

November 12, 2018

Brent J. Fields  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549-1090

Re: Roundtable on the Proxy Process; File Number 4-725

Dear Mr. Fields:

The Independent Directors Council<sup>1</sup> commends the Securities and Exchange Commission (SEC) for holding a Roundtable on the Proxy Process.<sup>2</sup> Proxy voting is a vitally critical and integral component of fully realizing the value of an investment in a publicly-traded company. Over the years, however, many complicated issues have arisen concerning the process, which to date have not been adequately dealt with. Fund boards of directors play an important role in the voting of the proxies of their funds' portfolio securities and, thus, IDC will closely watch any regulatory developments in this area and engage where appropriate. As an initial step and in anticipation of the roundtable, we are taking this opportunity to describe and provide our perspective on the role of fund boards in proxy voting.

Registered investment companies—including mutual funds, closed-end funds, and exchange-traded funds—have a unique role regarding proxy voting issues because of their duality as *investors* in securities of public companies and as *issuers* of securities with their own shareholders and boards of directors.

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<sup>1</sup> IDC serves the US-registered fund independent director community by advancing the education, communication, and policy positions of fund independent directors, and promoting public understanding of their role. IDC's activities are led by a Governing Council of independent directors of Investment Company Institute member funds. ICI is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI's members manage total assets of US\$22.7 trillion in the United States, serving more than 100 million US shareholders, and US\$7.0 trillion in assets in other jurisdictions. There are approximately 1,700 independent directors of ICI-member funds. The views expressed by IDC in this letter do not purport to reflect the views of all fund independent directors.

<sup>2</sup> SEC Press Release, *Staff to Host Nov. 15 Roundtable on the Proxy Process* (September 21, 2018), available at <https://www.sec.gov/news/press-release/2018-206>.

In their role as shareholders in corporations, funds are entitled to vote on proxy proposals put forth by a company's management or its shareholders. A fund's board of directors, acting on behalf of the fund, is responsible for the voting of proxies for portfolio securities but typically delegates proxy voting responsibilities to the fund's adviser in recognition that proxy voting is part of the investment management process. The board, however, maintains ongoing oversight of this function as part of its fiduciary duties to the fund.

When a fund adviser votes proxies, it must do so in a manner consistent with its own fiduciary duties to the fund. A fund and/or its adviser adopts policies and procedures reasonably designed to ensure that proxies for portfolio securities are voted in the best interests of the fund and to address material conflicts that may arise between the interests of the adviser and the fund with respect to proxy voting decisions.

The following IDC and ICI publications further explain the board's role and governance practices for overseeing proxy voting:

- [Oversight of Fund Proxy Voting](#) (July 2008)
- [Report on Funds' Use of Proxy Advisory Firms](#) (January 2015)

One of the topics noted by Chairman Clayton in his statement announcing the roundtable is whether fund shareholders should have a means of providing input into how the fund adviser votes its portfolio securities.<sup>3</sup> We strongly oppose this idea. Requiring funds to obtain fund shareholder input before voting the proxies of portfolio company securities is an unworkable solution in search of a problem.

Funds vote hundreds of proxies a year and have thousands (if not hundreds of thousands) of shareholders.<sup>4</sup> Such a requirement would obviously be very costly and operationally complex and, in our view, wholly unnecessary. Fund shareholders appropriately rely on fund advisers for the selection of portfolio securities and the related function of voting their proxies. Fund shareholders are well represented by fund boards, who oversee these processes in the interests of fund shareholders. Micromanagement by shareholders in a fund's portfolio decisions is neither appropriate or useful, nor is it contemplated by the Investment Company Act of 1940.

As noted above, funds also are issuers of securities and, as such, may put forth for shareholder vote proposals on certain corporate matters. In general, open-end funds do not hold annual

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<sup>3</sup> See Chairman Jay Clayton, Statement Announcing SEC Staff Roundtable on the Proxy Process (July 30, 2018), available at <https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process>.

<sup>4</sup> The average mutual fund voted on 1,504 separate proxy proposals in 2017. See ICI Viewpoints, *Funds and Proxy Voting: The Mix of Proposals Matters* (November 5, 2018), available at [https://www.ici.org/viewpoints/view\\_18\\_proxy\\_environment](https://www.ici.org/viewpoints/view_18_proxy_environment).

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shareholder meetings; rather, a meeting is held when a shareholder vote on a particular matter is required, such as the election of fund directors or approval of an acquisition or merger. Closed end funds are required to hold annual shareholder meetings by the rules of the exchange on which the closed-end fund's shares trade.

Among fund directors' concerns with respect to proxy voting are the costs to funds. Fund directors oversee fund expenses and are very cognizant of the effect that expenses have on a fund's performance and its returns to shareholders. We note that the Commission's recent request for comment on processing fees charged by intermediaries does not cover delivery of fund proxy materials.<sup>5</sup> We encourage the Commission to examine and consider proposing changes with respect to processing fees for fund proxy materials as well.

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If you have any questions or would like further information, please contact Annette Capretta, Deputy Managing Director, at [REDACTED] or me at [REDACTED].

Sincerely,



Amy B.R. Lancellotta  
Managing Director

cc: The Honorable Jay Clayton  
The Honorable Kara M. Stein  
The Honorable Robert J. Jackson Jr.  
The Honorable Hester M. Peirce  
The Honorable Elad L. Roisman

Dalia Blass, Director  
Division of Investment Management

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<sup>5</sup> See *Request for Comment on the Processing Fees Charge by Intermediaries for Distributing Materials Other than Proxy Materials to Fund Investors*, SEC Release Nos. 33-10505; 34-83379; IC-33114; File No. S7-13-18 (June 5, 2018), available at <https://www.sec.gov/rules/other/2018/33-10505.pdf>.