The Need for Fund Proxy Voting Reform

Out-of-Date Requirements

Registered investment funds must gain shareholder approval before changing fundamental policies, adopting or amending advisory and distribution agreements, or merging affiliated funds. But funds often struggle to reach the very high quorum threshold set by federal law, making even the simplest proxy voting campaigns burdensome and costly.

Here's why

- Funds usually do not know the identities of many of their shareholders due to SEC rules that limit funds' ability to contact their beneficial owners, especially those that invest through broker-dealers or other intermediaries.
- Funds typically have highly diffuse, retail-oriented shareholder bases, with more than 120 million US retail investors holding a whopping **88 percent** of the $25.5 trillion in US mutual fund total net assets.
- Historically, proxy voting participation rates are around 30 percent for retail shareholders versus more than 80 percent for institutional investors, **according to Broadridge data**.
- Communicating with fund shareholders is costly and cumbersome, with printed proxy materials **sometimes surpassing 100 pages**.

Costly for Shareholders

These significant difficulties in achieving quorum lead to protracted proxy campaigns, multiple rounds of vote solicitation, and meeting adjournments, which add costs and frustrate shareholders, funds, and intermediaries. Underlying challenges can result in multiple meeting adjournments and exorbitant costs, which are ultimately borne by funds and their investors. These burdens are particularly extreme for smaller funds, even if price tags in absolute terms are smaller.

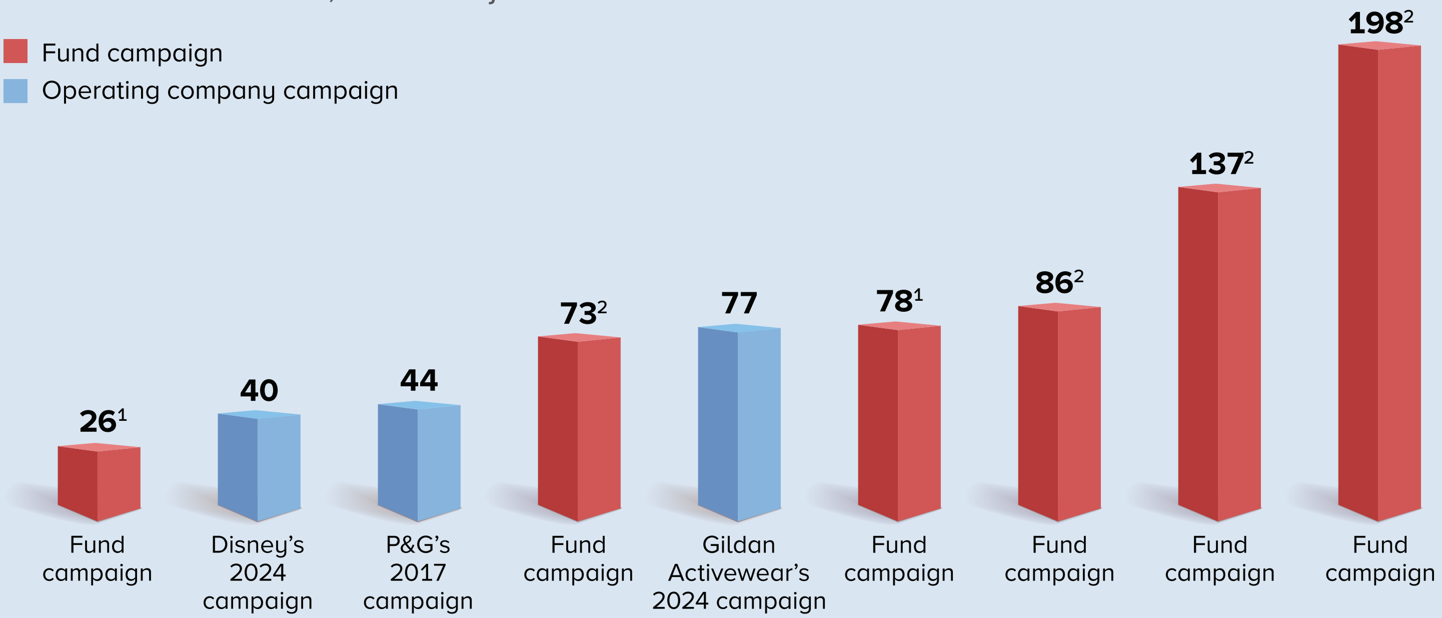
> **"We're spending a lot of money to irritate our shareholders."**
>
> *—ICI Member*

More Expensive than the Priciest Corporate Proxy Fights

Disney estimated the cost of its widely-publicized 2024 contested director elections—at the time **dubbed "the priciest shareholder fight ever"**—to be about **$40 million**. The **Procter & Gamble** (P&G) and **Gildan Activewear** proxy fights were similarly contentious and newsworthy. But some fund proxy campaigns—typically uncontroversial—have cost even more.

Proxy Campaign Costs for Funds Rival Those of Operating Companies

Cost in millions of dollars, inflation-adjusted



[1] Cost estimates provided by ICI members.

[2] Cost estimates taken from data reported in *Analysis of Fund Proxy Campaigns: 2012–2019*.

Note: Operating company costs exclude costs incurred by activists. Proxy campaigns prior to 2024 are inflation-adjusted to 2024 dollars for comparability.

Sources: ICI, Federal Reserve Bank of St. Louis, and public documents

Putting Fund Proxy Reform Back on the Agenda

Under the broad banner of "proxy reform," several other topics receive significant attention from market participants, policymakers, and even courts, including shareholder proposals, proxy advice, and shareholder directed voting.

ICI is eager to work with policymakers to fix the fund proxy voting system for the benefit of fund investors. ICI recommends:

- Coupling a lower quorum threshold with a higher affirmative vote requirement as an alternative way to approve certain items.
- Allowing alternatives to shareholder approval for certain 1940 Act majority items.
- Revising proxy processing fees and shareholder communication provisions.
- Reducing the lengthy tabular presentations in multi-fund proxies.

For details on these ICI proposed solutions, read **Fixing Our Broken Proxy Voting System**.

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