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Investing: Funds to Allow Individual Shareholders Greater Say in Proxy Voting

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Investing

By Sara Bussiere
Associate | Global Litigation

Several major asset managers last week announced plans to expand programs providing investors with greater say over how their shares are voted, some of which announced similar plans for some individual index fund shareholders. **Vanguard**'s pilot program will commence in early 2023, with Vanguard intending to offer "a number of proxy voting policy options for individual investors" in several of its equity funds. For **BlackRock**, this program will only be available, at least initially, to UK index fund investors. BlackRock's CEO, Laurence Fink, **announced** in a letter that it was "working with a digital investor communications platform in the UK to enable investors in select mutual funds to exercise choice in how their portion of eligible shareholder votes are cast."

In his letter, Fink stated: "While many asset owners are pleased to have our stewardship team serve as a bridge between them and the companies they are invested in, others want the choice to actively participate in proxy voting. That's partly being driven by the public debate around issues that can impact the value of companies and how different asset owners choose to navigate them." These changes follow BlackRock's announcement last year that it would give certain institutional clients invested in index funds, such as pension funds, a say on how their shares are voted. Since this change, institutions comprising a quarter of the assets eligible for the program have chosen to participate.

Taking the Temperature: Such "pass through" voting represents a potentially significant change for public companies, which may going forward have to address many more constituencies when seeking to obtain majority shareholder votes. Today, a meaningful percentage of outstanding shares in public companies is held by large institutional asset managers, such as Blackrock, Vanguard, and State Street, giving these firms significant sway over the outcome of shareholders' votes. That, in turn, has led to greater scrutiny of their voting decisions on climate-related and other issues, resulting

in calls for potential regulation and igniting "ESG backlash" in the form of certain financial institutions being subject to criticism (and being barred from certain states' pension fund asset management business or municipal securities underwriting) for being "anti-energy" or not sufficiently supportive of the fossil fuel industry. Relinquishing some of this control could reduce scrutiny of these managers' approaches to climate change. And, from a governance perspective, it is hard to argue against permitting the beneficial owners of securities managed by large institutions to have greater input into how their shares are voted. But only time will tell whether the impact of pass-through voting lives up to its potential. It takes time to become sufficiently informed about the underlying issues on which shareholders are asked to vote, and investors may choose to continue to permit asset managers to undertake that effort and vote for them. Institutions that are not as well-resourced as the largest asset managers may resist incurring the costs involved with pass-through voting. Moreover, the programs do not permit beneficial owners to vote their shares directly, but instead to offer input, such as the ability to select among proxy voting policies. Fink observed that given the current stockholder ownership system, "offering voting choice more widely to individual investors will take the combined efforts of policymakers, regulators, fund boards, asset managers and other participants in the proxy voting system." However, if such investor-led voting becomes widely adopted, even at the high level of investors indicating policy preferences, it could have a substantial impact on the voting and governance landscape for public companies, including in areas as widely debated and significant as climate change.