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Proxy Voting by Registered Investment Companies, 2017

KEY FINDINGS

- **Registered investment companies (funds) vote proxies.** Funds are major shareholders in public companies. Like any company shareholder, funds are entitled to vote on proxy proposals put forth by a company's board or its shareholders. This study updates earlier ICI work on proxy voting, examining how funds voted on proxy proposals during the 12-month period ending June 30, 2017.
- **Proxy proposals address a range of issues.** Proxy proposals can be initiated by company boards of directors (management proposals) or company shareholders (shareholder proposals). The great majority of proxy proposals are management proposals that are not contentious, concerning the uncontested election of company directors and ratification of company audit firms. Other management proposals ask shareholders to approve compensation of top executives (say-on-pay proposals) or to approve fundamental changes, such as to a company's capital structure. Shareholder proposals, which are typically sponsored by a small number of individuals and organizations, are varied, asking management to make changes to a company's capital or governance structure, to increase shareholder rights, or to report on or address social and environmental issues.
- **Fund advisers have a fiduciary duty to funds and their shareholders.** Funds normally delegate proxy voting responsibilities to fund advisers. Advisers have a fiduciary duty to the fund, which extends to proxy voting. In addition, funds must adopt proxy voting policies and procedures, which they describe in their publicly available registration statements.

Key findings, continued »

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Key findings, continued »

- **The proxy voting landscape has changed markedly in recent years.** The Dodd-Frank Wall Street and Consumer Protection Act, passed in July 2010, required companies to add to their proxies a say-on-pay proposal for top executives. Since then, the number of shareholder say-on-pay proposals fell, and shareholder proposals have focused more on social and environmental matters.
- **Fund votes depend on a range of factors.** Funds generally provide strong support for directors who run unopposed. They also generally support management say-on-pay proposals, but withhold or vote against such proposals if they view executive compensation as excessive or regard pay practices as problematic in some other respect. Shareholder proposals tend to be highly varied and are sometimes controversial. Fund support for shareholder proposals varies depending on proposal details, issuers to which they apply, the context in which the proposal is set, and other factors.
- **There is no one-size-fits-all description of how funds vote, other than to say that fund advisers seek to vote in the interests of funds and their shareholders and consistent with their funds' investment objectives and policies.** This report illustrates the nuances and details of how funds vote using two case studies on climate-related shareholder proposals.

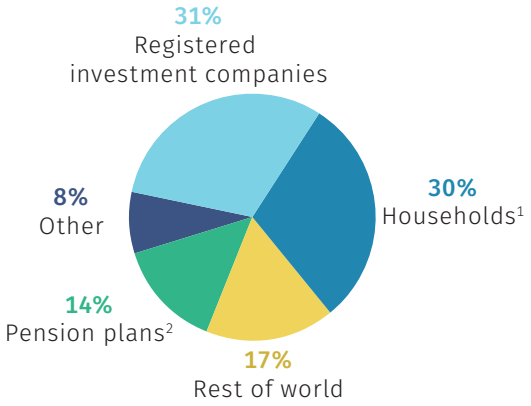
Publicly traded companies hold annual meetings at which shareholders vote on various issues. Before its annual meeting, a company's board of directors compiles a list of proposals on which shareholders will vote. The company sends its shareholders a list of these proposals with descriptions and other required information, called a proxy statement, along with a ballot, called a proxy card. Although shareholders can cast their votes in person at companies' annual meetings, they more commonly place their votes by proxy, via telephone, mail, or the internet.

Registered investment companies—including mutual funds, closed-end funds, and exchange-traded funds—invest trillions of dollars on behalf of more than 100 million US investors. As Figure 1 shows, in 2017, registered investment companies held 31 percent of publicly traded US stocks. Like any company shareholder, funds are entitled to vote on proxy proposals put forth by a company's board or its shareholders.

FIGURE 1

Who Holds US Stocks?

Percent, year-end 2017



[1] This category includes households, foundations, endowments, and hedge funds.

[2] This category represents direct holdings of US corporate equity by state and local defined benefit pension plans, private pension plans, and the Thrift Savings Plan; it excludes registered investment companies.

Sources: Investment Company Institute, Federal Reserve Board, and World Federation of Exchanges

In recent years, issues related to proxy voting and proxy advisory firms have featured in the news and have been discussed by policymakers, corporate executives, and investors. Given the level of interest, this issue of *ICI Research Perspective* looks at how funds voted on a variety of proxy issues that have gained prominence in recent years. Such an analysis is possible because in the United States funds are required to disclose how they vote on proxy proposals.[1]

As this report shows, funds vote on a broad and evolving range of proxy proposals. In deciding how to vote, funds consider a range of factors, including the details of a given proposal, the company to which it applies, the context in which the proposal is set, and the funds' own investment objectives and policies. As a result:

- two different fund advisers might vote differently on the same proposal at a given company;
- the same fund adviser might vote differently on identical proposals at two different companies;
- the same adviser might vote differently in two different years on the same proposal at the same company; or
- the same adviser might vote shares owned by two different funds differently, even on the same proposal at the same company in the same year, to best represent the interests of each fund's respective clients.

To illustrate these nuances, this report provides case studies of how funds voted on proposals on executive compensation and shareholder proposals related to climate change. These case studies show the diversity in fund voting patterns and highlight the nuance and thoughtfulness funds bring to the voting process.

Trends in Proxy Proposals

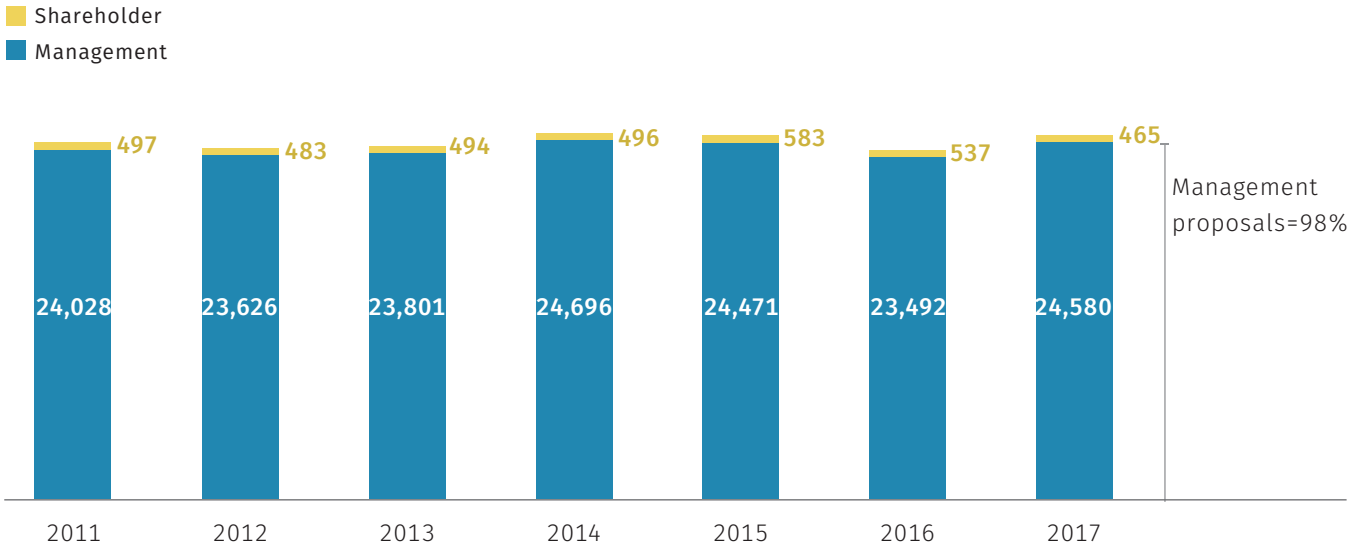
The proxy voting landscape has changed considerably in the past decade. Among other things, this reflects legislative changes, notably the Dodd-Frank Act, as well as heightened concerns about climate change and its potential effects on companies' performance and expected stock prices.

There are two types of proxy proposals: management proposals and shareholder proposals. Figure 2 summarizes the proxy proposals for the 3,000 largest publicly traded US companies for proxy years 2011 through 2017.[2, 3] Over this period, the number of proposals averaged almost 25,000 per year.[4] For instance, for the 12 months ended June 30, 2017 (the 2017 proxy year), shareholders at the 3,000 largest public companies considered more than 25,000 proposals. In any year, the vast majority of proxy proposals are management proposals. As will be shown, the majority of management proposals were not contentious—for example, those relating to uncontested election of company directors and ratification of company audit firms. Virtually all of these proposals pass.

Shareholder proposals often draw considerable attention, yet in any given year they typically make up a small fraction of proxy proposals. Over the period 2011 to 2017, shareholder proposals accounted for about 2 percent of all proxy proposals.

FIGURE 2

Types of Proxy Proposals for the Largest Publicly Traded Companies



Memo: total number of proposals

2011	2012	2013	2014	2015	2016	2017
24,525	24,109	24,295	25,192	25,054	24,029	25,045

Note: This figure is based on proxy proposals for companies in the Russell 3000 Index. Proxy years consist of dates from July 1 of the preceding year to June 30 of the listed year. This figure excludes proposals related to the frequency of say-on-pay votes.

Source: Investment Company Institute tabulations of ISS Corporate Services data

Management Proposals

Management proposals are initiated by a company's board of directors. These are primarily proposals that management must by law submit to company shareholders. For example, a company's shareholders annually elect (or reelect) board members.[5] In addition, a company must seek shareholder approval to make fundamental changes, such as altering shareholder rights or rules or instituting or renewing equity incentive plans for company employees. The requirements for such approvals stem from state corporation laws, federal tax laws, exchange listing standards, the company's governing documents (articles, bylaws, or charters), and other regulations.

Director elections. The great majority of management proposals—more than 70 percent in 2017—concern the election of directors (Figure 3). Directors are generally nominated by the incumbent board of directors and run unopposed. In a given year, only a tiny proportion of director elections are contested: in 2017, just 83 out of more than 17,000 director elections (less than 0.5 percent) were contested.[6]

Although directors generally run unopposed, investors may vote "Against" particular directors in order to signal their dissatisfaction with directors' actions, such as failure to attend board meetings or failure to respond to shareholder proposals that have gained majority support.

FIGURE 3

Management Proxy Proposals

Percentage of management proposals

Category	2011	2012	2013	2014	2015	2016	2017
Election of directors	69.1	70.1	70.3	70.0	70.7	71.0	70.2
Auditor ratification	11.2	11.4	11.3	11.2	11.4	11.1	11.0
Compensation	16.1	15.0	14.6	15.3	14.1	13.9	14.8
Of which:							
Say-on-pay	11.1	10.0	9.7	10.5	9.3	9.1	9.9
Other compensation-related	5.0	5.1	5.0	4.8	4.8	4.7	4.8
Other management proposals	3.7	3.5	3.8	3.5	3.8	4.0	4.0
Of which:							
Capitalization	0.8	0.7	0.8	0.8	0.7	0.7	0.7
Board structure and election process	0.4	0.5	0.6	0.5	0.5	0.5	0.5
Mergers and reorganizations	0.4	0.5	0.5	0.6	0.7	0.7	0.9
Shareholder rights/ Antitakeover-related	0.9	0.9	1.1	0.9	1.2	1.1	1.2
Miscellaneous	1.0	0.9	0.8	0.8	0.8	1.0	0.8

Note: This figure excludes proposals related to the frequency of say-on-pay votes. Proxy years consist of dates from July 1 of the preceding year to June 30 of the listed year.

Source: Investment Company Institute tabulations of ISS Corporate Services data

Audit firm ratification. Although they are not required to do so, most companies also ask their shareholders to ratify the company's choice of an audit firm.[7] In 2017, of the almost 3,000 component companies in the Russell 3000 Index, 2,796 (94 percent) asked their shareholders to ratify the choice of audit firm.

Compensation. Since 2011, companies have been required under the Dodd-Frank Act to offer shareholders an advisory (i.e., a nonbinding) vote on the compensation packages of the company's top five "named executives."[8] These proposals are often referred to as "say-on-pay proposals."

Say-on-pay proposals constitute the majority of compensation-related proposals. Other compensation-related proposals, such as those that seek to institute or renew equity-based incentive plans, represent about 5 percent of management proposals. Management is required to periodically seek reapproval of such incentive plans.

The Dodd-Frank Act also required companies to submit to their shareholders an advisory vote at least once every six years on whether shareholders would prefer to have a say-on-pay vote every year, every two years, or every three years. These are typically referred to as "say-on-pay frequency proposals." This report details how funds voted on such proposals on page 15.

Other management proposals. Other management proposals cover a range of items that must by law be approved by company shareholders, such as proposals to alter the firm's capital structure, to alter the structure of its board, to alter shareholders' rights or a company's antitakeover provisions, or to approve the reorganization of a company or its merger with another company. Other management proposals on average accounted for less than 4 percent of the total number of management proposals from 2011 to 2017.

Shareholder Proposals

Securities and Exchange Commission (SEC) Rule 14a-8, promulgated under the Securities Exchange Act of 1934, allows a shareholder who has continuously held either $2,000 in market value or 1 percent of a company's stock during the past 12 months to submit a proposal to be considered and voted on at the company's annual meeting. Rule 14a-8 is intended to allow investors to express their views on company matters and to propose alternative courses of corporate action.

Rule 14a-8 allows a company's board to seek to omit a shareholder proposal from its proxy statement under certain conditions. For example, a shareholder proposal is likely to be omitted if the proposal deals with a matter relating to the company's ordinary business operations.[9] Therefore, shareholder proposals are typically precatory, or nonbinding—recommending, rather than requiring, actions by a company's board.

In 2017, 23 percent of the proposals that shareholders submitted were omitted from company proxy statements (Figure 4).

Shareholder proposals are sometimes withdrawn by their sponsors before the proposals come to a vote. For instance, a sponsor might withdraw a shareholder proposal because the company has agreed to undertake the changes the shareholder proposal was requesting. In 2017, 18 percent of shareholder proposals were withdrawn.

Finally, each year a small number of shareholder proposals (e.g., 4 percent in 2017) were not brought to a vote. There could be a number of reasons for this—for example, the shareholder who sponsored the proposal did not continue to hold the necessary number of shares through the company's annual meeting date.

Remaining shareholder proposals are included on the company's proxy statement, which is printed and delivered to all of the company's voting shareholders at the company's expense. In 2017, 54 percent of the proposals shareholders initially submitted were included on companies' proxy statements.

Shareholder proposals typically address four broad areas (Figure 5):

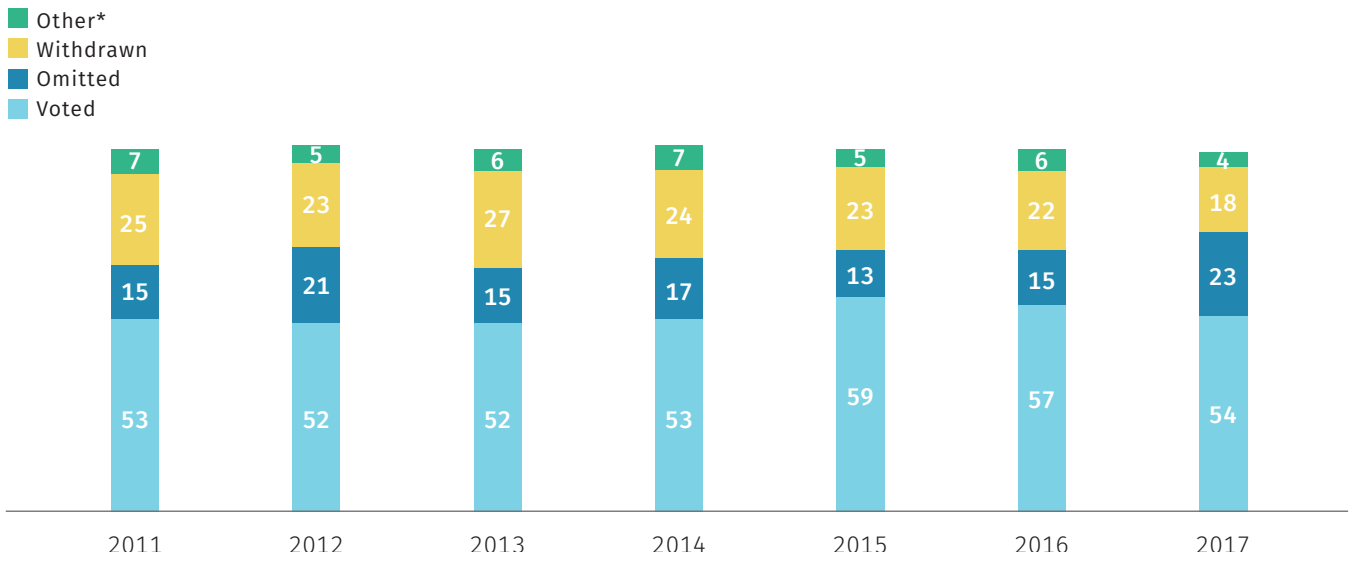
- shareholder rights or antitakeover-related issues;
- structure and election of company boards;
- compensation-related proposals; and
- social and environmental issues such as human rights, diversity, and climate change.

Proposals in the first two categories have typically made up about one-third to one-half of all shareholder proposals. These kinds of shareholder proposals may request a range of actions, including separating the roles of board chairman and CEO, providing investors with increased ability to nominate individuals to the board of directors, or eliminating "poison pill" provisions (such provisions may help insulate company management from a takeover).

FIGURE 4

Shareholder Proposals Submitted to the Largest Publicly Traded US Companies by Ultimate Disposition

Percent



* This category includes proposals that were not included in a company's definitive proxy statement, not presented to shareholders, or not voted on because the meeting was cancelled.

Note: Proxy years consist of dates from July 1 of the preceding year to June 30 of the listed year.

Source: Investment Company Institute tabulations of ISS Corporate Services data

Remaining shareholder proposals are either related to compensation or social/environmental issues. Over time, the number of compensation-related shareholder proposals has fallen, while proposals relating to social and environmental issues have increased. To an important degree, this evolution reflects two developments.

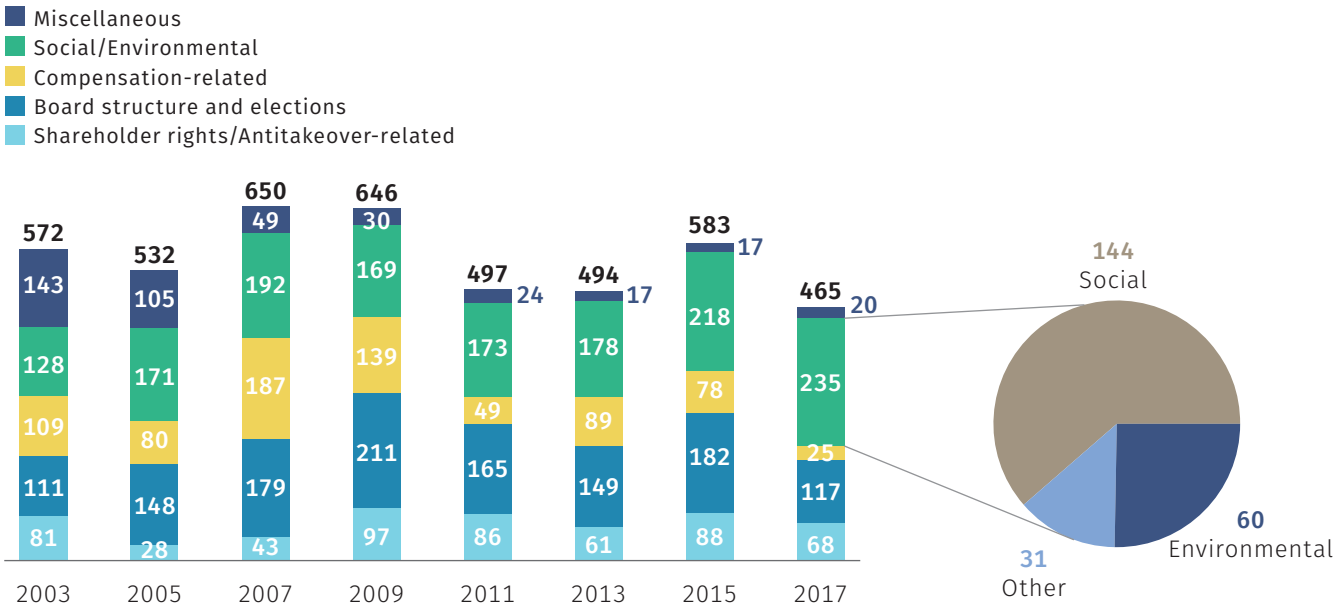
First, before 2010, shareholders frequently put forth proposals calling for management to provide an advisory say-on-pay vote. The incentive for shareholders to offer such proposals was reduced in 2010 by the passage of the Dodd-Frank Act, which required companies to begin offering advisory say-on-pay proposals. In 2009, compensation-related proposals made up 22 percent (139 out of 646) of all shareholder proposals. From 2011 on, these proposals constituted a much smaller percentage of shareholder proposals—for instance, only 5 percent (25 out of 465) in 2017.

Second, the nature of shareholder proposals has changed due to increased concerns about the potential effects on companies of diversity, climate change, and other social and environmental issues.

In 2017, half of shareholder proposals (235 out of 465) fell into the social and environmental category. These proposals, although varying widely, can be placed in three broad subcategories (Figure 5, pie chart). The largest fraction, 144, were social-related proposals, covering issues such as workforce diversity, human rights, animal welfare, and even "fake news" (two proposals).[10] Sixty proposals were related to environmental issues. Thirty-one proposals ("other") contained both social and environmental aspects, such as proposals related to product toxicity or genetically modified organisms (GMOs).

FIGURE 5

Composition of Shareholder Proxy Proposals for the Largest Publicly Traded Companies



Note: Proxy years consist of dates from July 1 of the preceding year to June 30 of the listed year.

Source: Investment Company Institute tabulations of ISS Corporate Services data

Who Sponsors Shareholder Proposals?

Shareholders who sponsor proxy proposals may be individuals or institutional investors such as labor unions, defined benefit pension plans, advocacy groups, and others, including four proposals offered in 2017 by registered investment companies. The 465 shareholder proposals on the proxy ballots of the 3,000 largest publicly traded US companies were sponsored by 537 shareholders, as some shareholder proposals had multiple sponsors (Figure 6).

These groups represent diverse interests and, as a result, tend to focus on different kinds of proposals. For example, religious organizations, advocacy groups, and socially responsible investors focused predominantly on social and environmental issues. Individuals focused mainly on the structure of company boards and shareholder rights. State and local defined benefit pension funds have focused equally on social and environmental issues and board structure.

FIGURE 6

Sponsorship of Shareholder Proposals That Were Voted on During Proxy Season 2017 by Type of Proposal and Proponent

	Total number of shareholder proposals sponsored	Board structure and election process	Shareholder rights/ Antitakeover	Compensation-related	Social and environmental	Other
Individuals	159	70	56	9	10	14
Socially responsible investors[1]	128	2	12	2	110	2
State and local defined benefit pension funds	118	54	2	8	53	1
Advocacy groups[2]	57	7	3	2	44	1
Unions	19	3	0	6	10	0
Religious organizations	18	3	0	0	14	1
Registered investment companies (funds)	4	0	1	0	2	1
All others	34	11	5	4	10	4
Total	537[3]	150	79	31	253	24

[1] *Socially responsible investors* are defined here as registered investment advisers that manage their clients' assets (typically those of high-net-worth individuals investing through separately managed accounts) in an effort to achieve specific financial and social objectives. Registered investment companies with a mandate to engage companies on social and environmental issues are included in the funds category.

[2] *Advocacy groups* are defined here as nonprofit organizations whose primary activities are intended to advance certain causes such as human rights, welfare, and environmental issues.

[3] This total does not equal the total number of shareholder proposals listed in Figure 5 because some proposals had multiple sponsors.

Note: This figure is based on shareholder proposals at companies listed in the Russell 3000 Index for the proxy year 2017. (For purposes of funds' proxy vote disclosures on Form N-PX, the SEC defines *proxy year 2017* as July 1, 2016, through June 30, 2017.)

Source: Investment Company Institute tabulations of ISS Corporate Services data

Who Sponsors Shareholder Proposals? CONTINUED

Most shareholder proposals are sponsored by a relatively small number of proponents (Figure 7). In 2017, 43.6 percent of shareholder proposals were sponsored by 10 proponents. The three most active proponents alone accounted for 26.4 percent of all proposals. Remaining shareholder proponents were much less prolific; 130 other shareholders on average sponsored 2.3 proposals each.

FIGURE 7

Most Active Proponents of Shareholder Proposals That Were Voted on During Proxy Season 2017

	Total number of shareholder proposals sponsored	Percentage of all shareholder proposals	Cumulative number of shareholder proposals	Cumulative percentage of shareholder proposals
John Chevedden and affiliates[1]	88	16.4%	88	16.4%
James McRitchie and Myra Young	36	6.7	124	23.1
As You Sow Foundation	18	3.4	142	26.4
Comptroller of the City of New York	16	3.0	158	29.4
New York State Common Retirement Fund	15	2.8	173	32.2
Holy Land Principles, Inc.	14	2.6	187	34.8
AFL-CIO	12	2.2	199	37.1
Arjuna Capital	12	2.2	211	39.3
California State Teachers' Retirement System	12	2.2	223	41.5
New York State Comptroller	11	2.0	234	43.6
Other sponsors	2.3[2]	56.4	537[3]	100.0

[1] This category includes proposals sponsored by John Chevedden, Kenneth Steiner, and William Steiner.

[2] There are 130 other sponsors. The number of proposals is the average number of proposals per sponsor.

[3] This total does not equal the total number of shareholder proposals listed in Figure 5 because some proposals had multiple sponsors.

Note: This figure is based on shareholder proposals at companies listed in the Russell 3000 Index for the proxy year 2017. (For purposes of funds' proxy vote disclosures on Form N-PX, the SEC defines *proxy year 2017* as July 1, 2016, through June 30, 2017.)

Source: Investment Company Institute tabulations of ISS Corporate Services data

The Proxy Voting Process for Funds

A fund's board of directors, acting on the fund's behalf, is responsible for voting proxies related to the fund's portfolio securities. The fund's board normally delegates voting responsibility to the fund's adviser, subject to board oversight, in recognition that proxy voting is part of the investment advisory process.

Federal law imposes a fiduciary duty on a fund's adviser. This duty extends to proxy voting when the adviser assumes this responsibility. Thus, an adviser that votes a fund's proxies must do so in the interests of the fund and its shareholders and consistent with the fund's investment objectives and policies.[11]

Toward this end, a fund's adviser may consider a range of factors, including:

- What are the specific requirements or requests of the company made in the proposal?
- Can the proposal be implemented effectively, or would it impose material costs in excess of any benefit?
- What vote—"For," "Against," or "Abstain"—would best advance the interests of the fund and its investors?
- What vote would be consistent with the fund's proxy voting policies and procedures?
- Has an identical proposal appeared on the company's proxy statement in previous years and failed to pass?
- Does the proposal address the general interests of the company's shareholders, or solely the interests of the particular shareholders who sponsored the proposal?

Federal law requires a fund to adopt and describe written proxy voting policies and procedures. A fund's board must review these at least annually. These policies and procedures describe procedures that the fund uses when a vote presents a conflict between the interests of fund investors and those of a fund's adviser.[12]

These policies and procedures also often describe guidelines that the fund uses to determine how to vote proxies relating to portfolio securities. Fund voting guidelines might, for instance, indicate that a fund will vote for competent board members and impartial audit firms (and include factors for making these determinations), or for proposals that increase the fund's rights as a shareholder.[13]

Fund Proxy Voting in 2017

This section examines how funds voted on proxy proposals during proxy season 2017.[14] The analysis covers proxy votes cast in 2017 by 371 fund advisers on behalf of mutual funds, closed-end funds, exchange-traded funds, and mutual funds underlying variable annuities for companies in the Russell 3000 Index.

Voting proxies is a significant undertaking. In the 2017 proxy season, funds cast more 7.6 million votes.[15] The average mutual fund voted on about 1,500 separate proxy proposals.

Overview of Fund Voting in 2017

In proxy year 2017, the vast majority of proxy votes that funds placed concerned the uncontested election of directors and ratification of audit firms (Figure 8). As noted earlier, these are by far the most numerous

FIGURE 8

Proxy Proposals Voted on by Registered Investment Companies, 2017

Type of proposal	Number of fund proxy votes placed	Percentage of fund proxy votes placed
Management proposals	**7,306,483**	**95.9%**
Of which:		
Election of directors	5,383,360	70.7
Ratification of audit firm	711,318	9.3
Compensation-related	1,005,703	13.2
Other management proposals	206,102	2.7
Shareholder proposals	**312,647**	**4.1**
Total	**7,619,130**	**100.0**

Note: This figure includes proxy proposals for companies in the Russell 3000 Index with shareholder meetings from July 1, 2016, to June 30, 2017. Proxy votes related to say-on-pay frequency proposals are excluded.

Source: Investment Company Institute tabulations of ISS Corporate Services data

types of proxy proposals put to shareholders each year. Remaining votes were cast on proposals related to management compensation (13 percent), other management proposals (3 percent), and shareholder proposals (4 percent).

Figure 9 summarizes how funds voted in proxy season 2017. For comparison, the figure also tabulates the vote recommendations of the proxy advisory firm Institutional Shareholder Services (ISS). The percentages of all shares voted in favor of these proposals are also shown, and the rightmost column reports the percentage of proxy proposals that passed.[16]

As Figure 9 shows, funds offer significantly higher levels of support for management proposals than for shareholder proposals. In 2017, funds voted 94 percent of the time "For" management proposals, but only 35 percent of the time "For" shareholder proposals. Commentators have at times argued that these patterns suggest that funds vote mechanically without considering the merits of individual proposals. But, as the rest of this section shows, funds decide how to vote in a nuanced manner based on a wide variety of factors.

FIGURE 9

Proxy Votes Cast by Registered Investment Companies

Percent, 2017

			Memo	
	Percentage of funds voting "For"[1]	Percentage of ISS recommendations "For"[2]	Percentage of all shares voting "For"[3]	Percentage of proposals passing
All types	**91.6%**	**92.1%**	**94.0%**	**98.0%**
Management proposals	94.0	93.2	95.2	99.6
Shareholder proposals	34.6	64.8	29.2	13.5

[1] Measured as the number of US-registered investment companies recording a "For" vote for proposals in a given category, divided by the total number of votes that funds cast.

[2] Measured as the number of times ISS recommended voting "For" a proposal in a given category, divided by the total number of recommendations ISS made in that category.

[3] Measured as the number of shares voting "For," divided by the total number of shares voted, including shares owned by shareholders who abstained from the vote.

Note: This figure represents votes cast by US-registered investment companies on proxy proposals for companies in the Russell 3000 Index during the 2017 N-PX reporting year (fiscal year July 1, 2016, to June 30, 2017). This figure excludes votes on securities listed on foreign stock exchanges and proxy votes related to say-on-pay frequency proposals.

Source: Investment Company Institute tabulations of Form N-PX data and ISS Corporate Services data

How Funds Voted on Management Proposals

As Figure 10 shows, in 2017 funds provided strong support for management proposals, voting 94 percent of the time in favor of such proposals. This may reflect that the vast majority of management proposals are not controversial, notably the uncontested election of directors and ratification of the audit firm the company has selected.

The strong support funds offer these proposals tends, however, to mask nuances in how funds reach vote decisions. Funds sometimes withhold support from, or vote against, management proposals, which can send a strong signal of concern to a company's management. These nuances are well-illustrated by examining how funds form their vote decisions for director elections and say-on-pay proposals.

FIGURE 10

Proxy Votes Cast on Management Proposals by Registered Investment Companies

Percent, 2017

			Memo	
	Percentage of funds voting "For"[1]	Percentage of ISS recommendations "For"[2]	Percentage of all shares voting "For"[3]	Percentage of proposals passing
Management proposals	**94.0%**	**93.2%**	**95.2%**	**99.6%**
Of which:				
Election of directors	94.4	93.3	95.7	99.6
Ratification of audit firm	98.6	99.6	98.7	100.0
Compensation-related	89.2	88.0	90.9	98.5
Of which:				
Say-on-pay	90.0	87.7	90.9	98.0
Other compensation-related	89.5	88.5	90.7	99.6
Other management proposals	**92.7**	**93.8**	**92.7**	**95.6**
Of which:				
Shareholder rights/Antitakeover-related	87.9	93.3	90.7	93.9
Capitalization	90.4	90.1	90.9	97.6
Director-related	95.8	94.9	98.2	91.5
Mergers and reorganizations	97.7	98.3	97.7	99.1
Miscellaneous	92.7	92.7	90.7	93.1

[1] Measured as the number of US-registered investment companies recording a "For" vote for proposals in a given category, divided by the total number of votes that funds cast.

[2] Measured as the number of times ISS recommended voting "For" a proposal in a given category, divided by the total number of recommendations ISS made in that category.

[3] Measured as the number of shares voting "For," divided by the total number of shares voted, including shares owned by shareholders who abstained from the vote.

Note: This figure represents votes cast by US-registered investment companies on proxy proposals for companies in the Russell 3000 Index during the 2017 N-PX reporting year (fiscal year July 1, 2016, to June 30, 2017). This figure excludes votes on securities listed on foreign stock exchanges and proxy votes related to say-on-pay frequency proposals.

Source: Investment Company Institute tabulations of Form N-PX data and ISS Corporate Services data

Director Elections

Funds typically give high approval rates to the slates of directors nominated by management; in 2017, funds voted more than 94 percent of the time in favor of director nominees. The overall high approval rates may reflect that most directors stand for election unopposed and their elections are generally not controversial. ISS recommended voting "For" 93.3 percent of directors; the vast majority of shares (95.7 percent) were voted "For" director nominees; and virtually all director nominees (99.6 percent) were confirmed.

Funds' voting guidelines often state that they will vote for management's proposed slate of director nominees except under particular circumstances. For example, voting guidelines sometimes indicate that funds will withhold votes from directors who failed to exercise good judgment, did not attend at least 75 percent of board or committee meetings, or took actions considered contrary to the interests of company shareholders.

Say-on-Pay Proposals

Beginning in 2011, the Dodd-Frank Act required management to offer shareholders an advisory vote on the compensation packages of a company's top executive officers.

In deciding how to vote, funds are likely to consider a range of factors including the company's performance, the overall level of executive compensation, whether the pay packages are likely to motivate senior executives to act in the interests of company shareholders, whether there are excessive or inappropriate perquisites, and whether companies have taken into account previous shareholder feedback on compensation arrangements.

Reflecting these and other considerations, funds voted 90 percent of the time in favor of companies' say-on-pay proposals.

If a fund views a company's executive compensation as excessive or regards pay practices as otherwise problematic, it may vote "Against" or "Abstain" on a company's say-on-pay proposal. Doing so can send a strong signal of concern about executives' compensation. Alternatively, a fund might signal concern by withholding votes from directors who sit on a company's compensation committee.[17]

Indeed, funds withheld support from executive compensation packages 10 percent of the time. This suggests that in any five-year period, the chances of a fund voting against the executive compensation package of a given company may be substantially greater than 10 percent.[18]

The Dodd-Frank Act also required companies to offer say-on-pay frequency votes. These ask shareholders to choose whether they would prefer a management say-on-pay vote every one, two, or three years. Dodd-Frank further requires companies to repeat the say-on-pay frequency vote at least once every six years. As Figure 11 shows, results of say-on-pay frequency votes indicate that funds strongly prefer a say-on-pay vote to be held annually. For instance, in 2017, funds voted 82 percent of the time in favor of an annual say-on-pay proposal.

Other Management Proposals

Funds generally gave high support to "other management proposals," on average voting in favor of such proposals 92.7 percent of the time during the 2017 proxy season (Figure 10). These high rates of support are evident in each of the five subcategories.

As discussed earlier, other management proposals cover a wide range of matters that must be approved by company shareholders. When these proposals are viewed as increasing shareholder value or increasing shareholder rights, funds—like other shareholders—are more likely to vote "For."

For example, some of the proposals in the "shareholder rights/antitakeover-related" category would remove supermajority voting requirements. A supermajority voting provision requires a large majority of a company's shares (often two-thirds or more) to be voted "For" to approve important changes. Supermajority provisions can make it difficult for shareholders to enact change. Funds often favor proposals that allow shareholders to approve company matters on a simple majority vote.

The 2017 proxy season saw two striking examples. A proposal at Duke Energy, if approved, would have replaced a supermajority voting requirement of 80 percent to undertake certain actions (such as to change the number of directors for the company) with a simple majority voting requirement. At Windstream Holdings, a similar proposal would have replaced a two-thirds majority vote requirement necessary to undertake certain actions (such as alter the number, election, and term of office of the board of directors) with a simple majority requirement. In both cases, funds voted nearly 100 percent of the time "For" the proposals. Despite receiving high levels of support from funds, both proposals failed because they did not receive the supermajority vote that the companies' charters required.

FIGURE 11

Fund Votes on Say-on-Pay Frequency Proposals

Percent, proxy seasons 2011 and 2017

	Fund votes				ISS recommendations		Shares voted			
	One year	Two years	Three years	Abstain or other	One year	Do not vote or other	One year	Two years	Three years	Other*
2011	80.5	0.4	17.6	1.5	99.9	0.1	53.5	1.7	20.5	24.3
2017	82.3	0.0	16.2	1.5	99.6	0.4	63.7	0.6	14.0	21.7

* This category includes broker non-votes, shares not voted, or shares voting "Abstain."

Note: Proxy seasons consist of dates from July 1 of the preceding year to June 30 of the listed year.

Source: Investment Company Institute tabulations of ISS Corporate Services data

Funds' Votes on Shareholder Proposals, 2017

Funds on average gave more limited support to shareholder proposals than to management proposals. But, as this section details, their support for shareholder proposals varied considerably depending on a range of factors. These factors include, among other things, the details of the proposal, the issuer to whom the proposal applied, and the backdrop and context in which the proposal was set. It is critical to keep these factors in mind in order to understand how fund votes support the interests of fund shareholders.

For example, funds tend to offer more support to proposals that are likely to increase their rights as company shareholders, irrespective of whether the proposals are offered by management or by shareholders. Funds voted nearly 50 percent of the time "For" shareholder proposals related to shareholder rights or antitakeover measures (Figure 12).

Funds on average provide more limited support for social and environmental proposals. For example, in 2017, funds on average voted about 25 percent of the time in favor of social and environmental proposals.

FIGURE 12

Proxy Votes Cast on Shareholder Proposals by Registered Investment Companies

Percent, 2017

			Memo	
	Percentage of funds voting "For"[1]	Percentage of ISS recommendations "For"[2]	Percentage of all shares voting "For"[3]	Percentage of proposals passing
Shareholder proposals	**34.6%**	**64.8%**	**29.2%**	**13.5%**
Of which:				
Shareholder rights/Antitakeover-related	49.0	76.4	43.9	33.3
Board structure and election process[4]	48.9	82.3	41.2	27.1
Compensation-related	28.4	70.5	24.1	4.0
Miscellaneous	37.0	45.1	13.0	4.8
Social/Environmental	25.2	55.5	20.3	2.6
Of which:				
Social	12.5	21.0	11.6	2.6
Other social and environmental	19.7	40.2	17.8	3.2
Environmental	36.0	77.4	27.4	5.0

[1] Measured as the number of US-registered investment companies recording a "For" vote for proposals in a given category, divided by the total number of votes that funds cast.

[2] Measured as the number of times ISS recommended voting "For" a proposal in a given category, divided by the total number of recommendations ISS made in that category.

[3] Measured as the number of shares voting "For," divided by the total number of shares voted, including shares owned by shareholders who abstained from the vote.

[4] Shareholder proposals calling for, or related to, declassifying boards are included in "antitakeover-related" shareholder proposals.

Note: This figure represents votes cast by US-registered investment companies on proxy proposals for companies in the Russell 3000 Index during the 2017 N-PX reporting year (fiscal year July 1, 2016, to June 30, 2017). This figure excludes votes on securities listed on foreign stock exchanges and proxy votes related to say-on-pay frequency proposals.

Source: Investment Company Institute tabulations of Form N-PX data and ISS Corporate Services data

But average levels of support can mask important nuances of how funds vote on such issues. These kinds of proposals, though classified generally as "social and environmental," cover a wide array of issues, ranging from the environment to diversity in hiring practices to human rights matters to issues about the safety of a company's business operations (e.g., a proposal calling on a company to produce a report about its efforts to reduce the risk of accidents at its facilities). Even within a subcategory, these proposals can differ from one another in very significant ways. And, as with funds' votes on other types of proposals, funds' votes on social and environmental proposals are influenced by the context in which the proposals are set. For example, suppose virtually identical proposals are directed to two different companies. A fund might view the proposal as appropriate for the first company, but inappropriate for the second, because the latter company has already taken steps to address the proposal's concerns.

To better understand the nuances and details of how funds vote, the remainder of this report provides two case studies. These case studies examine how funds voted in 2017 on various climate-related shareholder proposals. The case studies illustrate that there is no one-size-fits-all description of how funds vote, other than to say funds seek to vote in the interests of fund shareholders and consistent with their investment objectives and policies.

A Closer Look at Climate-Related Shareholder Proposals

In proxy season 2017, a number of companies received shareholder environmental proposals related to how their business models affect, or are affected by, climate change. This report groups these climate-related proposals in two categories:

"2 degree Celsius scenario proposals." These proposals ask energy-related companies to provide a report on the financial risks or the impact on shareholder value of a transition to a lower carbon economy that would be consistent with an increase in global temperatures of no more than 2 degrees Celsius above preindustrial levels, the goal set by the 2016 Paris Agreement.

Other climate-related shareholder proposals. This group includes all other 2017 shareholder proposals that relate to climate change. The proposals in this second group are more diverse, requesting a range of things—for example, that a company report on its greenhouse gas or methane emissions; present plans to achieve a "net-zero" greenhouse gas emissions by a given date; alter the company's capital structure in light of climate change; or divest itself of fossil fuel–related subsidiaries.

2 Degree Celsius Scenario Proposals

In 2017, shareholders submitted 2 degree Celsius proposals to 16 energy-related companies. These companies include oil companies (ExxonMobil, Occidental Petroleum), an oil refining company (Marathon Petroleum), power and gas utilities (Dominion Energy, Ameren Corporation), oil and gas exploration companies (Noble Energy, Hess), and an oil and gas pipeline company (Kinder Morgan).

A typical example is the proposal shareholders submitted to Noble Energy:

> *RESOLVED: Shareholders request that by 2018 Noble Energy publish an assessment of long-term portfolio impacts of public climate change policies, at reasonable cost and omitting proprietary information. The assessment can be incorporated into existing reporting and should analyze the impacts on Noble Energy's oil and gas reserves and resources under a scenario in which reduction in demand results from carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon 2-degree target. The reporting should assess the resilience of the company's full portfolio of reserves and resources through 2040 and beyond and address the financial risks associated with such a scenario.*

The proposals submitted to these 16 energy companies, although varying somewhat in wording, were all essentially identical in two primary aspects. The proposals and their supporting statements each: (1) noted the 2016 Paris Agreement to limit global temperature rise to 2 degrees Celsius; and (2) requested that management produce a report detailing the challenges that policies stemming from that commitment could pose for the company.

Although these proposals are identical or very similar in their main aspects, it is important to note that the support they received varied across the 16 different companies (Figure 13). For example, funds voted 45 percent of the time in favor of the proposal at Noble Energy; however, only 22 percent of all shares voted "For," and the proposal failed to pass. Meanwhile, funds voted 71 percent of the time for the proposal at ExxonMobil; in that case, 62 percent of all shares were voted in favor, and the proposal passed. In total, the proposals passed at three of the 16 companies.

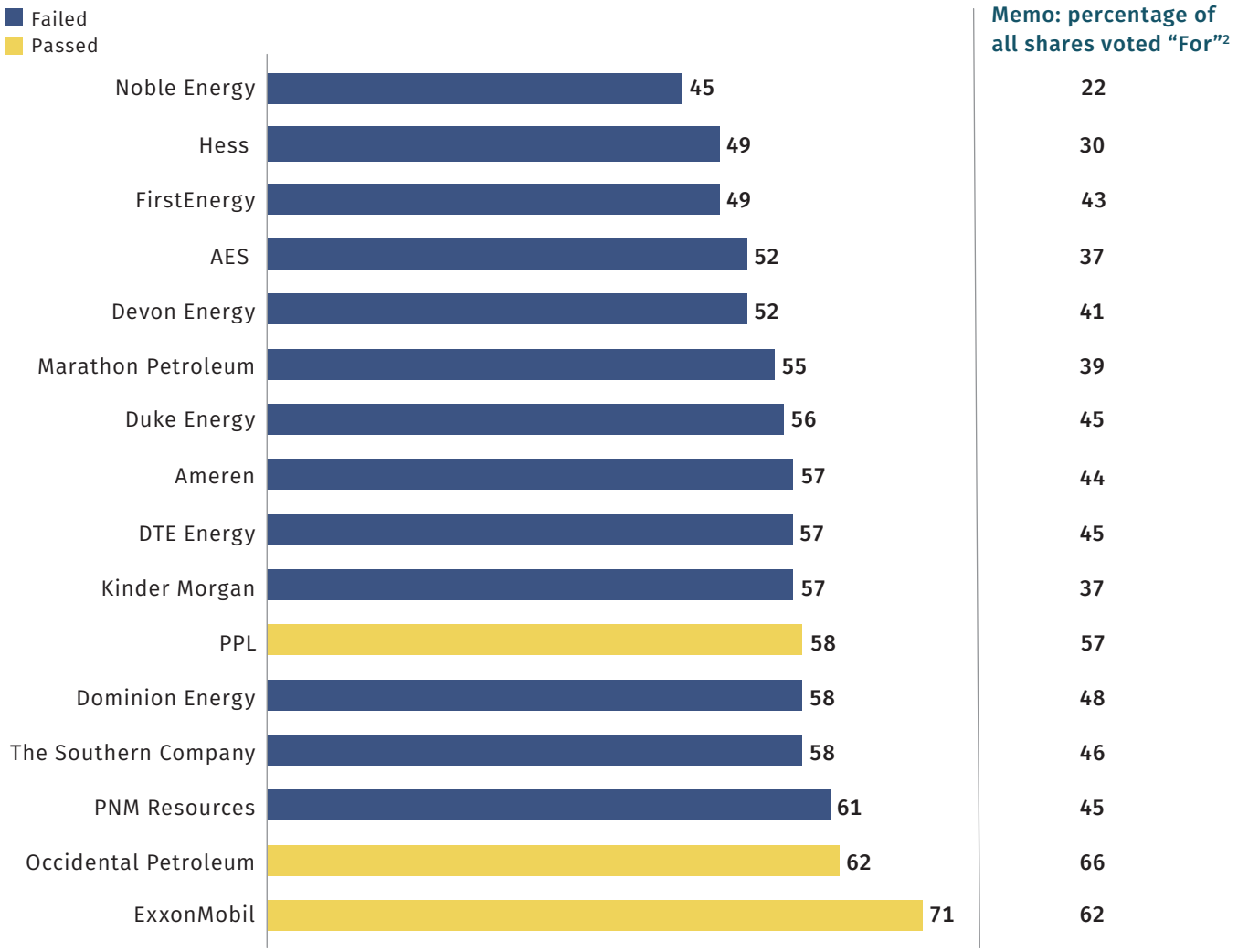
The diversity in how funds voted in part reportedly reflected the context in which the proposals were set. In recent years, concerns have been voiced that climate change may pose meaningful financial risks to the business models of companies—especially energy-related companies—and therefore to the long-term value of shareholders' investments in these companies. For example, if the demand for oil were to fall in the long term, perhaps because of government intervention to limit carbon emissions, oil companies could be less profitable.

Against this backdrop, funds and other shareholders have begun asking such companies for more, and more substantive, information on the financial risks posed by climate change. To obtain such information, funds may initially engage directly with companies' management or boards of directors in an effort to better understand these risks. To the extent that a company has shown progress toward providing such information, a fund may decide voting "For" a shareholder proposal is unnecessary. On the other hand, when funds seek to engage with companies on such issues, but view progress as absent or insufficient, they may view a "For" vote on such proposals as appropriate.

FIGURE 13

Percentage of Funds Voting "For" 2 Degree Celsius Shareholder Proposals

By company, percent[1]



[1] Measured as the number of US-registered investment companies recording a "For" vote for proposals in a given category, divided by the total number of votes that funds cast.

[2] Measured as the number of shares voting "For," divided by the total number of shares voted, including shares owned by shareholders who abstained from the vote.

Note: This figure represents votes cast by US-registered investment companies on proxy proposals for companies in the Russell 3000 Index during the 2017 N-PX reporting year (fiscal year July 1, 2016, to June 30, 2017). This figure excludes votes on securities listed on foreign stock exchanges.

Source: Investment Company Institute tabulations of ISS Corporate Services Data

Indeed, because of this context, funds may change their votes for these (and other) kinds of proposals from one year to the next. For example, some of the companies in Figure 13 received 2 degree Celsius scenario proposals in 2016. Some funds voted against these proposals in 2016, but changed their votes in 2017 to "For," perhaps on the view that the companies in question made inadequate progress toward providing information about the financial risks related to climate change.

This helps to illustrate that broad characterizations of funds' voting simply fail to capture the nuance of funds' votes, and attention that funds pay to various proxy proposals.

Other Climate-Related Shareholder Proposals

This report turns now to a case study of how funds voted on other climate-related proposals put forth by shareholders in 2017. This illustrates how proposals, though perhaps facially similar, are seen upon closer examination to be quite varied and complex. That, in turn, underscores that funds must—and do—study individual proposals in order to vote consistent with their investment objectives and policies.

In 2017, 18 companies received shareholder proposals that were climate-related but requested something other than a report on the effects on the company of a 2 degree Celsius scenario.

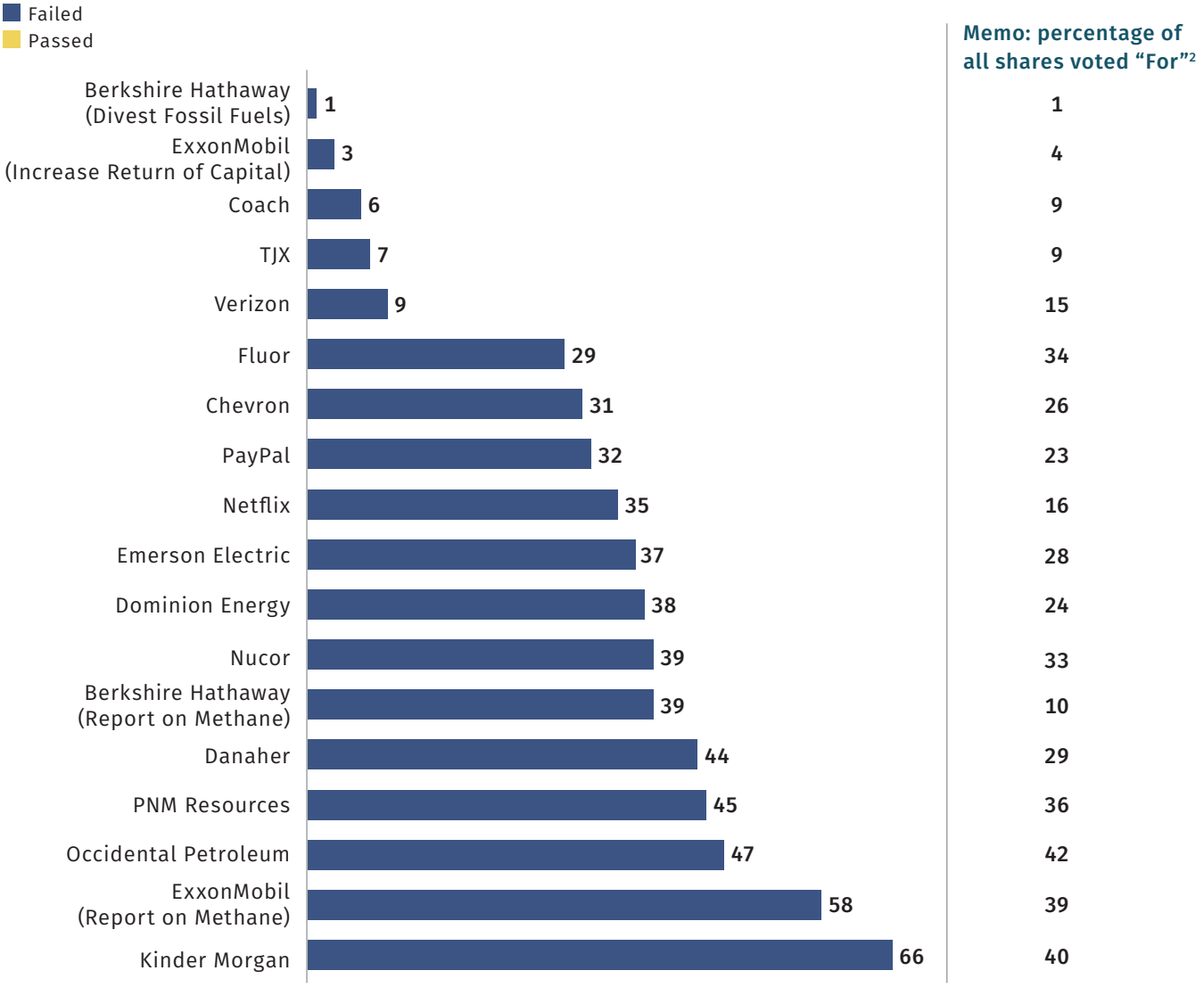
Unlike the 2 degree Celsius proposals, these proposals varied significantly in wording, details, and the companies to which they were addressed. Two companies (Berkshire Hathaway and ExxonMobil) each received two climate-related proposals that addressed completely different issues. Funds offered strong support for some of these proposals and not for others. None of these proposals passed, not even in cases where funds provided strong support, which underscores that fund votes do not necessarily determine vote outcomes.

Figure 14 shows how funds voted on these other climate-related proposals. The proposals are ranked in ascending order by the percentage of time funds voted "For." At the low end, funds voted "For" less than 10 percent of the time at Berkshire Hathaway (divest fossil fuels), ExxonMobil (increase return of capital), Coach, TJX, and Verizon. At the upper end, funds voted "For" the proposal at Berkshire Hathaway requesting a report on methane, and voted "For" more than 40 percent of the time at Danaher, PNM Resources, Occidental Petroleum, ExxonMobil (report on methane), and Kinder Morgan.

FIGURE 14

Percentage of Funds Voting "For" Other Climate-Related Shareholder Proposals

By company, percent[1]



[1] Measured as the number of US-registered investment companies recording a "For" vote for proposals in a given category, divided by the total number of votes that funds cast.

[2] Measured as the number of shares voting "For," divided by the total number of shares voted, including shares owned by shareholders who abstained from the vote.

Note: This figure represents votes cast by US-registered investment companies on proxy proposals for companies in the Russell 3000 Index during the 2017 N-PX reporting year (fiscal year July 1, 2016, to June 30, 2017). This figure excludes votes on securities listed on foreign stock exchanges.

Source: Investment Company Institute tabulations of ISS Corporate Services Data

What accounts for this wide diversity in voting patterns? It may in part depend on the type of company and the actions the company has otherwise already taken. Consider the proposals for Coach and TJX (the parent company for the department store chains TJ Maxx, Marshalls, and HomeGoods). These companies are apparel retailers. The proposals for the two companies, which were virtually identical, requested that the companies prepare reports evaluating the potential for the companies to achieve net-zero emissions of greenhouse gases. For example:

> *Resolved: The shareholders request the Board of Directors of TJX, Inc. (the "Company") to prepare a report to shareholders by December 31, 2017, that evaluates the potential for the Company to achieve by a fixed date "net-zero" emissions of greenhouse gases from parts of the business owned and operated by the Company. The report should be done at reasonable expense and may exclude confidential information.*

Neither of the two proposals passed. It may be that shareholders, including funds, believed that these two companies had already made significant progress on achieving net-zero emissions, as these two companies themselves had suggested in their proxy statements. The management of Coach also noted that the same proponent had submitted a substantially similar proposal in 2016, when it received only 8.5 percent stockholder approval. Funds voted "For" the Coach and TJX proposals only 6 percent and 7 percent of the time, respectively.

The proposals at PayPal and Netflix underscore the complexity of funds' considerations. Both companies received climate-related proposals that were very similar to those of TJX and Coach. ISS recommended voting for these proposals, on the view that the companies should provide further information about the company's greenhouse gas emissions and climate change policies to help company shareholders assess regulatory and financial risks that climate change might create for the firms. The management of PayPal opposed the proposal, noting that while it is sensitive to climate concerns, the company's carbon footprint is relatively small. The management of Netflix opposed the proposal, stating among other things that the company already relies on on energy from renewable sources and mitigates remaining carbon emissions with investments in renewable energy credits. Funds on average supported the proposals at PayPal and Netflix about one-third of the time. Both proposals failed.

Diversity in funds' voting patterns also no doubt reflected the proposals' detail. A striking example of this is how funds voted on the proposals at Berkshire Hathaway and ExxonMobil. The support funds gave these proposals demonstrates that funds did not vote reflexively, but considered the details of the various proposals, and assessed whether each proposal was consistent with the interests of funds and their shareholders and their proxy voting policies.

Berkshire Hathaway

Consider the other climate-related proposals in Figure 14 that were submitted to Berkshire Hathaway:

- *Divest Fossil Fuels:* The proposal failed, with funds voting only 1 percent of the time in favor and ISS recommending against. This proposal called for the company to divest its holdings in companies involved in the extracting, processing, or burning of fossil fuels within 12 years to protect its investment portfolio from financial losses. This proposal asks for a prescriptive and very significant change to the firm's operations, a choice that would typically be left to a company's management. Moreover, as Berkshire Hathaway noted in its 2016 Form 10-K report, it continued to take actions to mitigate greenhouse gas emissions, and had by that point invested $19 billion in solar, wind, geothermal, and biomass generation.
- *Report on Methane:* This climate-related proposal called for the company to publish a report reviewing its policies and set quantitative targets for reducing methane emissions. The proposal asks the company to issue a report reviewing the company's policies, actions, and plans to measure, monitor, mitigate, disclose, and set quantitative reduction targets for methane emissions resulting from its operations. Berkshire Hathaway opposed the measure because, among other things, publicly available information about its methane emissions and reduction activities was already available on the US Environmental Protection Agency's website. ISS supported the proposal, indicating that such a report would help company shareholders better understand the risks faced by Berkshire Hathaway. Although this proposal also failed, funds provided considerably more support than to the fossil fuels proposal, voting 39 percent of the time in favor. Thus, some funds clearly viewed this proposal differently from the "divest fossil fuels" proposal. The roughly 60–40 split illustrates that funds can reach different voting decisions based on their differing investment objectives, proxy voting policies, and assessments of the proposals' merits.

ExxonMobil

Like Berkshire Hathaway, ExxonMobil received two other climate-related proposals (Figure 14):

- *Increase Return of Capital:* This proposal failed, with funds supporting it only 3 percent of the time. This proposal called for the company to increase its total capital distributions given the risk that a low carbon scenario would result in economically stranded, unburnable assets. As noted in management's response to the proposal, the International Energy Agency forecasts the continuation of substantial oil and gas investment through 2040, even under demand projections that seek to limit the increase in global temperature. It is possible that company shareholders, including funds, may have voted against the proposal on the basis that the decision to return capital to shareholders or invest it in the business should be left to management under board oversight.
- *Report on Methane:* This proposal calls for the company to publish a report on actions it is taking "beyond regulatory requirements" to minimize methane emissions. The proposal cites environmental risks associated with climate change and notes the growing public scrutiny of methane emissions in general. ExxonMobil has produced reports containing quantitative indicators of methane emissions since 2006. ISS argued that ExxonMobil could improve its reporting in this area. Funds voted "For" this proposal nearly 60 percent of the time. Nevertheless, the proposal failed.

Conclusion

Proxy voting is one of the many functions that fund advisers may undertake on behalf of the funds they manage. As this report shows, simple tallies of fund votes—counting whether funds voted "For" or "Against" management or shareholder proposals—mask the detail and complexity of the issues that fund advisers weigh when determining how to vote.

This report examined more than seven million votes cast by funds in the year ended June 30, 2017. The vast majority of proxy votes that funds cast involve recurring matters that are not contentious, such as the uncontested election of directors or ratification of audit firms. Consistent with this, shareholders, including funds, gave high support to such proposals.

Apart from these recurring matters, management and shareholder proposals cover a wide range of issues, from company corporate structure and governance to employee compensation to social and environmental issues. Funds' votes on these matters are nuanced. Funds generally favor proposals, whether initiated by management or shareholders, that improve their rights as shareholders in companies.

The number of shareholder proxy proposals related to social or environmental issues has increased in recent years. The levels of support that funds give to these proposals depends on a range of factors, such as the details of the proposals; the relationship of the proposals to the companies' various business models; and the responses of the companies' management to similar proposals made in the past. In addition, some, but not all, funds have a specific investment policy of supporting such issues.

Taken as a whole, this study portrays the extent and complexity of the efforts that funds make to ensure that proxies are voted in the interests of funds and their shareholders.

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Notes

[1] Other institutional investors sometimes voluntarily disclose their proxy votes.

[2] This analysis focuses on companies listed in the Russell 3000 Index. During proxy season 2017, there were 2,963 companies in the index.

[3] Funds must publicly disclose the proxy votes they cast. They do this by filing Form N-PX with the SEC each August for the votes cast in the 12-month period ending the prior June 30 (e.g., votes cast between July 1, 2016, and June 30, 2017, must be reported to the SEC by August 2017). To be consistent with this reporting pattern, this report defines a *proxy year* as the 12-month period ending June 30 of a given year. Unless otherwise specified in this report, the term *year* refers to *proxy year*. Thus, if this report states that in 2017 funds voted X times, that means funds voted X times during the 12-month period ending June 30, 2017.

[4] This report counts a *proposal* as a ballot item listed on a company's proxy card. Suppose, for example, that a company's proxy card lists 10 directors for election, asks shareholders to approve the company's choice of audit firm, has a say-on-pay proposal, and includes one shareholder proposal. Those would be counted as 13 separate proposals.

[5] Some companies have "staggered boards"—that is, in each year only some board members stand for election or reelection.

[6] Contested elections arise when dissident shareholders offer an alternative slate of directors, such as in an attempt to address underperformance (operational activism) or to encourage the sale or merger of the company (transactional activism).

[7] In 2009, the SEC approved an amendment to New York Stock Exchange (NYSE) Rule 452 to prohibit brokers with nondiscretionary authority from voting in uncontested elections of company boards of directors without receiving specific directions from clients whose shares were held in "street name" (e.g., shares held in a brokerage account). The amendment limited the type of proxy proposals that are considered "routine" to one: ratification of the company's selection of an audit firm. Following the change to NYSE Rule 452, some companies therefore may have chosen to request a proxy vote on audit firm ratification to obtain a quorum. See www.sec.gov/rules/sro/nyse/2009/34-60215.pdf.

[8] Named executive officers include the principal executive officer, the principal financial officer, and the next three most highly paid executive officers of a company as of the end of the most recently completed fiscal year, based on total compensation.

[9] For instance, during proxy season 2017, a shareholder proposal that called on CVS Health Corporation to adopt and publish principles for minimum wage reform was omitted after the SEC staff agreed that it would interfere with the company's normal course of business operations. It is noteworthy that before a company may exclude a shareholder proposal from its proxy materials, it must file its reasons with the SEC staff within a certain time frame. The company must simultaneously provide the shareholder proponent with a copy of its submission, and the shareholder may submit a statement in response. The SEC staff then decides whether to permit the company to exclude the proposal.

[10] Shareholder proposals at Google and Facebook called for the companies to develop policies and actions to address "fake news."

[11] The scope of a fund adviser's responsibilities with respect to voting proxies ordinarily is determined by the fund's investment management agreement, disclosures, and proxy voting policies. According to the SEC, there may be instances when funds may refrain from voting a proxy, such as when its adviser determines that the cost of voting the proxy exceeds the expected benefit to the fund.

[12] For example, a fund's proxy policies may provide that its adviser must place physical or information barriers between employees responsible for proxy voting and other employees, or it must exclude from the proxy voting process employees whose primary duties are in sales, marketing, or external client relations.

[13] For a detailed description of the proxy voting policies and guidelines of the largest mutual fund complexes, see Collins 2008.

[14] Fund votes are tallied by whether funds voted "For," "Withhold," "Against," "Abstain," or "Did Not Vote" rather than by the number of shares each fund voted; the number of shares funds voted is not reported on Form N-PX. The analysis excludes the say-on-pay frequency votes required by the Dodd-Frank Act.

[15] The figure of 7.6 million votes cast can be calculated as (number of funds in the sample) x (average number of companies held by each fund) x (average number of proxy proposals per company). These figures are approximately 5,000 x 163 x 9.3 ≈ 7.6 million.

For example, there are roughly 3,000 companies in the Russell 3000 Index. The average number of proposals for each company is a little more than nine, where each individual item (including each individual director) is counted as a proposal. Thus, for the companies in the Russell 3000, there were about 28,000 proposals in total. Approximately 5,000 funds are represented in the N-PX voting data used in this report.

[16] In Figure 9, the percentage of funds voting "For" is tallied by counting up the votes individual funds placed on particular proxy proposals. Thus, if two different funds in the same family each vote on the same proxy proposal, those are counted as two votes.

[17] Del Guercio et al. 2008 finds that withholding votes from directors can send a powerful message of shareholder dissatisfaction to a company's board and may lead the board to make substantive changes.

[18] For example, the probability that a fund will vote against a firm's pay package at least once in a five-year period can be estimated by $1–p^5$, where p is the probability that the fund will vote for the pay package. From Figure 10, p can be estimated as equal to 0.9. Thus the probability that a fund will vote against a firm's pay package in a five-year period can be estimated by $1 - 0.9^5 = 0.41$. Given the assumptions behind this calculation, this would indicate that in any five-year period there is roughly a 40 percent chance that a given fund will vote at least once against a given company's pay package. This calculation should be viewed only as indicative because it entails a number of assumptions. For example, it assumes the probability that a fund will vote for or against a company's pay package is independent from year to year, an assumption that may not be valid.

Morris Mitler

In Memoriam
1979–2019

Morris Mitler was an economist in industry and financial analysis at the Investment Company Institute (ICI), where he conducted research on the US and global mutual fund and closed-end fund industries. He also conducted economic analysis to better understand the costs, benefits, and effects of proposed laws and regulations governing mutual funds and ETFs (e.g., leverage, Rule 30(e)(3), summary prospectus, and derivatives). Before joining ICI in 2016, Morris spent five years as a financial economist at the Public Company Accounting Oversight Board; he had also done consulting work at Fannie Mae and the US Department of Housing and Urban Development. He earned a BA in economics from the University of San Diego, as well as an MA in economics and an MS and PhD in finance from the George Washington University.

Morris was a valued colleague who poured great effort into this report. We miss him.

Dorothy M. Donohue

Dorothy M. Donohue has served as the deputy general counsel, securities regulation at the Investment Company Institute since 2012. She works on a wide variety of securities law issues affecting registered investment companies, including proxy-related matters and fund disclosure. Donohue was a member of the Institute's legal staff from 1995 to 1998 and returned to the Institute in 2002; she also served as associate counsel at the ICI Mutual Insurance Company from 2001 to 2002. Before that, she was a member of the Division of Investment Management at the US Securities and Exchange Commission for eight years, where she held a number of positions, including assistant chief counsel. Donohue graduated from Georgetown University Law Center (JD, *cum laude*) and Fordham University (BA, *summa cum laude*). She is a member of the Maryland and District of Columbia bars.

Sean Collins

Sean Collins is chief economist at the Investment Company Institute (ICI). He oversees the Institute's statistical collections and its research on US and global funds, financial markets, the US retirement market, and investor demographics. His research and analysis focuses on the flows, assets, fees, and industrial organization of registered investment companies; financial market issues; the costs and benefits of laws and regulations governing funds; money market funds; and financial stability. He has held several roles at ICI, most recently senior director of industry and financial analysis. Before joining ICI in 2000, Collins was a staff economist at the Federal Reserve Board and an economist at the Reserve Bank of New Zealand, where he participated on the RBNZ's Monetary Policy Committee. He is a current member of the Group of Economic Advisers (GEA) to the European Securities and Markets Authority (ESMA). He has a PhD in economics from the University of California, Santa Barbara, and a BA in economics from Claremont McKenna College.

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