

What boards need to know about pass-through voting

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Pass-through voting (also referred to as client-directed voting) is an emerging development in equity stewardship that allows asset owners, including institutional and retail investors in pooled funds, to direct how their shares are voted. This represents a shift away from the traditional model in which voting discretion is delegated to asset managers.

Although adoption remains at an early stage, pass-through voting has the potential to change voting dynamics at annual general meetings (AGMs). It may lead to more fragmented and less predictable voting outcomes. This in turn may alter how companies and their boards engage with their shareholder base.

What is pass-through voting?

Traditionally, asset owners delegate voting authority to asset managers, who vote in accordance with their stewardship policies, often informed by proxy advisers.

Pass-through voting changes the focus of decision making. While asset managers and custodians continue to execute votes operationally, the vote decision itself sits with the asset owner. Under pass-through voting three broad models exist:

1. Asset owners indicate preferences on specific resolutions
2. Asset owners apply a custom voting policy across holdings.
3. Asset owners select from a menu of preset policies (e.g. Policy A, B, C) offered by asset managers.

As more voting is directed by policy menus rather than direct engagement, some believe the influence of proxy advisors will grow

Why is pass-through voting gaining momentum?

Several factors are driving interest in pass-through voting:

- **Regulatory and social pressure:** Asset owners face increasing scrutiny over whether voting aligns with beneficiaries' interests and publicly stated positions such as climate change, executive remuneration and governance).
- **Diverging investor priorities:** Pass-through voting has emerged in response to asset owners' desire for greater alignment between their investment beliefs (particularly on ESG) and voting outcomes.
- **Technology changes:** Improvements in voting infrastructure have made it operationally feasible to split votes at scale, even within pooled vehicles.

These developments are particularly relevant in the UK context as the UK equity market has seen a dramatic shift in ownership, with domestic institutional holdings falling from 52% in the 1990s to just over 4% in 2022¹, –while ownership by US index fund managers has increased. Many of which now offer pass-through voting.

¹ [Passthrough Voting Research - The Investor & Issuer Forum](#)

Current state of adoption

Split voting by asset managers – where votes are cast in different directions for the same company – has long existed due to segregated mandates and varied fund strategies. The key change is that pass-through voting now enables this on an institutionalised basis within pooled funds.

Adoption remains concentrated among the large index managers, particularly in the US, where they offer it more widely however, actual take-up remains low. The 3 largest US index managers (BlackRock, State Street and Vanguard) report between 9% and 24% of eligible assets under management electing to use pass-through voting¹. Active managers, by contrast, rarely offer such arrangements.

For most listed companies, this means:

- Voting outcomes may become more granular and less predictable.
- A single share register line (e.g. one asset manager) may now represent multiple and potentially divergent voting intentions.

What boards should be asking management

1. Which of our significant shareholders are using or considering pass-through voting?
2. Which upcoming resolutions are most exposed to dissent?
3. How is our engagement strategy evolving?
4. Do we have a clear plan for responding to significant dissent?

Looking ahead

Pass-through voting will likely not be a passing trend but part of a broader shift in stewardship practices. While it introduces complexity and some uncertainty, it also reinforces the importance of good governance fundamentals.

Boards that understand their shareholder base, communicate decisions clearly, and engage proactively will be better placed to navigate a world where voting power is more widely distributed.

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