ICI VIEWPOINTS

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Funds Actively Seek Companies' Sound Management

By Paul Schott Stevens

The following ICI Viewpoints *is a letter to the* Wall Street Journal *by Paul Schott Stevens, president and CEO of the Investment Company Institute, in response to an editorial published on June 22, 2017.*

In their muddled and inconsistent arguments, the authors of 'Index Funds Are Great for Investors, Risky for Corporate Governance" (op-ed, June 22) rely on unfounded assertions while ignoring clear legal requirements placed on registered funds, their boards, and their advisers.

Contrary to the authors' claims, all funds—regardless of their investment strategy—have strong incentives to maximize the value of their portfolio by ensuring that the companies they own are well-managed and soundly governed. The board of a mutual fund or exchange-traded fund, as part of its overall fiduciary duty, oversees proxy voting to ensure that proxy votes are cast consistent with the best interests of the fund and without regard to the fund adviser's other business concerns. What takes precedence is the interests of the fund and, by extension, the retirement savers and other individuals who own it. These long-term investors may or may not share the priorities of hedge fund activists.

Fund advisers work hard to ensure that their votes are well-informed and advance good governance. Unlike hedge funds and other investors, registered funds are required by law to disclose publicly their proxy votes, as well as the policies and procedures used to determine those votes. Proposals to force fund advisers to follow blindly the activists' lead—or else not vote at all—would only harm sound corporate governance.

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