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# Funds and Proxy Voting: Who Submits Shareholder Proposals?

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Any registered fund that holds companies' stocks in its portfolio has a duty to consider proxy proposals offered by those companies—and to act in the best interests of the fund and its shareholders. These funds also have a regulatory obligation to report those votes. As the only investors required to disclose their votes publicly, funds draw an outsized share of the attention focused on proxy issues and voting outcomes. And critics frequently focus on whether they agree or disagree with funds' votes—without regard to funds' obligation to vote in the interests of *fund* shareholders.

In ICI's 2010 analysis of funds' proxy voting between 2007 and 2009, we showed that a small number of activist individuals and organizations sponsor a large share of the proposals offered by shareholders that make it onto proxy ballots. That concentration raises the question of how closely shareholder proposals reflect the interests of shareholders generally, and fund shareholders in particular.

Our latest research shows the same phenomenon at work during proxy season 2017. Just 10 sponsors submitted 44 percent of the shareholder proposals on proxy ballots. By comparison, the percentage of shareholder proposals submitted by the 10 most frequent sponsors between 2007 and 2009 was nearly 50 percent.

Under Securities and Exchange Commission (SEC) rules, a shareholder who has continuously held either $2,000 in market value or 1 percent of a company's stock during the previous 12 months is permitted to submit a proxy proposal for consideration at the company's annual meeting. As Figure 1 shows, a relatively small number of proponents submit an outsized share of shareholder proposals.

**Figure 1**

## Proponents of Shareholder Proposals Submitted During Proxy Season 2017

| | Number of proposals sponsored | Percentage of all proposals | Cumulative number of proposals | Cumulative percentage of 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 |
| 130 other sponsors[2] | 2.3 | 56.4 | 537 | 100.0 |

[1] This category includes proposals sponsored by John Chevedden, Kenneth Steiner, and William Steiner, whose proposals are often submitted by John Chevedden on their behalf.

[2] For 130 other sponsors, the number of proposals is the average number of proposals per proponent.

Note: This figure is based on shareholder proposals at the 3,000 largest US companies 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.) Some proposals had multiple sponsors.

Source: Investment Company Institute tabulations of ISS Corporate Services data

These proponents generally are pursuing specific interests. Some are unions or pensions that submit proposals trying to effectuate change among public companies. Other proponents are activist investors who are trying to promote awareness of specific issues or to compel companies to take certain actions.

By identifying the proponents who submitted shareholder proposals, we can highlight the differences in the types of issues they raised. Figure 2 shows that the two of the more active groups of sponsors—individuals and pension funds for state and local workers—concentrated their energies on shareholder proposals related to governance, submitting 124 out of 150 proposals on board structure and elections and 58 out of 79 proposals on shareholder rights and takeover defenses.

Activists who identify themselves as “socially responsible investors” accounted for 43 percent of social and environmental proposals (110 out of 253). Pension funds and advocacy groups also actively submitted proxy proposals related to social and environmental issues. Collectively, the four most active constituencies submitted 86 percent of the shareholder proposals that funds voted on last year.

**Figure 2**

### Sponsorship of Shareholder Proposals by Type of Proposal and Proponent, 2017

| | Total | Board structure and election process | Shareholder rights/Anti-takeover | Compensation-related | Social and environmental | Other |
|---|---|---|---|---|---|---|
| Individuals | 159 | 70 | 56 | 9 | 10 | 14 |
| SRI 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** | **53 7** | **150** | **79** | **31** | **253** | **24** |

[1] Socially responsible investing (SRI) 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.

Note: This figure is based on shareholder proposals at the 3,000 largest US companies 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.) Some proposals had multiple sponsors.

Source: Investment Company Institute tabulations of ISS Corporate Services data

As shareholders in public companies, these proponents have the right to offer their ideas for specific issues or actions that they want companies to pursue. But as this examination shows, the interests of the shareholders who sponsor proposals are likely to be very specifically focused. Funds, by contrast, vote their proxies on behalf of 100 million shareholders in the aggregate—workers saving for retirement, families saving for education, and other households seeking to realize financial goals. Whether those fund shareholders' interests are served by the objectives of a proposal sponsored by any individual or entity is a decision each fund adviser must make—and does make—consistent with the best interests of the fund and its shareholders and in line with the fund's investment objective.

This post is the second in a three-part *ICI Viewpoints* series on funds' proxy voting through 2017.

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