



## ICI VIEWPOINTS

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# Fixing Our Broken Proxy Voting System

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## Key Insights:

- The fund proxy voting system is costly and hampers fund governance and the investor experience.
- Smaller fund complexes are often disproportionately impacted by the burdens of proxy campaigns.
- The Securities and Exchange Commission (SEC) can greatly improve the fund proxy voting system by adopting pragmatic reforms, including a new “supermajority method” of obtaining shareholder approval.

Just as publicly traded companies do, mutual funds, ETFs, and closed-end funds periodically submit items to their shareholders for approval, including director nominations and other policy and governance matters. Shareholders typically vote [by proxy](#), rather than in person, on these items.

Unlike publicly traded companies, many fund approvals require a quorum—i.e., minimum number of shares present at a shareholder meeting—of greater than 50 percent of outstanding shares participating, as mandated by the Investment Company Act of 1940 ('40 Act). Often, this high threshold cannot be reached without immense struggle (if at all) due to the prevalence of investors with diverse interests leading busy lives. This makes even the simplest proxy campaigns burdensome and costly for funds and their shareholders—which is correspondingly costly for the very fund shareholders whose votes they are asking for.

We call on the SEC to address this issue in 2025 with the support of the new Congress.

## The Problem

Shareholder approval requirements for proxy matters are one of many investor protection mechanisms included in the '40 Act and its rules. But the current fund proxy voting system is outdated and ill-suited for today's fund investors. While fund approvals typically pass by overwhelming margins among those voting, satisfying the quorum requirement is often very difficult.

[\*\*It is expensive, inefficient, and unwelcome to funds and their shareholders.\*\*](#)

The proxy voting system's problems are driven largely by low levels of retail shareholder participation, despite enormous efforts by funds to make voting as easy as possible. What's more, large blocks of fund shares often go unvoted. Obtaining proxy votes from retirement plans—large holders of mutual fund shares—or their participants remains challenging, which is especially problematic given the substantial growth in [mutual fund assets in 401\(k\)s](#) over time. Also, New York Stock Exchange rules permit broker-dealers to vote customers' shares on routine matters on a discretionary basis, but the rules' narrow provisions limit their usefulness to funds. For example, in 2019, a large broker-dealer announced it would no longer vote proxies as the rules permit.

Low participation rates create a cycle of repeated shareholder communication attempts and escalating costs. Funds and their service providers then go to increasingly greater and more costly lengths—sometimes calling shareholders at home—to convince them to vote. This cycle repeats until the fund achieves quorum and proceeds with a final vote or else abandons the proposal.

**[Final campaign costs can be staggering. We know of two that exceeded \\$100 million—one of which would be almost \\$200 million in today's dollars.](#)**

Such challenges are felt by large and small fund families alike. Though the costs are lower for small funds in absolute terms, they are often higher as a percentage of assets under management. Additionally, personnel at smaller fund families are less able to absorb a campaign's burdens. While larger firms may have personnel with responsibility for proxy administration, most small to mid-sized fund staff must manage these campaigns—which can run 12 weeks or more—alongside their core responsibilities.

## **Why It Matters**

For years, fund proxy reform has been neglected. This inaction has resulted in unintended, damaging consequences for funds and their shareholders. [The anticipated costs of the proxy process have sometimes](#) delayed or deterred funds from taking actions such as adding board members, changing fundamental policies, or pursuing certain fund mergers to reduce fund expenses. The costs, challenges, and uncertainty of proxy campaigns should not deter funds from taking beneficial policy action.

The current system will not improve on its own, even with more advanced solicitation techniques, proxy disclosure reform, and shareholder education initiatives. We welcome these innovations, but they are not a panacea. Direct policy solutions are needed.

## **Our Solution: The Supermajority Method**

**We recommend creating an alternative method for funds to achieve a majority vote for specified '40 Act items.**

Currently, funds typically achieve a "majority vote" with a greater than 50 percent quorum and at least 67 percent of shares present voting in favor of a proposal.

We recommend, as an alternative, a *supermajority* method. This method couples a lower quorum threshold—more than 33 $\frac{1}{3}$  percent—with a higher affirmative vote—at least 75 percent—to approve certain items. As an added protection, the proposal would require unanimous approval from the fund board. These protections would ensure that only those items with exceedingly strong support from fund boards and voting shareholders would pass using this new method.

[A 2019 ICI report](#) shows this approach would meaningfully reduce total costs for '40 Act majority item proxy campaigns, particularly for the most expensive ones.

We also recommend the following complementary reforms:

- The SEC could consider alternatives to shareholder approval for certain '40 Act majority items. Investor protection should remain paramount, but it is worth asking whether shareholder approval is necessary to provide that protection in all instances. For example, instead of requiring shareholder approval for all fundamental policy changes, funds should be able to make certain non-material changes with board approval and advance notice to shareholders.
- Revising proxy processing fees and shareholder communication provisions—to permit funds to directly contact all their shareholders in connection with proxy campaigns—would save money and enhance funds' engagement with their shareholders.
- Reducing the lengthy tabular presentations in multi-fund proxies that increase costs and page counts and discourage shareholder engagement—letting funds link to this information would be a simple fix.

## **The Way Forward**

Fund proxy reform is sensible bipartisan policy that the SEC should advance. The savings and overall benefits to the 120 million-plus fund investors are sizable, and the solutions are clear. We just need the will to act.

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