.88%)
Devon Energy	Energy	19,596	Vanguard Group, Inc. (11.27%)	Blackrock Inc. (7.78%)	State Street Corporation (6.69%)	EnCap Energy Capital Management, LLC (4.47%)	Price (T.Rowe) Associates (4.47%)

Figure 1: <https://blackrockvanguardwatch.com/>

Results

- The Big Three are top shareholders in the 15 largest energy companies.
- Their concentrated ownership limits competition and shapes corporate strategy (Bebchuk, 2118).
- A Texas lawsuit alleges they inflated electricity prices by restricting coal production (Kishan).
- Their influence drives industry decisions, often misaligned with public interest.
- Cross-ownership fosters anti-competitive practices, especially in fossil fuel sectors (Hemphill, 1402)
- Profit-focused strategies may override climate goals and hinder fossil fuel divestment (Bebchuk, 2117).
- This raises concerns about shareholder returns and environmental impact.

100 Key Resolutions: Percentage of Resolutions Supported by the Big Three

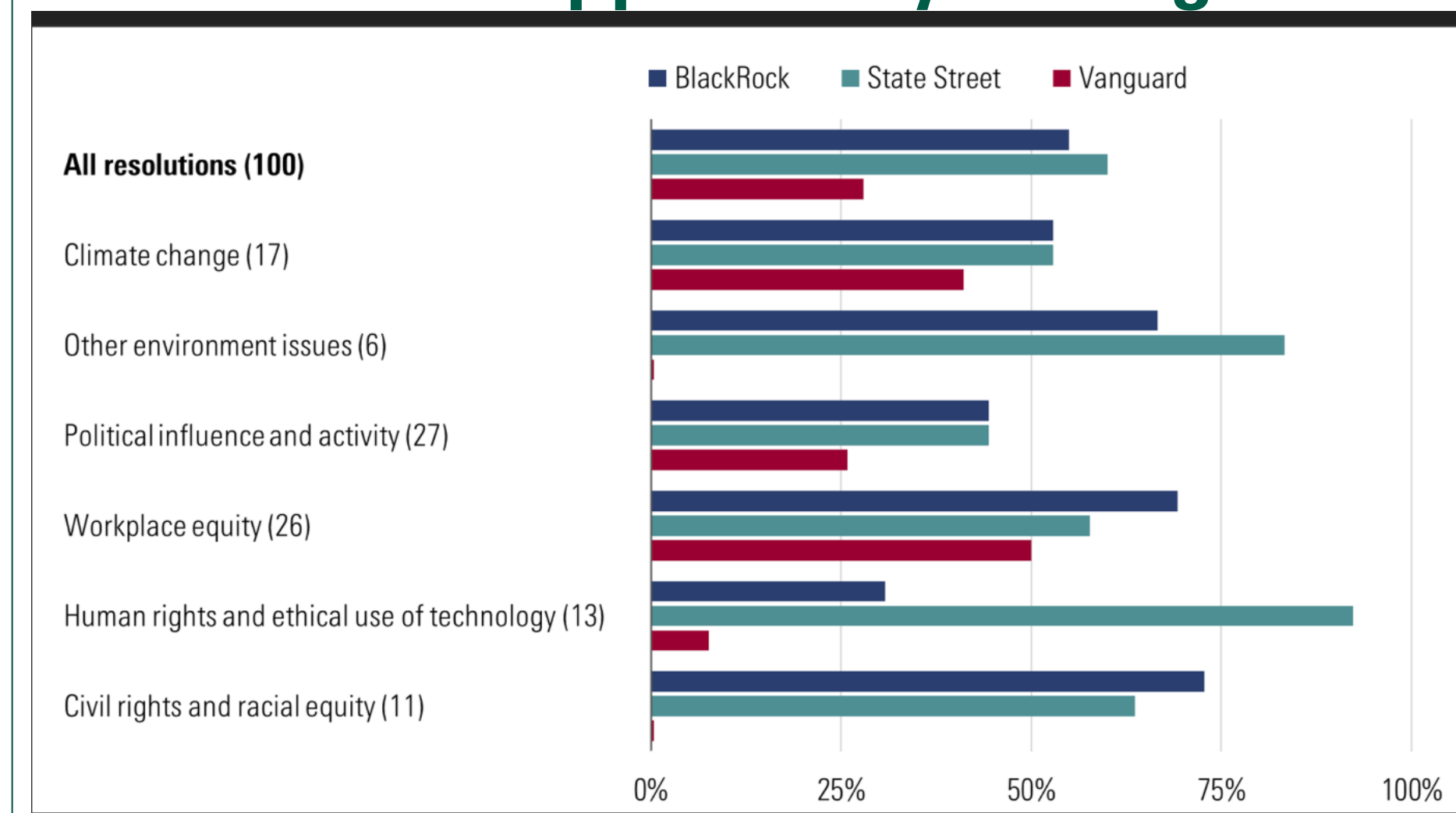


Figure 2: stewart, lindsey. (n.d.). *How BlackRock, State Street, and Vanguard Cast Their ESG Proxy Votes*. morning star. <https://www.morningstar.com/sustainable-investing/how-blackrock-state-street-vanguard-cast-their-esg-proxy-votes>

Conclusions

Key reforms are needed to create a more equitable and sustainable financial system to counter the growing influence of the Big Three. More vigorous antitrust enforcement can curb cross-ownership and reduce monopolistic control in sectors like fossil fuels (Kishan). Enhancing voting transparency and making ESG a fiduciary duty would boost accountability and align investments with societal values (O'Brien, 580). Supporting independent, ethical funds and decentralized ownership can further dilute concentrated power. Together, these steps aim to realign financial practices with long-term public and environmental interests.

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