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Proxy Voting: Evolving Voting Recommendations & Investor Preferences

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What is proxy voting?

When investors purchase shares of stock in a company, they become a partial owner of that company. This ownership stake comes with the right to have a say in corporate policy. Each year, public companies host annual meetings to update shareholders on company activity and to provide owners the opportunity to vote on specific issues. Prior to the meeting, shareholders will receive a proxy ballot along with a proxy statement that describes the issues up for vote at the meeting. Typically, shareholders will be able to vote on the election of board members and may be asked to approve items such as acquisitions, divestitures, compensation plans, and any shareholder proposals that were submitted. Shareholders that are unable to attend the annual meeting will have the ability to cast their proxy ballot in advance. Investment management companies will also submit ballots on behalf of their clients.

What are proxy advisors?

Items that shareholders vote on at annual meetings are binding and can have a significant impact on the company's future operations. Therefore, owners and investment management companies voting on their behalf should carefully consider how they will cast their votes. To aid in this decision-making process, investment managers often engage proxy advisors to provide research, data and recommendations on how to vote. Investment managers leverage this research to ensure that the votes they cast on behalf of their clients will help contribute to the long-term success of the company. Additionally, with the rise of socially responsible investing, some investment managers are also considering the social and environmental goals of their clients to further align their voting decisions with the preferences of those clients. In the United States, the two most prominent proxy advisors are Glass Lewis & Co. and Institutional Shareholder Services Inc. (ISS).

Many investment managers rely on their research and recommendations to make voting decisions on behalf of their clients. Cambridge Trust routinely votes proxies on behalf of our clients and most commonly uses ISS for voting recommendations and research.

How are voting recommendation polices and preferences changing?

Historically, the widely held belief among investors has been that corporations exist solely to maximize profits and benefit their shareholders. For a growing number of investors, that idea is becoming outdated. Companies are being pressured by these shareholders to consider other factors such as their impact on all stakeholders and the environmental sustainability of their business. Proxy voting is one tool that investors may use to drive positive change within companies. Proxy advisors are aware of the changing preferences of shareholders and have been updating their actions accordingly.

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Glass Lewis and ISS take environmental, social and governance (ESG) factors into account during their research process and recently have implemented stricter policies with respect to these factors when making voting recommendations. A recent area of focus for both proxy advisors has been board diversity and director tenure. There is a growing body of research to support the fact that diverse, independent boards are among the most successful in driving positive results for their company. Glass Lewis and ISS have both announced updates for their expectations of company boards, which will guide their proxy voting recommendations.

In most cases, Glass Lewis recommends voting against the nominating committee chair if the board of directors has no female members. Beginning in 2022, Glass Lewis will recommend voting against the nominating committee chair of any board with fewer than two female directors (for boards with seven or more members). They also began considering the racial and ethnic diversity of boards for companies in the S&P 500. Similarly, ISS is flagging companies in the Russell 3000 and S&P 1500 indexes that have boards that are not racially or ethnically diverse. This policy will escalate in 2022 to ISS recommending voting against the nominating committee chair or other directors for boards that lack diversity unless the board previously had a diverse member and commits to improving diversity within a year. ISS continues to recommend voting against nominating committee chairs and other directors for boards that do not have female membership.

In addition to board diversity, board tenure is a relevant consideration. Directors who have served on a board for an extended period may begin to lose their independence as they build deeper relationships with company management. In 2021, Glass Lewis started noting their concerns around "entrenched" boards that had an average tenure for nonexecutive directors of ten or more years if no new independent directors had joined the board in the past five years. On the other hand, ISS has updated their policy to consider shareholder proposals that aim to implement director term limits on a case-by-case basis, whereas their previous baseline was to recommend voting against these types of proposals.

Lastly, both proxy advisors have made updates to their views regarding environmental and social risk oversight. The belief is that these risks should be overseen by the board itself, or a specific subcommittee of directors. Glass Lewis has stated that they will accept either type of board level oversight as long as it is clearly disclosed. Currently, they are flagging companies in the S&P 500 that lack this disclosure and, starting in 2022, Glass Lewis will begin recommending voting against governance committee chairs and other directors for lack of disclosure and poor oversight of environmental and social issues. ISS also currently recommends voting against directors that demonstrate poor oversight of environmental and social risks.

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While voting decisions are ultimately made by individual shareholders and investment management companies, proxy advisors are pushing ESG issues to the forefront of investors' minds. Investors are holding company management and directors to higher standards than ever before, as they expect to see a commitment to ESG performance as well as strong financial performance. Shareholders that utilize proxy ballots to vote for more sustainable and responsible policies, often in line with the recommendations of the proxy advisory firms, will help to drive change among public companies. As Glass Lewis and ISS continue to publish updated policies and explain how their expectations translate into voting recommendations, companies are likely to follow and proactively make changes from within.

We have been closely following the policy updates from our proxy advisor as we evaluate ESG issues, including board composition and board level ESG oversight when making proxy voting decisions. These factors are considered across all of our equity strategies, and proxy ballots that are submitted on behalf of clients that are invested in the Sustainable & Responsible Investing (SRI) strategy have the greatest attention to sustainability issues. We recognize the importance of ESG factors and how they may impact the long-term performance of a company. Our goal in our proxy efforts is to submit votes that will positively impact a company's future performance and sustainability consistent with our long-term investment philosophy.

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