

ICI Releases Broad Study of Fund Proxy Votes

Funds Vote Proxies in Best Interests of Their Shareholders

ICI Releases Broadest Study Yet of Fund Proxy Votes

Washington, DC, July 10, 2008 – Mutual funds and other registered investment companies follow clear policies designed to avoid conflicts of interest and to advance the interests of fund shareholders when casting their votes on proxy issues at companies in their portfolios, according to a new study released today by the Investment Company Institute. The study, *Proxy Voting by Registered Investment Companies: Promoting the Interests of Fund Shareholders*, examines more than 3.5 million proxy votes cast by funds in 160 of the largest fund families during the 12 months ending June 30, 2007. The study is the largest known examination of proxy votes cast by funds.

“The data presented in our comprehensive study show how funds use their proxy votes to promote the interests of their shareholders,” said ICI President and CEO Paul Schott Stevens, who released the study at an American Enterprise Institute seminar. “The notion that funds are rubber stamps for management ignores the complexity of proxy issues and the effort that funds devote to making sound decisions to promote shareholder value.”

Since 2004, the U.S. Securities and Exchange Commission has required funds to disclose annually all votes they cast on proxy ballots of the companies in which funds are invested. Earlier, smaller studies of those votes have noted that funds vote strongly in favor of proposals sponsored by management of those companies, and critics have charged that funds “rubber-stamp” proposals recommended by management and vote against shareholder proposals.

The ICI study finds that funds did vote in favor of management proposals more than 90 percent of the time in 2007. However, the study attributes much of that pattern to the predominance of non-controversial issues on proxy ballots: 83 percent of proxy issues that funds voted on in 2007 concerned uncontested elections of corporate directors and ratification of audit firms selected by companies. Funds’ votes on these matters align closely with the recommendations of two well-known proxy advisory firms, Institutional Shareholder Services/Risk Metrics Group and Glass-Lewis & Co.

Funds’ voting policies often provide that funds will withhold votes from directors who failed to exercise good judgment or took actions contrary to the interests of company shareholders. The study found that funds apply those standards: In 2007, the majority of funds withheld votes from one or more director nominees at more than 10 percent of the companies they owned.

On non-routine management proposals and proposals sponsored by shareholders, the study found:

- Funds were more likely to favor proposals that promote shareholder rights and weaken corporate takeover defenses.
- Funds voted for almost 40 percent of shareholder proposals, while company boards supported fewer than 1 percent of such proposals. Among shareholder proposals, those calling for reduced corporate takeover defenses garnered the strongest support from funds, which voted for those measures 78 percent of the time in 2007. Funds supported almost half of shareholder proposals calling for modifications to corporate board structures or corporate election processes, and more than a third of shareholder proposals related to executive compensation.
- Funds’ voting guidelines, which under SEC rules must be disclosed to the public, indicate that funds are more likely to support proposals that promote shareholder rights and oppose measures that would tend to entrench management or resist corporate takeovers, irrespective of whether such proposals are put forth by management or shareholders. Among 35 large fund families, roughly two-thirds follow voting guidelines that oppose supermajority voting requirements, dual-class stock, classified boards, or poison pills adopted without shareholder assent.

“The majority of funds vote in a way that they believe will maximize the fund’s financial returns,” Stevens said. “This is in keeping with the ‘social contract’ between a fund and its investors embodied in the fund’s prospectus, which declares the fund’s investment

objectives and policies.”

The study also examined the sponsorship of shareholder proposals that appeared on corporate proxy ballots during the 12 months ending June 30, 2007. Among 239 proposals sponsored by individual shareholders, 121 were sponsored by just five individuals; among 186 proposals sponsored by unions, 94 were sponsored by just three unions. These eight sponsors accounted for about one-third of shareholder proposals during this twelve-month period.

The study and [Stevens' speech](#) to the American Enterprise Institute can be found on ICI's website.

Separately, the Independent Directors Council and ICI today jointly released a paper, [Oversight of Fund Proxy Voting](#), focusing on fund proxy voting responsibilities and the oversight function of fund boards. The paper is available on IDC's and ICI's websites.

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