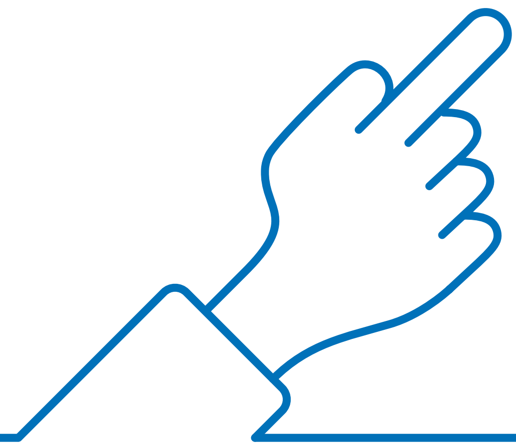
FCLTGLOBAL
FOCUSING CAPITAL ON THE LONG TERM

REPORT

Beyond the Blame Game



WHY THE PROXY SYSTEM NEEDS TO CHANGE

Focusing capital on the long term to support a sustainable and prosperous economy

Millions of people around the world are saving money to meet personal goals—funding a comfortable retirement, saving for someone's education, or buying a home, to name a few.

The funds to support these goals are safeguarded by institutional investors—pension funds, sovereign wealth funds, insurers, and asset managers—who invest in companies for the prospect of growth and security. These savers, their communities, and the institutions that support them make up the global investment value chain, and each benefit from long-term decisions in different ways.

Data shows that long-term-oriented investors deliver superior performance, and long-term-oriented companies outperform in terms of revenue, earnings, and job creation. But despite overwhelming evidence of the superiority of long-term investments, short-term pressures are hard to avoid. A majority of corporate executives agree that longer time horizons for business decisions would improve performance, and yet half say they would delay value-creating projects if it would mean missing quarterly earnings targets.

Today, the balance remains skewed toward short-term financial targets at the expense of long-term value creation.

FCLTGlobal's mission is to focus capital on the long term to support a sustainable and prosperous economy. We are a non-profit organization whose members are leading companies and investors worldwide that develops actionable research and tools to drive long-term value creation for savers and communities.

MEMBERS

CONTENTS

EXECUTIVE SUMMARY

The ground is shifting in the global system of proxy voting.

Corporate and investment executives have vented occasional frustration with proxy advisers, the public-facing symbols of this system, for decades. In recent years, however, the sentiment has become much more steady than occasional, has refocused on the system rather than just on the proxy advisers as symbols, and has shifted toward a spirit of opportunity and not just frustration.

Today, corporate and investment executives have several clear views. The current proxy system has costs that exceed the benefits. It detracts from a long-term dialogue between investors and corporations and is one of the sources of short-term pressures of being a public company. And companies and investors can drive change to the proxy system because they are part of it.

Change will be difficult. This issue still does not seem to have reached the top tier of executives' priorities. Companies and investors also disagree on the role and value of proxy voting, and it is all too easy to blame the proxy advisory system for their misalignment. Finger-pointing remains common.

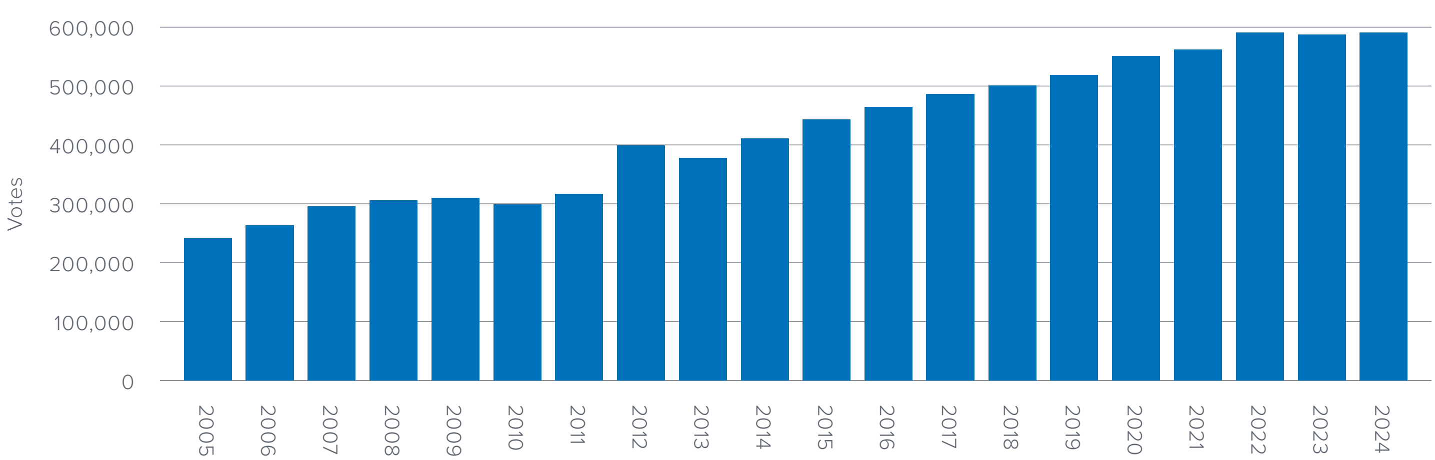
Companies tend to think that investors care equally about each vote on the ballot, cast votes strategically, judge the merits in terms of the firm's strategy, and value the vote. More often, investors do not see the vote as additive to their long-term performance, triage the few strategic votes and commoditize or defer those seen as immaterial, judge how to vote in terms of their own portfolio's strategy, and value the option to vote but often not the vote itself.

The system has devolved to a point at which investors and companies simply go through the motions of voting, minimizing the costs that this system creates for them.

Companies expect investors to vote, but they generally see the proxy process as a legal obligation rather than an engagement tool. Accordingly, they limit the imposition by devaluing the vote through mechanisms like unequal voting classes, by framing votes as advisory rather than binding, and by limiting annual shareholder meetings to the minimum amount of time and interaction possible.

Investors generally believe that proxy voting does not affect their long-term investment performance in any attributable way, so they limit their efforts. Most asset owners staff the function with a few non-investors, most active managers focus on just a few strategic votes, most index managers are moving toward pass-through voting, and most retail investors do not vote unless they are disgruntled.

Exhibit 1. Number of voting items worldwide covered by ISS[1,a]



[a] Graph excludes nonvoting ballot items. 7.4% of all ballot items covered by ISS in this time period were nonvoting.

Both investors and companies blame proxy advisers, but the larger proxy system puts them in the position of being misaligned. Proxy advisers provide a service and have adapted to the demand for that service, which is characterized foremost by its scale. ISS, for instance, issued recommendations covering nearly 590,000 voting items worldwide in 2024. That is a 145 percent increase from the over 240,000 it covered in 2005, which itself was a mammoth number. Consequently, proxy advisers have specialized in providing a scalable service that fits this volume of voting at the price that clients are willing to pay, even though corporations would prefer much deeper and differentiated analysis of their voting items and, at the executive level, investors may, too.

Global companies and investment organizations can change the proxy system by helping to make sense of the status quo, exploring solutions for healthier alignment, and shifting their behavior focus on long-term value creation.

One-size-fits-all governance is commonplace among public corporations. This exists because of the commoditized way in which investors tend to cast their votes on companies' governance. Yet long-term companies have differentiated governance models as an outgrowth of corporate strategy.

Long-term companies can deviate from the status quo model when their investors, who get to vote on governance matters, are engaged and similarly focused on the long term. As FCLTGlobal established in *Unlocking Value by Targeting Long-term Shareholders*, companies can attract these investors into their shareholder base through targeted engagement strategies, tailored communication, and, in some instances, a reduced emphasis on short-term sell-side interactions. These shareholders then can support the company in departing from a one-size-fits-all governance model and making decisions that better position the company for the future.

FCLTGlobal provides tools and options for boards making these decisions in *The Board Playbook: Winning Strategies for Long-Term Value Creation*. Specifically, a corporate board's orientation toward the future is shaped by the company's strategic time horizon, its appetite for growth relative to risk, and the type of relationship that board has with the management team. Any position on the spectrum from defensive risk-minimization to offensive, growth-orientation can support focus on the long-term future in the right circumstances, and decisions on how to take action remain at the discretion of the board. Only one attribute is absolutely necessary for long-term focus on the future: companies with promising futures will make choices that are complementary to one another and well-matched among their board, executive team, and corporate strategy. The balance among these dimensions is something for the board to assess jointly, not in isolation.

In this report, we examine the developments that have led to the current situation and consider some new approaches that could lead to a significant improvement in the proxy voting system. Our aim is to provide solutions that can have a systemic, global impact and help align the interests of principals and agents in the capital markets. If we seize the initiative now, it is our belief that we have a chance to improve the proxy voting system in support of the long-term focus we know is crucial to effective capital allocation for all market participants.

What is a proxy vote worth?

In the proxy voting system today, we have lost sight of the key question that should guide all participants: what is the value of a vote? And can that value be determined in a way that enhances the ability to focus capital on the long term? We begin by looking at this issue from economic and legal perspectives, focusing on the investment community as, ultimately, the vote is theirs.

The economic value of voting

In the course of our research, we have sought to establish the explicit economic value of the proxy vote by asking our members and market participants how they value the vote. Our conclusions are that there is only inferred or episodic explicit value put on a vote and that market signals to detect that value are currently opaque and not widely accessible.

In the words of an asset-management executive, the value that long-term investors get from voting their shares well is "the same upside one gets from having a hammer. There are instances when influence over capital allocation can be had… but I don't know if it's true generically."

We begin by looking at the incentives for having an explicit value on voting from a first principles perspective. In theory, if a proxy vote had real value, asset managers and asset owners would seek to capture that value in a manner that was accretive to their performance. While we have found ample evidence of market participants pointing to their exercise of their voting rights as a service to their clients, we have not found evidence of attribution that would link voting to alpha generation.

One European corporate director believes that this is a symptom of short investment horizons and suggests that investors "have to hang around long enough to see the value of their vote."

In parallel, an asset owner executive senses a misalignment with asset managers at the level of an "unspoken, epic conflict of interest in the markets." In his words, that conflict is "a belief that, if you are an asset gatherer who has secured assets on the basis that your edge is access to management, then you may have a reluctance to vote against management for fear of losing that access."

The challenge of casting hundreds of thousands of votes today is evident from asset managers and asset owners that disclose publicly their overall level of voting. These reports, understandably, tend to focus on the engagement that an investor has had with a corporation held in the portfolio. The data presented there tends to be much more about the level of specific topic areas that led to a direct dialogue between an investor and corporate management.

Exhibit 2. Scale of triage for voting and engagement – selected examples[2,3,4]

		BlackRock	SSgA	NBIM
Voting Scale	**Total**	**170,828**	**205,218**	**115,266**
	Against Management	20,499	34,439	5,763
Engagement Scale	**Meetings Voted**	**18,000+**	**23,206**	**11,468**
	Engagement Meetings	3,700+	940	3,298

All data for calendar year 2023

One conclusion we can draw from this sample data is there is a big gap between the overall volume of votes cast and the much smaller number of company engagements held. In an economic sense, the supply of votes from corporations is not met with equal demand for engagement from investors. While that gap is one indicator of the lack of explicit value put on every vote, it does imply that engagement itself does not generate explicit, attributable value. That value is never explicitly stated or quantified, with the number of engagements being a somewhat crude approximation for the contribution an investor may have made rather than specific numerical attribution.

One specific area where economic value is put on proxy votes is the share lending market. Shares can be acquired temporarily – especially in the run-up to an annual general meeting – in order to enhance the voting power of one or several investors who are particularly focused on the issues put to shareholders via proxy votes. A rise in the price borrowers are willing to pay lenders for their shares could be one true market signal of the value of a proxy vote.

However, the data from this market is not widely available, and price data can be distorted by misleading technical factors such as share lending volumes in certain jurisdictions and tactical shorting by short-term investors. And, in many respects, the episodic nature of price spikes is, from an empirical point of view, further evidence from our perspective that the proxy vote can rarely be said today to be a permanent source of value.

Another area where economic value may be put on proxy votes is in the price difference between otherwise identical shares with different voting rights.

The legal value of voting

Shareholders having a vote in the company they own is a foundational concept of corporate governance globally, and in the strictest sense, a vote is a vote: it has intrinsic value because its absence would constitute a fundamental diminution of basic shareholders' rights.

Empirically, however, that basic principle has been tested against a different legal threshold question: is there an obligation for shareholders to vote? As a corollary, if there is no obligation to vote, how can one determine the intrinsic value of a vote?

In several jurisdictions, including the U.S., the regulatory authorities have, over time, become more explicit about the duty some investors have to vote their proxies. In the landmark 1988 Avon letter, for example, the US Department of Labor (D.O.L.) made an explicit link between fiduciary duty and proxy voting for ERISA plans, stating that "proxies should be voted with regard to the issues presented by the fact pattern [and] are fiduciary acts of plan asset management."

Today, the Avon letter is still cited by many market participants as the guiding force behind their perceived obligation to vote. However, even in that instance, the ERISA guidelines continue to make it imperative to follow the "Prudent Man" principle and monitor the cost of implementing proxy voting. Even when proxy voting is encouraged, it is still subject to a "value for money' test from a fiduciary point of view. When investors' business judgment is that their cost of voting exceeds their benefit, they may choose not to vote under corporate law in the United States – provided, of course, that they also are willing to defend this judgment if clients challenge it.

Many jurisdictions have followed similar patterns, sometimes through a more principles-based approach. In the UK, for example, although occupational pension schemes have a legal obligation to develop and explain how they have implemented proxy policies, the Financial Reporting Council has issued the voluntary Stewardship Code for asset owners, asset managers, and service providers. Despite its voluntary nature, the Code has effectively become a mark of corporate governance best practice that most market participants do not wish to go without, lest it harms their reputation. Its explicit references to voting, however, are less prominent than its encouragement for stewardship efforts to focus on engagement. The code's Principle 11, for example, states that for asset owners and managers, "signatories, where necessary, [should] escalate stewardship activities to influence issuers."

Other jurisdictions, including Canada and Australia, have a similar mix of higher thresholds for proxy voting for pension funds and an additional layer of "comply or explain" codes of practice that actively encourage active participation in the proxy process.

In practice, a meaningful portion of institutional shareholding goes unvoted. 77.8% of institutional votes were cast in 2024, down nearly seven percentage points from 2020.[5] Institutional shareholders cast the vast majority of votes for which they are eligible and, at the same time, they choose not to cast a large enough portion to make clear that they have no absolute, unqualified responsibility to vote.

One development that has followed these various regulatory or quasi-regulatory guidance statements around the world is the widespread adoption by investors of a proxy voting policy, which can satisfy the fiduciary test but also allow for outsourcing of the voting function. This led to the rise of proxy advisory firms, which we will turn to in the next section. However, it has also led to a very large number of votes being cast according to these third-party policies in order to handle the large volume of proxy votes discussed earlier.

One implication, according to an asset management executive, is that "ISS and Glass Lewis achieve a great deal on a limited budget, but they don't really have the ability to do more. And that's not really ISS' fault, it's investors."

Conclusion – What is a proxy vote worth?

On balance, we find little empirical evidence that every vote is a source of value. Market signals are scarce, and the gap between the volume of votes cast and the engagement level of even the largest investors suggests there are a lot fewer votes that are valuable than are issued.

One leader who has served recently in executive management and now is a board director gave a real-world perspective on this misalignment:

"I've been 15 years the CFO of a public company, and I've never come across a PM who says that the decision to hold or not hold the share has to do with what's on the AGM agenda… [yet] voting matters hugely to management. You do not want to be voted down, but you are also looking for signaling."

Another leader experienced on both the investor and corporate sides of engagement shared a similar perspective:

"For index funds in particular… actually using the vote to effect change will get the regulators involved and put your passive investment status in question… [likewise] I don't think most companies see a lot of value in the proxy system. There's a lot of attention and money spent on writing proxies and soliciting votes, really just to stay out of trouble. There's only downside. There's very much a risk-management system." Recent change in SEC regulatory interpretations make clear how real this risk is.[b]

Legally, the value of the vote is explicitly linked to fiduciary duty in several of the largest capital markets globally, at least for some of the largest pools of long-term capital, such as pension plans. Discharging of that duty at scale, however, has led to standard proxy voting policies issued by third-party specialist service providers becoming the primary tool for meeting the fiduciary duty obligation. It seems appropriate to conclude that any duty that is so widely outsourced cannot be seen as one of the most highly valuable assets held by a fiduciary.

In the absence of a permanent, visible market signal for the value of a proxy vote, we are left with a system where the cost of casting votes is the focus. An asset

[b] See Question 103.12 in "Exchange Act Sections 13(d) and 13(g) and Regulation 13D-G Beneficial Ownership Reporting," Securities and Exchanges Commission, 11 February 2025: https://www.sec.gov/rules-regulations/staff-guidance/compliance-disclosure-interpretations/exchange-act-sections-13d-13g-regulation-13d-g-beneficial-ownership-reportingnonvoting.

management executive acknowledges that "the way that investors have resourced their voting has led to box-ticking… because the people who are casting the votes don't really understand the business, you get a disconnect." A corporate executive echoed this idea: "Sometimes I feel like investors think they are doing us a favor [by voting], box checked." A better system should, therefore, either focus on reducing its cost to its strictest minimum or enhancing its value to make it a more strategic asset for valuable engagement.

Leaks in the Proxy Pipeline

In many of our conversations when conducting research for this project, the infrastructure for casting votes - often dubbed 'the plumbing' by market participants, has come up as a large source of frustration. Their comments have been consistent in making the following points: the current system is characterized by a maze of data exchange channels among investors, issuers, custodians, ballot distributors, and proxy administrators, as well as occasional participants like proxy solicitors and prime brokers. This pipeline can be impenetrably technical and highly idiosyncratic, depending, for instance, on how an investment account is structured, how complexly the issuer is organized, and how controversial a vote is.

Many of these relationships are also described as bilateral, meaning that participants can have significant roles in the system but no direct, formal relationship with one another. A common example is that of custodians and proxy administrators, both of which are necessary for an issuer to receive an investor's vote, but neither of which has any standing with the other to remediate common system breakdowns, creating additional complexity and costs.

The leakage from the proxy system is investors' voting power. The end-to-end audit of the system remains out of reach; investors cannot be certain that all of their votes are weighted in proportion to their holding, and companies cannot determine the precise level of support or opposition that investors meant to give their ballot items. Leaks like these are almost always immaterial, but when they are material, they are in circumstances of very close, highly contested votes often, especially those related to corporate transactions or competing director nominations. In other words, the problem is greatest when the stakes are highest.[6]

The bottom line is twofold. Porous pipelines compromise trust in the system. That mistrust can be contagious, infecting investors' and issuers' perceptions about votes much more broadly than the actual problem – and sometimes even the relationships that they have with one another. As a matter of routine, proxy voting service providers have to spend real money and time repairing individual leaks when they spring from the proxy pipeline.

Which votes matter most?

In order to determine whether the proxy voting system can create higher value, we need to try to understand which votes matter the most and how the proxy voting system can capture that value more explicitly than it does today in the absence of a clear market signal.

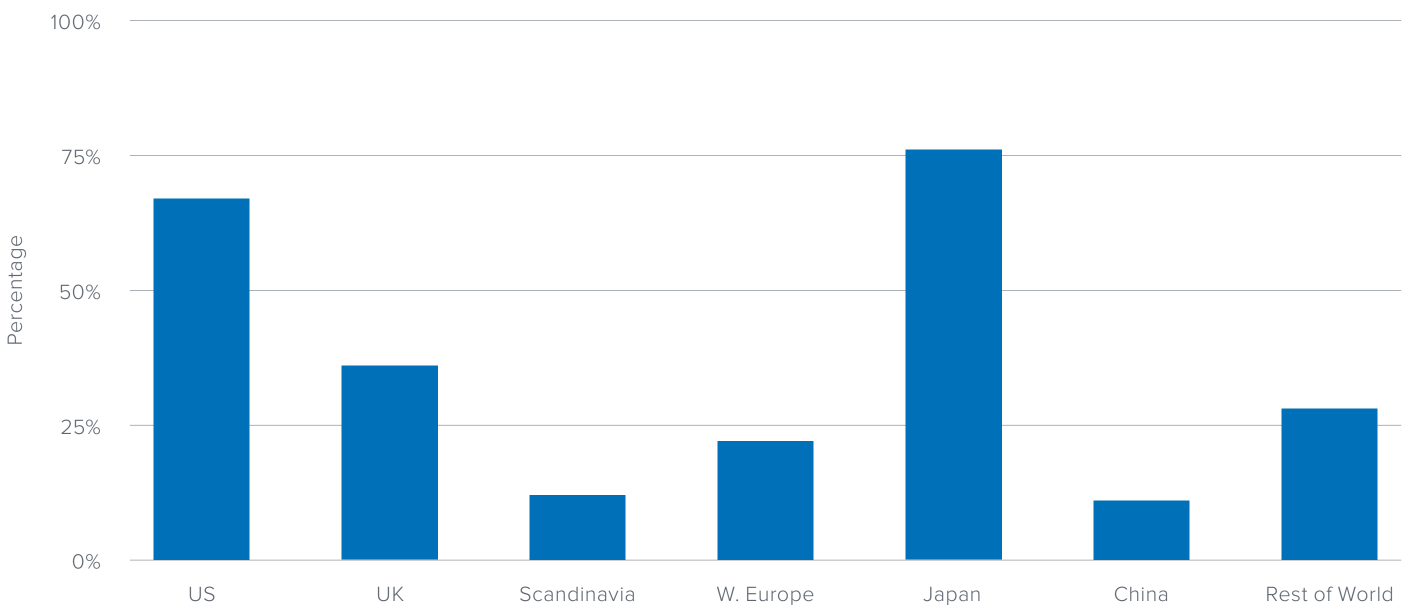
What does the data say?

Although we find little evidence of permanent value being assigned to proxy votes, we know empirically that some votes are more important than others. This is observable through data and confirmed by market participants across the value chain.

From a first principles perspective, the shareholder-management dynamic is a classic principal-agent relationship. Many FCLTGlobal members, for example, have made it clear in our research that voting for the board of directors is seen as the most important decision they make – once the board has the legitimacy of shareholders' backing, they run the company. Director elections are, therefore, routinely cited as some of the more important and frequent voting decisions made by any investor.

Notwithstanding, director elections represent a widely variable share of total voting in key global markets and shrinking share of total voting over the past twenty years - even when setting aside wide-ranging shareholder proposals and focusing just on key issues like capitalization, company articles, strategic transactions, and other management proposals.

Exhibit 3. Director elections as a percentage of total management proposals (2024)[7]

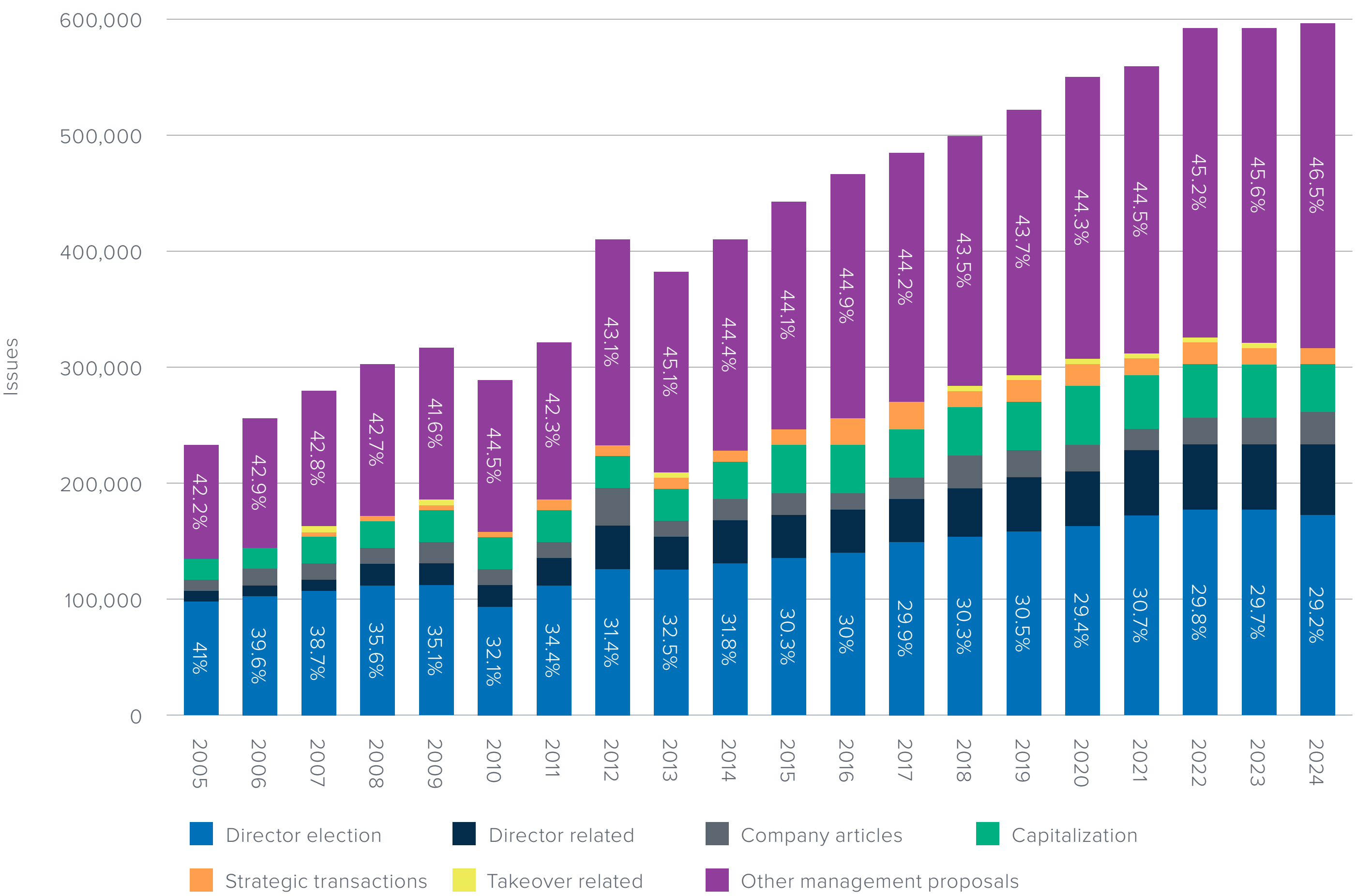


One example comes from a senior engagement professional at an asset owner institution. "Our approach is generally that we have elected and supported a board of directors and, naturally, then we defer to the board. That's why we have a board... So our approach is always to... look at the outcomes and then consider, if things haven't worked out, or we don't understand and are not able to support the strategy, whether we have the right board or not."

A senior professional services adviser to companies also gave voice to this view, suggesting that "there are really two buckets, elections and proposals... they're very different, and I think they have very different effects on directors' behavior." Quite simply, in the view of this leader, "if you don't like the corporate business, oppose its board."

Shareholder opposition of directors is rare. Broadridge reports that, on average, directors received 91.2% support in 2024 and that this level of support is consistent between institutional and retail shareholders. Only 481 directors out of 23,251 in Broadridge's dataset failed to receive majority support in 2024 (2%).[8]

Exhibit 4. Management items by issue type, 2005-2024, Global[9,c]



[c] Director-Related" ballot items include over 100 different actions, including those related to board size, term, retirement age, remuneration, dismissal, nomination and election procedure, committee structure, and many other items. "Takeover-Related" ballot items largely include those that would include or remove anti-takeover provisions; adopt, increase, or reduce supermajority voting requirements; or adopt, renew, or amend a Shareholder Rights Plan (Poison Pill).

Other issues than director elections can be of high value, most specifically M&A transactions and management remuneration. However, rank ordering these is difficult because some may be too episodic (such as M&A).

One challenge with the data is that the number of proposals that come from shareholders has increased significantly in the last few years, particularly in the area of Environmental, Social, and Governance (ESG) issues. Because there have been challenges to how material some of these proposals are to the firm's long-term value, it is hard to know whether these proposals will, in time, require the same level of policy alignment and engagement as other more traditional categories, such as director elections. There could, therefore, be a false signal in the spike of ESG proposals seen a few years ago.

Proxy advisory firms: Another market signal?

In the first section, we discussed how the rise of proxy advisory firms was historically linked to the more explicit link between fiduciary responsibility and voting. Today, two firms dominate the global market for proxy voting advice, ISS and Glass-Lewis, with an estimated market share of 47 percent and 37 percent respectively.[10] There are other regional or specialist firms that also provide proxy advice, but from a market structure perspective, the proxy advisory market is a duopoly.

Proxy advisors help their clients – the investors – in two principal ways: they help write proxy voting policies – standard by market or bespoke by investor – and they perform research on the proxy voting proposals issued by either management or other investors. In both instances, they seek to find a balance between issuing recommendations that help deal with the scale problem described earlier and protecting shareholders' interests as best as they can ascertain.

One market signal they help create is the percentage of votes cast in favor or against ballot items. Since many investors follow the policies they have hired ISS and Glass Lewis to write if the policy says the vote should be a "no," it is widely implemented across their client base : 23 percent in the case of ISS and 9 percent for Glass Lewis as of 2021, both marked increases over the preceding 15 years."[11] Smaller investors disproportionately make up this population.[12]

Influence goes both ways in the relationships that proxy advisors have with their investor clients. "Both proxy advisors are more likely to change their recommendations on specific proposals when more investors disagree with their prior recommendations."[13] This is especially true when the disagreeing investors are large, blockholders, and vocal.[14]

The market signal that proxy advisors send is set more by market convention than by explicit mandate: in some markets, a 20 percent vote against management is sufficient to cause management to take notice of investor discontent, and in others, 30 percent is more common. There is no consistent rule, and though some jurisdictions, such as France, expect management teams to report on why a certain proposal may not have reached 80 percent approval, that kind of explicit level is rarely found consistently across jurisdictions.

Rank ordering which votes matter most via the number of times ISS, Glass Lewis, and others influence a vote could serve as a useful signal, but it would require a more consistent threshold to be applied than current practice allows.

Eye of the Beholder

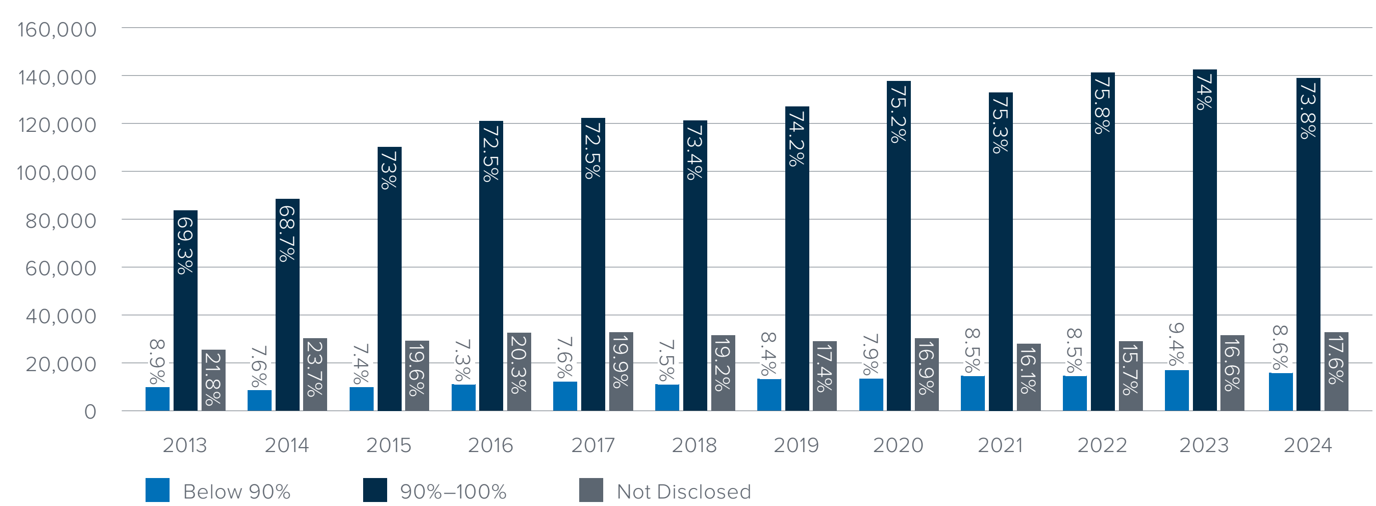
Undisclosed voting levels present a potentially meaningful information asymmetry. Those voting levels are undisclosed to shareholders (and the public), but company management knows the voting level therefore has a complete understanding of the level of support it received on each ballot item.

Investors may assume that the distribution of voting outcomes is the same within the Not Disclosed category as those that are disclosed. What they see is the vast majority of votes getting 90% support or greater, so this assumption would be that the vast majority of undisclosed votes get the same support. Yet if management is able to influence which votes are disclosed by level of support, rather than the alternative of just stating whether the item passed, it raises the possibility of management choosing not to disclose voting levels that are less favorable. Management would feel more vulnerable than investors expect in this scenario.

This scenario is strictly hypothetical, and FCLTGlobal is not able to test the hypothesis for two reasons. Foremost, the distribution of outcomes within the Not Disclosed category is unknown by definition, and that is an inherent limit on statistical testing. More basic description still could be illuminating, though, such as looking at patterns of nondisclosure by vote type, proponent, and industry. FCLTGlobal is not able to describe those underlying patterns because the data we can access is summary, not vote-by-vote, but proxy advisers and perhaps others do have access to that detailed information.

Presenting this information about patterns of nondisclosure could impact investor and corporate behavior in potentially meaningful ways. It could contribute to an understanding of why companies "run up the score," expending resources to win levels of support far in excess needed for a vote to pass, and open up dialogue between investors and companies about the strategic merit of those expenditures. It could also prompt investors to recalibrate which votes they triage since some votes may be closer than the summary data implies.

Exhibit 5. Voting Items by Eligible Level of Support: US, UK, Japan, and China[15,d,e]



[d] Values in this table are sourced from ISS' pct_support field. That field reports the number of 'For' votes out of the base required for the vote to pass, which varies. Typically the denominator reflects the sum of votes for and against or the sum of votes for, against, and abstaining. Other possible values include unknown, withhold, refer, and do not vote. 'Eligible' in this usage indicates votes that are part of the computation for whether a vote passes. This may create a perception of marginally overstating support when some votes not cast explicitly for the proposal are excluded from the denominator.

[e] Consistent with FCLTGlobal's mission, all data in this report is global in scope and 20 years in coverage except when otherwise noted, as in the case of this table.

Some markets only disclose whether votes pass or fail, resulting in the percentage support field being coded 'not disclosed,' and the market-wide nature of this practice can overwhelm the scale of support that disclosed votes receive. Accordingly, this table presents a subset of national markets around the world in which information about the level of voting support is commonly available.

ISS expanded it's detail-level coverage of non-US votes in 2013. Accordingly, this table presents data from 2013 onward so that non-US data can be included.

Corporate engagement as a market signal

Although stewardship efforts are often cast as an investor-led activity, corporate actors are, of course, active in soliciting investor feedback on proxy proposals. Several FCLTGlobal members have contributed to our research by mentioning the time and effort their executives, investor relations officers, and, indeed, board members have contributed to direct, pre-AGM discussions with key investors as well as the proxy advisory firms.

In a manner similar to what investor stewardship teams do, corporates track the success of their engagements. One outcome they track is the number of proxy advisory firm recommendations that change following an engagement effort. They also track the number of times an investor acknowledges that their engagement allowed them to override the recommendation made by the proxy advisory firm that they have hired.

If aggregated in a transparent forum, this data could form a proxy signal for which votes matter most. One challenge here, however, is that any individual corporate engagement will have many idiosyncratic components, potentially diminishing cross-industry or geographical relevance. Another is that the kind of engagement effort described above is costly and time-consuming and may only be reachable by the largest companies.

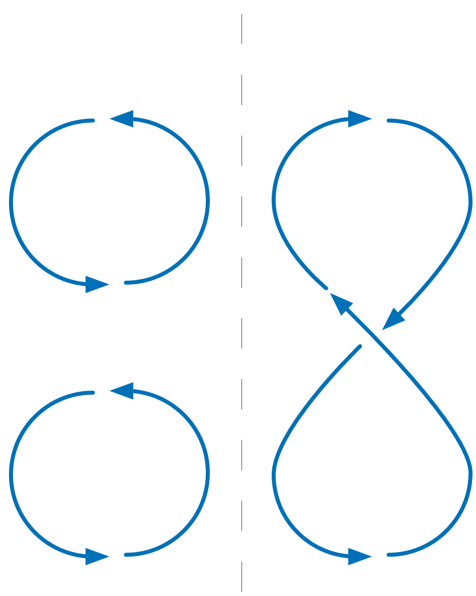
Exhibit 6. Engagement as a market signal of valuable votes

Less engaged investors

- Create policy for common types of votes
- Receive data about types of forthcoming votes
- Cast votes by applying policy to vote types
- Triage custom votes – and especially corporate engagements – very tightly to conserve resources

Less engaged corporations

- Call votes as mandated, duly proposed by shareholders, or material to long-term strategy
- Passively await results
- Triage investor engagements very tightly to conserve resources



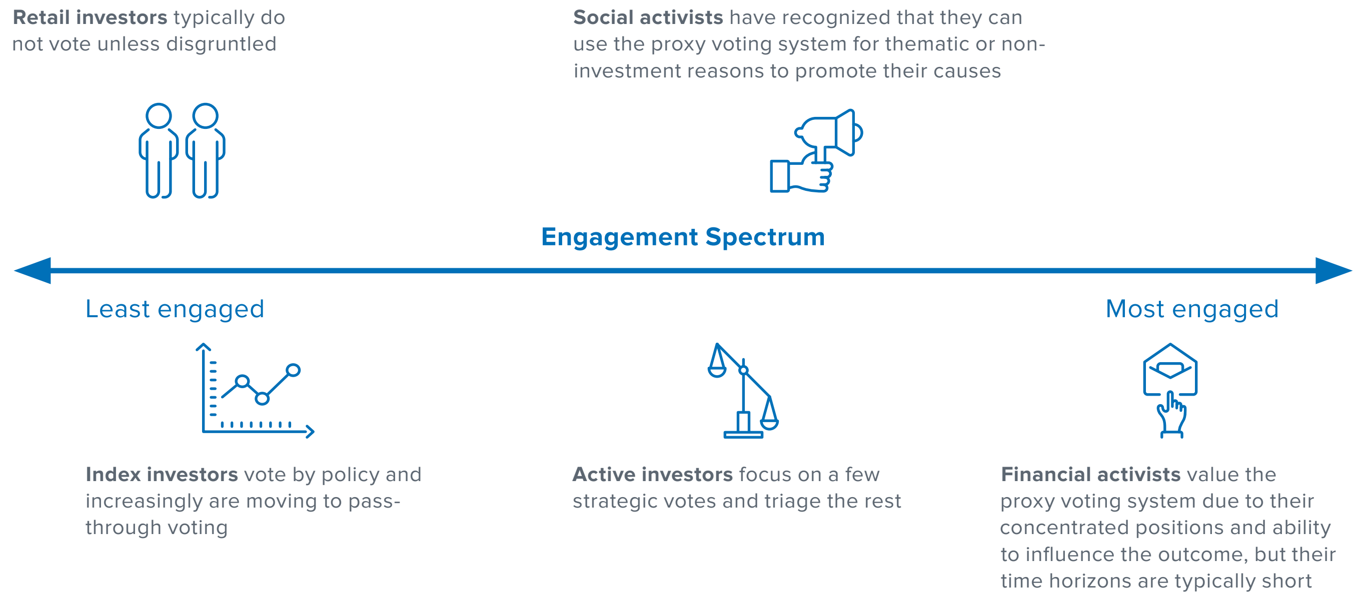
More engaged investors

- Create policy for common types of votes
- Receive data about types of forthcoming votes
- Cast votes by applying policy to vote types
- Triage custom votes and corporate engagements to conserve resources while still allowing strategic relationships

More engaged corporations

- Call votes as mandated, duly proposed by shareholders, or material to long-term strategy
- Passively await results
- Triage investor engagements to conserve resources while still allowing strategic relationships

Exhibit 7. The spectrum of capital proxy voting



Asset owners can allocate capital or hire managers using all three of these strategies.

The spectrum of capital in proxy voting

Another angle on detecting which votes matter most is to look at which investors more consistently put the most value on votes. Although we have discussed investors so far as one group, there are, of course, many subgroups. For the purposes of this research, we will define investors according to Exhibit 7.

The schematic above is highly stylized, but we believe it is often verified empirically in capital markets. Retail investors tend to engage in voting less than professional investors, who tend to engage in voting in a less focused fashion than activists.[f]

Activists can be categorized broadly as either socially focused or economically focused. Combined, their AUM is small relative to global assets under management, but their voice can be disproportionally high if they use coalition-building and effective communications strategies.

Given their greater focus on voting than most other investor groups, a consistent tracking mechanism for how they vote could yield insights into which votes matter most, irrespective of whether they achieve their activist goals.

Exhibit 8. Investors generally focus on minimizing the costs and effort of proxy voting.

Most Asset Owners	Retail Investors	Active Managers	Index Managers
+ Fulfill savers' expectations	+ Satisfaction of using voice	+ Add value via alpha	+ Add value via market beta
– Manage reputational issues	– Unaware of ability to vote	– Better value for security selection	– Value add accrues to all holders
– Value add accrues to all holders	– Time / attention pressure	– Disconnect between PM and voting	– Better value prop for engaging
– Cost pressure	– No attributable impact	– Not compensated for voting	– Not compensated for voting
= Staff with a few non-investors	**= Do note vote unless disgruntled**	**= Focus just on strategic votes**	**= Move toward pass-through voting**

[f] Retail investors voted 29.8% of their shares in 2024 compared to 77.8% for institutional investors. "ProxyPulse: 2024 Proxy Season Review," Broadridge, https://www.broadridge.com/report/2025-proxy-season-preview-and-2024-proxy-season-highlights.

Most investors, unlike activists, generally believe that proxy voting does not affect their long-term investment performance, so they focus on minimizing costs and effort. And, even when they do put in some effort, investors vote for what is in the best interest of their portfolios, which may or may not match the best interest of companies whose shares they hold. Active managers can be underweight versus their benchmark, for instance, which resembles shorting the stock in some important respects, and they also can hold positions in multiple companies involved in the same M&A deal.[16]

The rise of pass-through voting

A more recent development in the fund management industry has been the introduction of pass-through voting, whereby fund shareholders obtain the right to vote their intentions directly instead of delegating that to the fund manager handling their investments.

This is a nascent effort, and it is unclear whether or not it will have significant momentum. In theory, it is certainly possible to infer from the direct voting intentions of shareholders that they have a rank order for which votes matter most. So far, however, we have limited data points, and the investment community itself has limited evidence on how many investors engage in this way. Vanguard, for example, recently revealed that nearly half the participants in a pilot pass through voting chose to continue having Vanguard vote their proxies for them. "In reality, retail investors are not voting their proxies," another financial services company leader observed. "I don't see that as a possibility."

Another potential challenge with pass through voting as a market signal is that could lead to significant dilution of the corporate-investor dialogue that we have described earlier – potentially leading to another mixed signal in a system that has already quite a few of them.

An executive experienced in both asset ownership and management asserts that "at the end of the day, it's the index and ETF providers who are voting those proxies. I've come to the view that they're more important."

Conclusion – Which votes matter most?

Although there are good data sources on how investors vote and several empirical patterns that are discernable, it is difficult to be certain that a good rank ordering system that could act as a price discovery mechanism for which votes matter most is within easy reach. It is certainly plausible that director elections are the most important proxy vote – and plenty of investors would probably confirm that if needed. However, it is rank ordering all the other issues that come to a vote that is problematic for a system-wide solution, and therefore, we are left with very few value-creation options in the current proxy system.

Is it all about costs?

We have reviewed several potential options for trying to crystallize the value of a proxy vote – and they are all elusive. As stated earlier, a better system than the one we have today would either reduce its costs or enhance its value. If value is so elusive, should we just focus on reducing costs?

In a market where value creation is elusive, it is tempting to focus on cost reduction. Our observation, however, is that although the system is widely decried as inefficient today, no one has come up with the level of investment required to make it less so. Although technology will likely play a significant role in lowering costs over time, it will come at the expense of a j-curve before systemic benefits are felt. One item we will explore in the next section is the need to consider cost-sharing if minimizing costs for all participants really is the end goal.

Cost Control: Is the proxy voting system the link in the investment value chain that technology forgot?

There is a tremendous amount of information to process each calendar year during "proxy season." Although many parts of the investment value chain have become super-adopters of technology, this is not yet true of the proxy voting system, according to the many market participants we have spoken to for this research.

Leading proxy solicitation firms, such as global market leader Georgeson, have large staffs dedicated to calling investors to gather their votes on behalf of issuers. In the days of apps and instant conveying of preferences via push buttons, the proxy voting system seems to be the part of the investment value chain that technology forgot.

Any substantial technology upgrade, however, will require significant upfront investments. So, for any cost savings to be significant enough for proxy system participants to notice a difference, proxy voting agencies will have to be able to justify an ROI high enough to pass on some of the savings to their customers. We have not detected that this attractive trade-off exists in our research, and it may take a large financial services player to lead by example to create genuine market-changing disruption.

Will AI do it all?

As with many other fields of human endeavor, the development of AI could be significant for the proxy voting system. With the ability to aggregate past voting recommendations instantaneously and potentially apply them in a forward looking manner, for example, large language models seem like an attractive solution for the basic triage problem faced by the current system.

In our conversations with proxy advisory firms for this research, they have confirmed that a lot of their value-add today is their ability to aggregate, collate, and make comparable vast amounts of information across multiple jurisdictions. However, while as one executive put it 'we expect technology to disrupt this process over the next few years' they still don't see AI as able to "make recommendations, period."

POTENTIAL SOLUTIONS – WHERE DO WE GO FROM HERE?

We have reviewed the available evidence for the proxy voting system as it is today. We now introduce several potential improvements available to investors and corporations. These will be the focus of the next phase of research in this series, along with the topic of first-mover challenges in creating change.

Costs to be minimized

We see five main areas for further cost minimization:

Use AI/technology for triage.

Although we mention above that any solution via technology will require significant upfront investments, we do believe that the sheer volume of proxy votes could be better sorted and organized through technology. In our research, we found one social venture, OxProx, which collates thousands of voting histories and intentions and aims to provide a turnkey solution for implementing votes at scale according to the best practice of leading investors. Another idea is to create a new utility, similar to The Depository Trust Company for settlement, that aggregates and processes proxies.

Reduce the vote to focus only on director elections.

As the data shows and the empirical evidence confirms, director elections are the plausible front-runner for the most important proxy vote. One significant cost-saving move would be to reduce the annual proxy vote to only director elections. This approach may be complicated among companies listed in the US because of recent SEC policy change that some interpret as raising the compliance reporting standards on large investors who, in the course of engaging with a company, condition their vote for directors on some change in how those directors govern the company.[17]

Lengthening the director term by several years is also a potential source of vote and cost reduction, but we are sensitive to the issue of entrenchment.

Clarify that investors have the option, but not the obligation, to vote proxies and enable investors to simply vote with the company's recommendation unless they opt out of a particular vote.

In this system, votes not cast would be considered votes cast for the company's recommendation. Given that the majority of votes are routine and not controversial, an opt-out system would cut the costs while maintaining the investors' right to vote when desired.

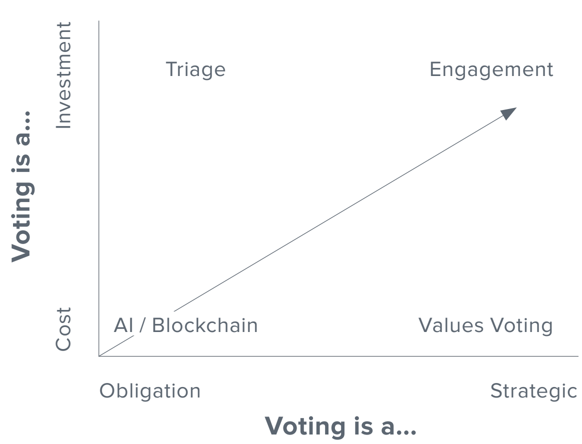
Don't run up the score.

Today, we have market conventions regarding what constitutes a 'good' voting outcome. A lot of energy and costs are spent by investors and corporations lining up the highest potential vote for each issue – but majority vote is all they need. One suggestion is that unless barred by a particular jurisdiction, passing by 50%+1 is deemed sufficient, and no further action by management is required.

Raise the standard for shareholder proposals.

Reserving the right to propose resolutions only for long-term strategic shareholders would reduce the number of ballot items and increase their value to the business.

Exhibit 9. Cost-benefit perspective on proxy voting



Value to be maximized

Some votes have value, and many do not. Rather than simply lowering the cost of the vote, there are a number of ideas to explicitly or implicitly put a value on the vote:

Have companies explicitly reward investors for casting their proxy votes.

Similar to the structure of loyalty shares, a warrant-like mechanism could allow any investor – irrespective of size – who exercises a vote to earn a fraction of shares. Such a mechanism could create a market value of a proxy vote. The reward could be cash or scrip.

Create a formal market for votes

This would be a liquid, transparent on-exchange market where investors can exchange their right to vote at AGMs for cash settlement. Price spikes and high trading volumes would signal to issuers that votes are in demand and thus may signal a need to engage pre-AGM. Conversely, flat prices and low volumes would be a signal that the market does not expect significant engagement to be required.

Have investors 'show their hand' via a call option-like mechanism for voting shares

Investors wishing to vote would have to pay a 'call option' like premium to do so. The underlying asset would be the proxy card for the AGM. By the AGM or record date, the call option either gets converted, and the proxy card changes hands, or expires worthless. This would create a clear pricing signal for the value placed on a vote and also help capture which votes have genuine strategic value for investors.[g]

Have asset owners explicitly reward asset managers for voting in their investment mandates.

If voting proxies is of value to asset owners, it makes sense to incent managers to participate in proxy voting, especially for owners who don't hold strategic positions in any one company.

Share intentions in an open-source manner to 'get out the vote'.

As we have noted, there is a scale issue in the proxy voting system today. Only the largest investors have the means to staff large and sophisticated stewardship teams. If those same large investors were willing and able to share their voting intentions, it could serve as a source of guidance that helps all other market participants realize greater value from their votes than is possible today. This could be especially true for owners disclosing their home-market votes so that others can choose to follow them, benefitting from their information advantage. One executive remarked that "the company should at least see how their shareholders vote, and that was the reason for us pre-announcing our votes 5 days in advance. When we looked at whether it affected how other shareholders vote, actually it did, especially on more contentious votes." Another affirmed: "Pre-announcing votes, we do selectively when we want to influence outcomes."

Clients may also choose to make a point of sharing their votes with ISS and Glass Lewis. As discussed earlier, ISS and Glass Lewis change their voting recommendations to a meaningful extent when they know that clients disagree, especially if those investor clients are large, blockholding, and vocal.

Provide a rationale for votes against management

Knowing why a long-term investor voted against management would directly increase the information value of the vote for the company. This could be a helpful complement to the information value of the vote itself. The vote is the most accurate signal and, while potentially idiosyncratic, the voting rationale can provide more precise information. Having to provide a rationale would also indirectly add value for the investor by setting a higher (i.e., more valuable) standard for voting against. Still, while higher, this standard would not be prohibitive for investors because the rationale could be as simple as citing the voting policy that conflicts with company's position.

Engage before voting.

Create an out-of-season engagement platform so that long-term investors and corporations have a foundation for building relationships. As one asset owner executive observed, "if you file a resolution, that means that you failed in your engagements." Engaging more effectively can create value for companies and investors directly and also indirectly by reducing the number and raising the importance of votes on the ballot.

[g] For a primer on call options for proxy votes, see Levin, Michael. "How to Buy Shareholder Votes," Columbia Law School, 23 April 2024: https://clsbluesky.law.columbia.edu/2024/04/23/how-to-buy-shareholder-votes/

Release ballots with enough time for research.

Companies should aim to get their ballots out far enough in advance so that good research can be done. That is far from the case today. Indeed, "for 88% of shareholder votes, [lending] investors are unable to find out what questions they will be voting on in time to decide whether they wish to vote on them."[18,h] Companies commonly release their ballots two to three weeks before the annual general meeting and schedule those meetings at the same time as the entire national market. It's untenable to protest that the research is poor when time restraints have not allowed it to be thorough. As one asset owner executive observed, "if you file a resolution, that means that you failed in your engagements." Engaging more effectively can create value for companies and investors directly and also indirectly by reducing the number and raising the importance of votes on the ballot.

Next Steps

A well-functioning proxy voting system is critical to support effective capital allocation as well as participation in the public markets. This report has examined developments that have led to the current situation and broached potential solutions. Our analysis will continue to develop practical insights and tools that can have a systemic, global impact on the capital markets.

Ultimately, the ground is shifting in the global system of proxy voting. After decades of venting occasional frustration with proxy advisers, corporate and investment executives have refocused on the system and shifted toward a spirit of opportunity. Global companies and investment organizations can change the proxy system by helping to make sense of the status quo and developing alternatives that will lead to a stronger system.

[h] Hirst and Robertson continue on page 1246: "Eighty-four percent of annual meetings at which there was a close vote, and 80% of meetings at which at least one management proposal failed, had hidden agendas. Hidden agendas were also present at nearly 89% of annual meetings with at least one shareholder proposal.

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