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Investor Group Responds to Wall Street Journal Editorial

Proxy Advisory Firms Do Not Dictate Voting Outcomes

Washington, D.C., Aug. 13, 2018 — The *Wall Street Journal's* recent editorial blasting what it calls "The Proxy Advisors' Veto," is factually incorrect on several counts.

"The *Journal* editorial uses the canceled merger of Rite Aid and Albertson's as an excuse to attack proxy advisory firms unfairly for doing the work that institutional investors willingly pay them to do," said Ken Bertsch, executive director of the Council of Institutional Investors (CII).

What the *Journal* gets wrong:

Herd voting is a myth: There is no compelling empirical evidence to support the assumption that proxy advisory firms encourage investors to vote as the firms recommend. In fact, the influence of the proxy advisory firms has declined significantly in recent years as asset managers, pension funds and others have taken greater interest in proxy voting and engaging companies directly, and have developed in-house expertise to address proxy-related issues.

Investor independence is clear in voting statistics. Although Institutional Shareholder Services Inc. (ISS), the largest proxy advisory firm, recommended voting against say-on-pay proposals at 11.8% of Russell 3000 companies in 2017, only 1.4% of those proposals received less than majority support from shareholders. Similarly, although ISS recommended voting against or withholding votes from the election of 10.8% of uncontested director nominees, just 0.2% failed to obtain majority support.

Proxy advisors generally recommend voting *as management recommends*: Companies and ISS made matching voting recommendations in the vast majority of ballots cast at public companies so far this year. In 89% of the more than 21,000 ballots cast in director elections, auditor ratifications, say-on-pay votes, and on employee and director equity plans at Russell 3000 companies, ISS endorsed management's proposals.

The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of pension funds, other employee benefit funds, endowments and foundations, with combined assets that exceed $3.5 trillion. CII's non-voting members include asset management firms with more than $25 trillion under management. CII is a leading voice for effective corporate governance, strong shareowner rights and vibrant, transparent and fair capital markets. CII promotes policies that enhance long-term value for U.S. institutional asset owners and their beneficiaries.

Even where ISS's recommendation deviated from management's, most notably with the 420 shareholder proposals voted this year (as of July 27), the outcome of shareholder votes supported management's position far more often than ISS's position.

To be specific, ISS's voting recommendations on shareholder proposals conflicted with management's in 79% of cases, and yet management still enjoyed a 90.5% "win rate:" a majority of votes cast by shareholders supported management's position on 90.5% of shareholder proposals. Voting in proxy fights was the only exception to this trend. In the eight proxy contests this year, shareholders followed ISS's recommendation more often than management's blanket opposition.

More scrutiny of proxy advisors is fine, but proposed legislation is the wrong way to go about it:

Legislation approved by the House of Representatives would foist a new regulatory scheme on proxy advisory firms that would be excessively costly and burdensome, and would bias them in favor of corporate management.

The legislation, H.R. 4015, would require proxy advisory firms to share their research reports and voting recommendations with the companies that are the subject of their reports and recommendations *before* they share them with their paying customers, institutional investors. Giving companies the right to review proxy advisors' work before it goes to actual clients is unprecedented interference in the commercial marketplace. It would encourage proxy advisory firms to skew their reports and recommendations toward companies rather than clients.

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