

INSIGHTS FROM CFA SOCIETY SINGAPORE

Global proxy voting database: An idea whose time has come?

By Sameer S Somal and Ian Robertson

THE proxy voting system has taken on added importance amid growing interest in environmental, social, and governance (ESG) issues and how investors vote on related shareholder proposals.

Institutional Shareholder Services (ISS) and Glass Lewis, in particular, provide critical guidance, and shareholders who want to vote their proxies depend on them to execute their proxy votes in a thoughtful and transparent manner. But with only two players dominating the space, are investors really getting the diversity of perspectives they need to make informed proxy votes?

That's where a new database, OxProx, comes in. Founded by Ian Robertson who co-authored this article, OxProx is a social venture spin-off with the University of Oxford and is the first publicly accessible service that gathers, examines, and compares proxy voting records among asset owners and asset managers from across the globe.

Importance of ISS and Glass Lewis

To be sure, by offering research, guidance, and record keeping, ISS and Glass Lewis are essential pillars of the proxy voting system. Investors with thousands of stocks in their portfolio can hardly research each proxy vote. They are better off

instituting a policy to guide their voting, while paying additional attention to specific issues that align with their expertise and interests.

Are two platforms enough?

Regulators, academics and investors have acknowledged that the pre-eminence of ISS and Glass Lewis may lead to a dearth of alternative views on how shareholders should vote, and that may compel investors to default to the recommendation of the proxy advisory service they subscribe to.

Pension plans and other large investors have the capacity to mitigate this duopoly issue by subscribing to either or both ISS and Glass Lewis and incorporating their guidance as an information input rather than a default vote.

They can then layer in their own research and perspectives on certain proxy votes over and above what ISS and Glass Lewis provide or what would be possible through a standard voting policy approach. Due to time and cost constraints, however, many small- and medium-sized firms have no choice in most instances but to defer to the two dominant players.

A helpful step

With OxProx's publicly accessible and searchable database of global proxy voting records, investors and analysts can compare how investors voted their proxies and what their voting rationales were, if and when they are disclosed. When does an investor's proxy

vote align with ISS and Glass Lewis guidance? When does it differ? Does an investor always support management or shareholder proposals?

OxProx makes such data available and findable. Vote disclosure requirements and practices are governed at the national level, so as a global database, OxProx facilitates more robust comparisons.

Who benefits from proxy data transparency?

ShareAction in the UK, As You Sow in the US, and Share in Canada, among other stakeholder and shareholder advocacy groups, are all doing important work on ESG issues.

But these organisations do not view proxy voting through a shareholder or financial materiality lens. That is, they are not overly influenced by whether shareholder returns will be materially affected by certain ESG decisions. Rather, they engage with companies and industries on greenhouse gas emissions and other ESG issues to advocate for changes that will benefit all stakeholders and society at large, even if they may reduce shareholder earnings.

OxProx data can help inform these organisations on how to approach and hold firms and investors accountable when their policy voting runs counter to both long-term shareholder and stakeholder interests. The contested director elections at Exxon Mobil in 2021 is a



As ESG factors become increasingly integral to investment decisions, platforms like OxProx can help promote responsible investments. PHOTO: PIXABAY

case in point. Sceptical of the company's carbon-transition strategy, investment firm Engine No. 1 led a successful activist campaign for seats on the board.

The investor and adviser

The proxy voting system is a crucial conduit for public companies and their investors, with ISS and Glass Lewis leading the way. But the transparency and accountability challenges are real and OxProx can help address these deficits by providing accurate and timely data on how different investors have voted.

As ESG factors become increasingly integral to investment decisions, platforms such as OxProx can help promote responsible investment and drive positive

change in corporate outcomes. For many years, reconciling ESG issues with investment performance posed a challenge to fiduciaries who equated ESG considerations with screening stocks from portfolios.

All things equal, a screened portfolio is less diversified. Absent market mispricing of the screened investments, such a portfolio will yield lower risk-adjusted returns. Incorporating material ESG issues into investment analysis and security selection is now standard practice for active managers and considered part of their fiduciary duty.

For some managers, engaging with select companies on ESG issues can provide extra analytical insight and encourage investee

companies to pursue better shareholder and stakeholder outcomes. Stakeholders and advocacy groups may in turn nudge investment managers to seek better ESG outcomes. While these may not increase financial returns, they may not detract from them either.

Indeed, the transparency OxProx provides may persuade investors to improve their proxy voting on ESG issues – to the point where there are no diminished financial returns and ESG proposals with positive net present value have greater support.

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