KPMG

Understanding proxy season

Investor voting timelines might be tighter than you expect

KPMG Board Leadership Centre

Proxy season, which typically spans from spring to summer in the UK, is an essential juncture for shareholders to exercise their voting rights on various corporate matters such as electing board members, executive compensation packages, corporate governance policies, and significant business decisions. Understanding the dynamics and intensity of this season can help companies and their board members engage with their shareholders more effectively.

It starts with a voting policy

Most institutional investors will finalise their voting policies for the year in February. The draft policy will go through a series of internal approvals which could include fund managers, chief investment officers and directors and boards of funds regulated by the Investment Company Act of 1940[1] in the US.

Once the policy is approved, they will usually develop implementation instructions or a voting flow chart to identify the voting decision in each circumstance. Typically these are very large and complex documents.

Let's take a simple example: a policy might say 'we generally support independent boards' – the policy doesn't say exactly what this means. The flow chart will then indicate the various options and note that this requires more than half the board to be independent.

The role of proxy advisors

The implantation instructions are then typically given to a proxy advisor (e.g. ISS or Glass Lewis) who will perform a large data scraping operation and identify the voting decisions based on the criteria and policy submitted by the investor. The results are then usually submitted to the investor's stewardship team on a daily basis. Given the volume of information being processed during this period, the proxy advisor might take 2 to 3 days to compile this analysis.

The analysis will be done for all AGMs and normally indicates what the investor's voting policy decision is along with the cut-off date to submit the vote.

The voting cut-off date

This is where things get tricky. The cut-off date for voting is the earliest custodian cut-off date. For example, a company might be in hundreds of different funds at an organisation like Capital Group, Goldman Sachs or Legal & General. These funds might then have custodians around the world (for example Bank of Montreal or Brown Brothers) and each will have a different cut-off date.

What is key here is that the vote must be submitted for all shares at the earliest date as they will typically vote on all the shares in the same way. This means that timelines can be significantly compressed. And, as one stewardship professional told us – "That's why proxy season is so rubbish!".

This is a reality that's not always well understood by corporates. This deadline is not the same as what the company secretary might think it is – it's typically a week earlier.

Overriding a vote against

Usually, if an investor is set to vote against a resolution, they will have a set of filters to identify those they need to prioritise. Many will hold shares in thousands of companies and most companies will hold their AGM in a 12-week window. This means it's often impossible for them to go through all companies individually. That's why they will typically have a system that flags company AGMs to look at.

[1] Investment Company Act of 1940 Definition (investopedia.com)

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For example, if there already has been an engagement meeting with the company, a flag might prompt them to manually review the vote. There will be some instances where they don't want to vote against.

However, to deviate from the voting policy generally isn't that easy as it is a legally approved policy for the fund boards. This means compliance approvals will be needed to override the voting decision per the policy.

To obtain the right approval, they often need to compile the right evidence, in many cases, they will ask for a meeting with the company so that they can evidence the issue was discussed. That's where it breaks down.

The stewardship team will ask the company's investor relations team or the company secretary for a meeting and will often be offered a meeting the following week. While this might appear reasonable to the company given the timing of the AGM, this will be far too late for the investor trying to push through a voting decision that isn't aligned to their voting policy. Many will need the meeting to happen within a couple of days so that they can manage their own internal approvals and meet the earliest cut-off date mentioned above.

Timing is critical to good engagement

Everything moves very quickly during proxy season. Stewardship teams are under huge amounts of pressure to meet extremely tight deadlines. To make the process smoother and maximise opportunities to engage on contentions issues, it's critical that corporates make the right individuals available on short notice and well before they might think is necessary.

It's worth noting that most investors don't expect board members they engage with to have answers to all their questions. Don't hesitate to bring to the meeting those who will know the detail to support the discussion. If investors want a private meeting, they will make that clear.

The KPMG Board Leadership Centre

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Contact us

Sophie Gauthier-Beaudoin
Head of Investor Engagement
sophie.gauthier-beaudoin@kpmg.co.uk

www.kpmg.com/uk/blc

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