



Don't Shoot the Messenger

Proxy Insight reveals the real influence of proxy advisers

New data from Proxy Insight suggests that the influence of the main proxy advisers, ISS and Glass Lewis, is exaggerated, investors relying far less on proxy adviser recommendations for their own voting than is widely thought.

Following shareholder rebellions, far too often the go to response of issuers is to blame the undue influence of ISS and Glass Lewis for the dissent of their investors.

This widespread conviction in the unrestrained authority of proxy advisers extends even to the U.S. Securities and Exchange Commission. Its commissioner, Daniel Gallagher, earlier this decade urging investors "to take responsibility for their voting decisions rather than engaging in rote reliance on proxy advisory firm recommendations."

However, new data from Proxy Insight suggests that this influence is exaggerated, the correlation between the voting of investors on contentious resolutions and ISS and Glass Lewis recommendations being much lower than initially expected.

For the analysis, we took the top ten institutional investors and analyzed their voting on Advisory Say on Pay/ Remuneration Report votes in the UK and US during 2015 and 2016. We then compared the recommendations of ISS and Glass Lewis for each resolution to calculate the correlation.

The recommendations of ISS were produced by our very own 'synthetic vote' system, whereas we received the Glass

Lewis recommendations from the proxy adviser itself.

The correlation data

Table 1 illustrates the correlation between ISS and Glass Lewis recommendations and the actual voting of the institutional investors.

Although the table shows that the investors voted in line with the recommendations of ISS and Glass Lewis the vast majority of the time, the percentages are nevertheless much lower than expected.

This indicates that even at the aggregate level there is at least some disconnect between the voting of the institutional investors and the voting recommendations

of ISS and Glass Lewis. It is also interesting to note that the correlation declined between the years of 2015 and 2016.

However, as Table 2 shows, if we constrain our analysis to contentious votes only – i.e. when at least one proxy adviser recommends against management – then the picture becomes far more interesting.

For contentious votes only a little over half – 54% of investors in 2015 and 51% in 2016 – voted in line with ISS when the proxy adviser recommended against management.

For Glass Lewis, the correlation fell even further, with just 34% of investor votes in 2015 and 30% in 2016 voting the same way as the proxy adviser's recommendation.

| All Recommendations | | |
|---------------------|-------|-------------|
| | ISS | Glass Lewis |
| 2016 | 90.3% | 83.2% |
| 2015 | 90.5% | 84.4% |

Table 1: Correlation between Top Investor Voting and Proxy Adviser recommendations on US/UK SoP resolutions

| Against Recommendations Only | | |
|------------------------------|-------|-------------|
| | ISS | Glass Lewis |
| 2016 | 51.4% | 29.5% |
| 2015 | 53.8% | 33.6% |

Table 2: Correlation between Top Investor Voting and Proxy Adviser Against recommendations on US/UK SoP resolutions

“NATURALLY, PROXY ADVISERS [...] WILL JUMP ON THIS AS EVIDENCE THAT THEIR INFLUENCE OVER CLIENTS HAS BEEN GREATLY EXAGGERATED.”

Even more surprisingly, since 2015, the institutional investors have only voted against management in 61.8% of say on pay resolutions where both ISS and Glass Lewis recommended against.

Deeper into the data

Analyzing the data down to an investor level allows us to see the voting behaviour of individual investors not only in comparison with proxy adviser recommendations, but also in relation to the different countries and regions in which they invest.

As Table 3 illustrates, all investors bar BNY

Mellon correlate above 90% with ISS on Say on Pay overall.

By contrast, BlackRock, Vanguard, State Street, FMR, Goldman and Northern Trust all correlate with ISS less than 50% of the time on against only recommendations.

Moreover, Table 4 shows that the investors typically correlate less with Glass Lewis than ISS. This may be due to the fact that Glass Lewis is generally more aggressive than ISS, which in turn will inevitably lead to a larger diversion from the usually passive voting of institutional investors.

There are many conclusions that can be drawn from this data. Naturally, proxy advisers, tired of being the scapegoat of issuers, will jump on this as evidence that their influence over clients has been greatly exaggerated. Moreover, many observers will note that in general the institutional investors seem less aggressive than ISS and Glass Lewis.

However, this data is probably most relevant to regulators, as it suggests that the argument of the undue influence of proxy advisers – an assertion which in turn brought about the Proxy Advisory Firm Reform Act in the U.S. – is built on shaky ground.

| Investor | All Recommendations | | | Against only Recommendations | | |
|-----------------------------------|---------------------|-------|-------|------------------------------|--------|--------|
| | All | U.S. | U.K. | All | U.S. | U.K. |
| BlackRock | 91.0% | 91.2% | 90.0% | 25.3% | 24.2% | 35.2% |
| Dimensional Fund Advisors, Inc. | 93.6% | 92.9% | 98.9% | 100.0% | 100.0% | 100.0% |
| Vanguard Group, Inc. | 92.4% | 92.8% | 88.5% | 35.0% | 37.8% | 11.5% |
| State Street | 93.0% | 93.4% | 89.6% | 44.6% | 46.3% | 30.0% |
| Fidelity Management & Research | 92.4% | 92.4% | 92.4% | 34.6% | 34.9% | 32.1% |
| BNY Mellon | 67.5% | 64.5% | 95.4% | 83.0% | 81.4% | 100.0% |
| Goldman Sachs Asset Management LP | 95.8% | 95.2% | 99.7% | 40.7% | 28.6% | 97.2% |
| Northern Trust | 90.0% | 90.2% | 87.9% | 12.7% | 13.7% | 0.0% |
| T. Rowe Price | 92.3% | 92.2% | 93.7% | 56.5% | 55.3% | 69.0% |
| AllianceBernstein LP | 97.7% | 97.9% | 96.5% | 93.1% | 92.6% | 97.7% |

Table 3: Correlation between Top Investor Voting and ISS recommendations on US/UK SoP resolutions

| Investor | All Recommendations | | | Against only Recommendations | | |
|-----------------------------------|---------------------|-------|-------|------------------------------|-------|-------|
| | All | U.S. | U.K. | All | U.S. | U.K. |
| BlackRock | 84.8% | 84.9% | 83.5% | 16.0% | 15.2% | 23.0% |
| Dimensional Fund Advisors, Inc. | 92.8% | 94.7% | 82.9% | 87.1% | 95.9% | 38.5% |
| Vanguard Group, Inc. | 86.4% | 86.6% | 85.0% | 21.3% | 23.0% | 7.0% |
| State Street | 85.4% | 85.2% | 86.5% | 23.6% | 23.8% | 22.1% |
| Fidelity Management & Research | 85.7% | 85.9% | 90.1% | 23.0% | 22.1% | 30.4% |
| BNY Mellon | 63.7% | 61.2% | 82.4% | 58.2% | 60.4% | 35.6% |
| Goldman Sachs Asset Management LP | 88.1% | 88.9% | 84.0% | 17.6% | 12.7% | 37.2% |
| Northern Trust | 83.3% | 83.3% | 83.7% | 5.9% | 6.0% | 4.6% |
| T. Rowe Price | 83.4% | 83.4% | 83.9% | 27.8% | 27.6% | 31.1% |
| AllianceBernstein LP | 83.6% | 83.9% | 81.5% | 37.6% | 36.9% | 43.4% |

Table 4: Correlation between Top Investor Voting and Glass Lewis recommendations on US/UK SoP resolutions