Decentralizing Proxy Voting Power

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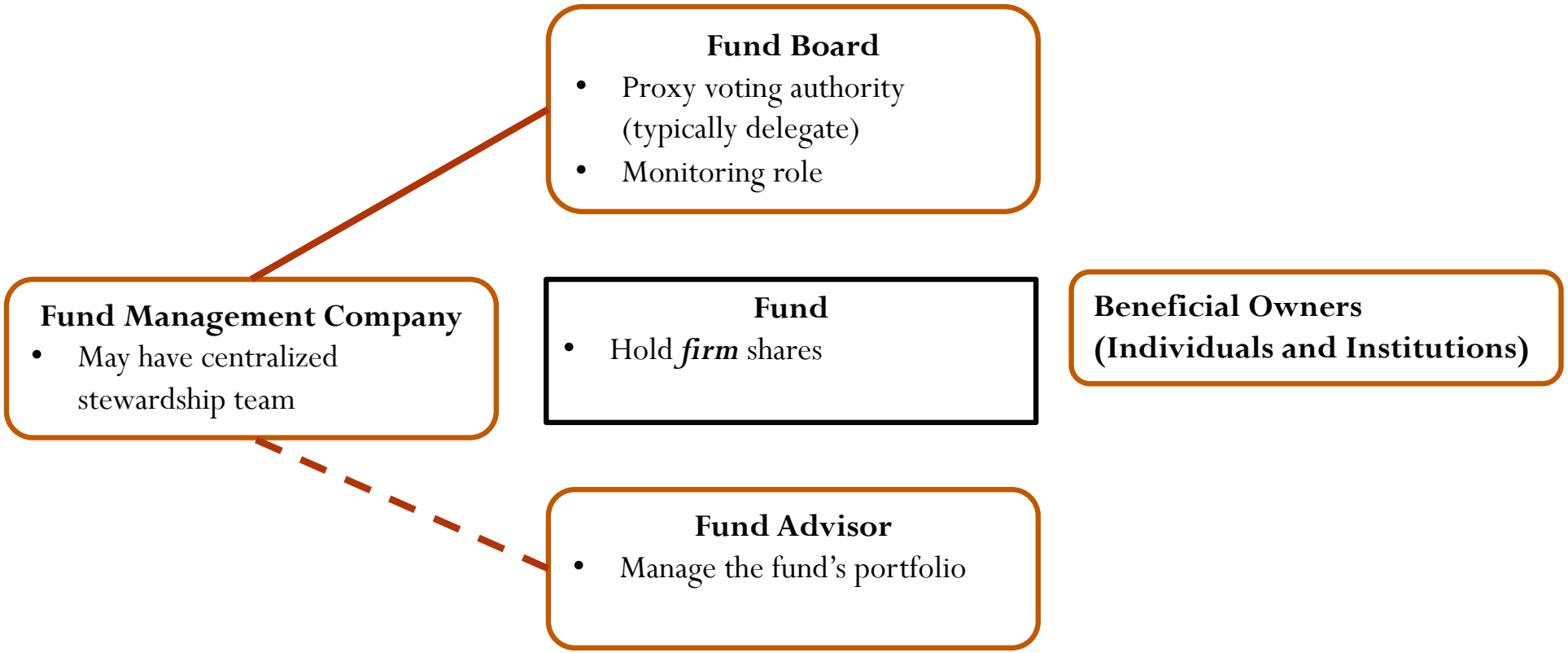
Central question on proxy voting power:

For intermediated assets, who should control proxy voting?

For intermediated assets, who should control proxy voting? Mutual Funds



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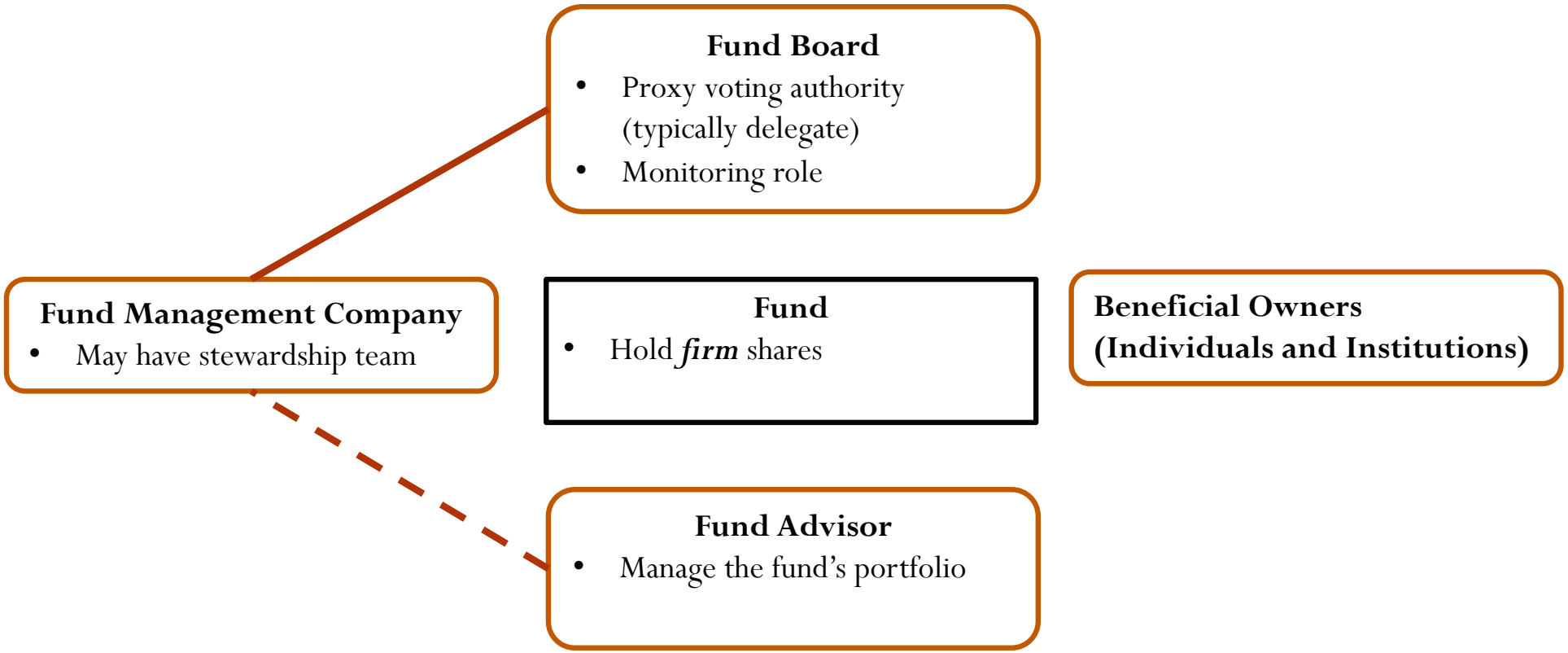


Two examples of recent conflicts:

Example 1: Between investment manager and pension fund managers

Example 2: Between subadvisor and investment manager

Example 1

News & Analysis

Maine pension fund mulls pulling voting power from BlackRock over resolution misalignment

When offered the Voting Choice opportunity, they decided to let BlackRock do it because of the cost, although they had their own proxy voting team.

Comparing the pension fund's **own proxy votes** to those of Blackrock for 2023, they found:
significant divergence on shareholder proposals.
Only 215 out of 559 votes on shareholder proposals were the same.

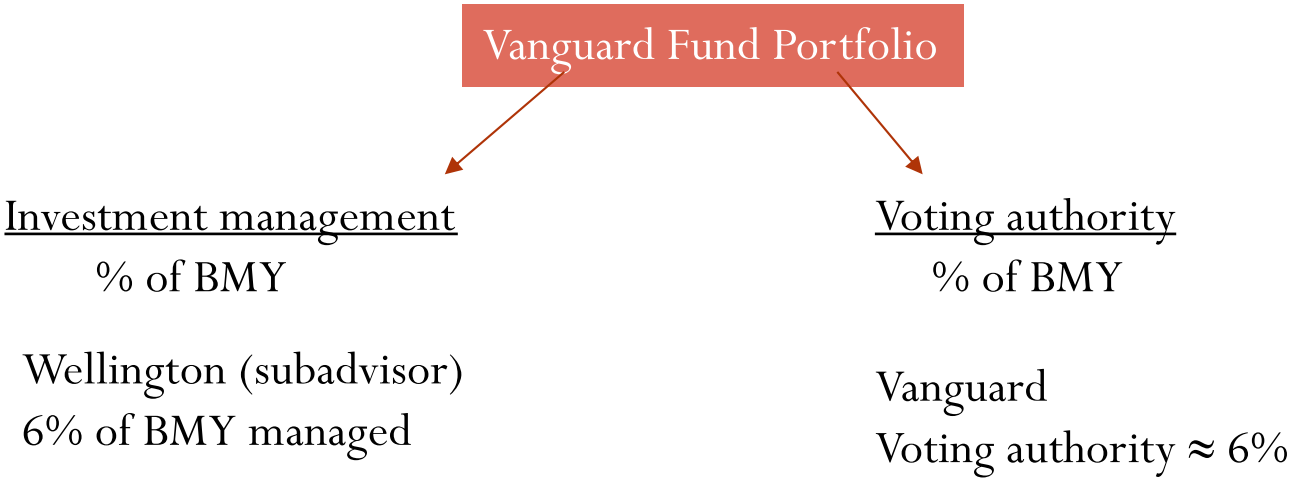
CIO James Bennett described the findings as "a tale of two cities".

From *Responsible Investor* July 12, 2024

Example 2
The manager selecting the investments may not control their votes

Voting on Bristol Myers Squibb-Celgene acquisition April 12, 2019

In AUM, Wellington owned a total of 7.7% of BMY's outstanding shares, but Wellington only had voting authority for ≈ 1.7%



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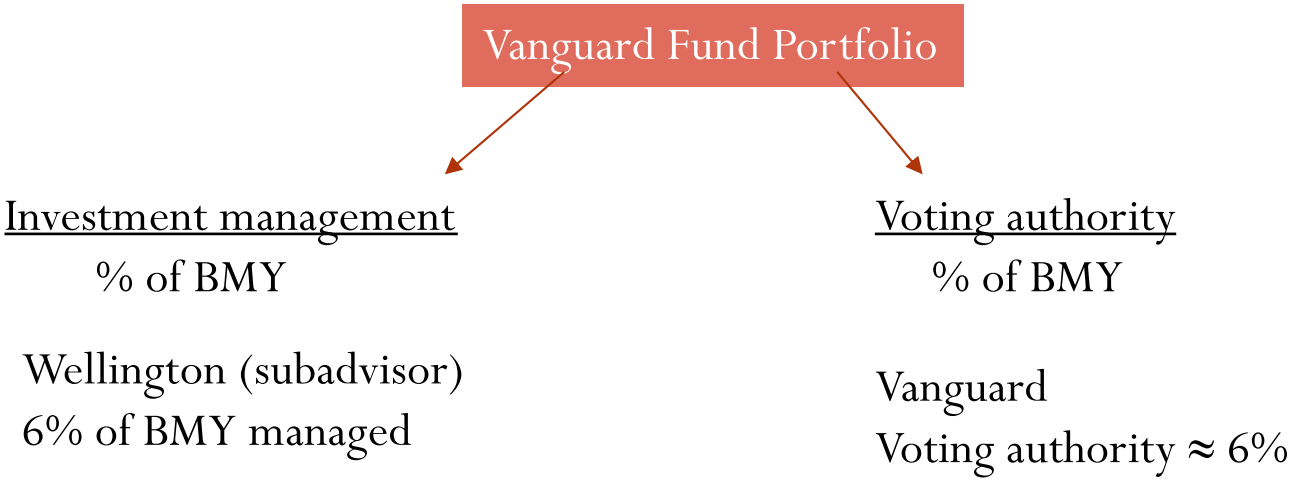

Same investment manager
Different voting decisionmakers

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Wellington announced Its opposition to the merger in February 2019

Vanguard Fund Portfolio

Investment management	Voting authority
% of BMY	% of BMY
Wellington (subadvisor) 6% of BMY managed	Vanguard Voting authority ≈ 6%

Same investment manager
Different voting decisionmakers

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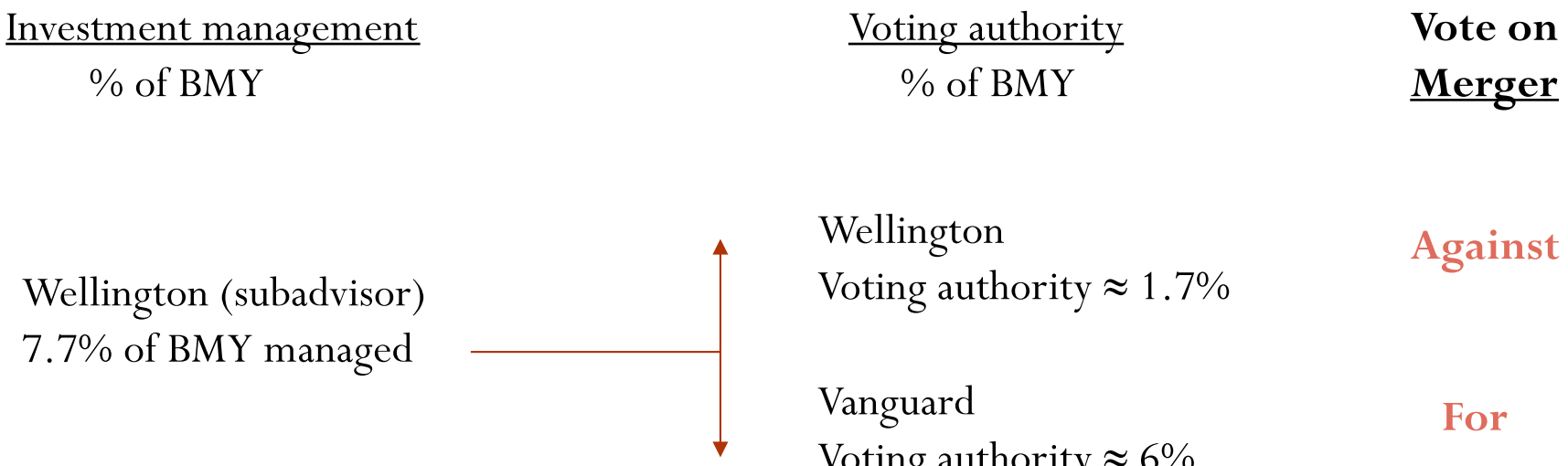

Same investment manager
Different voting decisionmakers

Recent Focus on Proxy Voting Decisionmakers

For intermediated assets, who should control proxy voting?



Legislation introduced in the 2021-2022, 2023-2024, and 2025-2026 U.S. Congresses:

Would require investment advisors of passively-managed funds to vote proxies in accordance with the instructions of fund investors, not at the discretion of the adviser.

Pass through voting

Proxy voting choice programs offered from the Big 3

Vanguard

2023 in U.S.
2026 in U.K.

STATE STREET.

2023 in U.S. and U.K.
2024 in Ireland
2025 in Luxembourg

BlackRock®

2022 in U.S., U.K., Canada and Ireland

A different potential approach: Shareholder/Investor Democracy

- "How to implement shareholder democracy" by Oliver Hart, Helene Landemore, and Luigi Zingales
  Harvard Business Law Review 2026

  Mutual funds would **allocate proxy voting power** to a **randomly drawn assembly** of their investors

- "Investor democracy" by Rob Bauer, Emmeline Cooper, Bram van der Kroft, and Paul Smeets, Working paper

  A **deliberative mini-public** for participants at a Dutch pension fund **to elicit social preferences**

First Research Question:

How does changing the voter change the vote?

A novel setting. Vanguard decentralized their voting authority to the external advisers of their actively managed funds in 2019.



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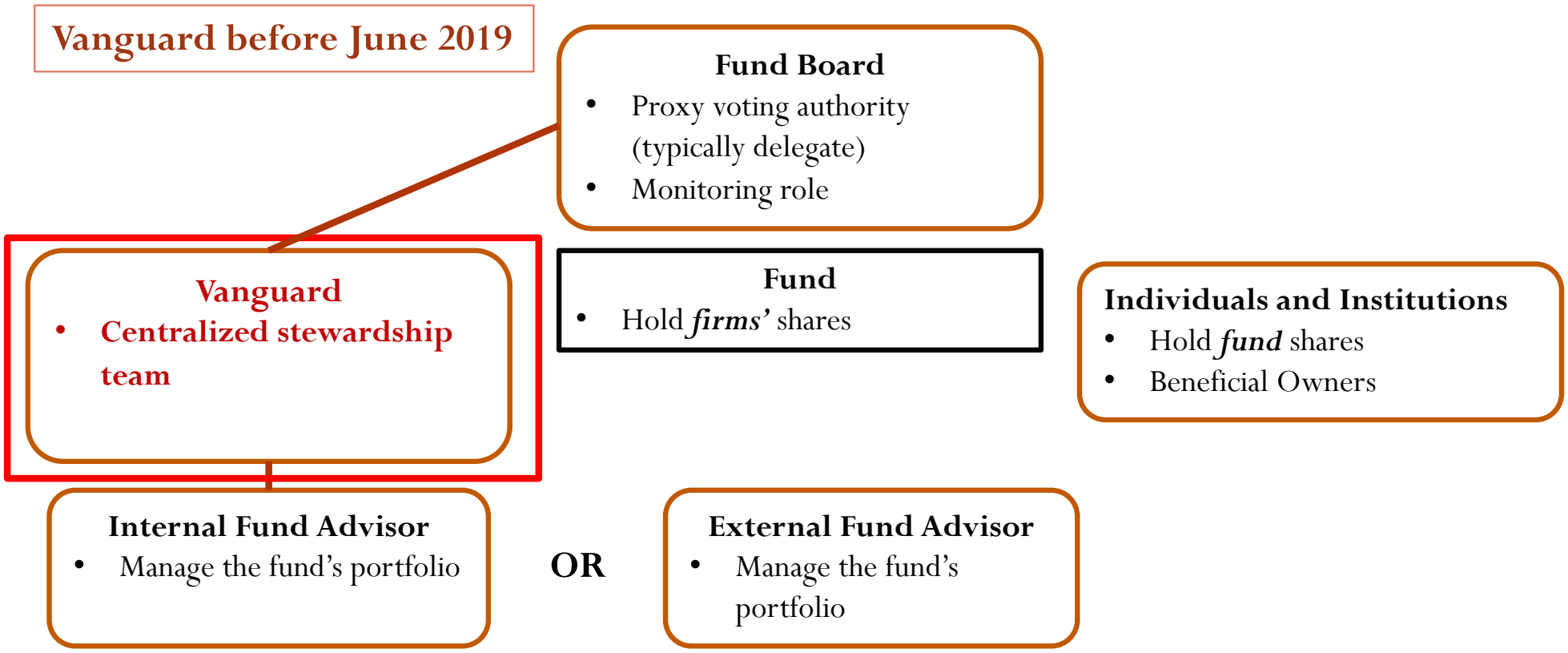

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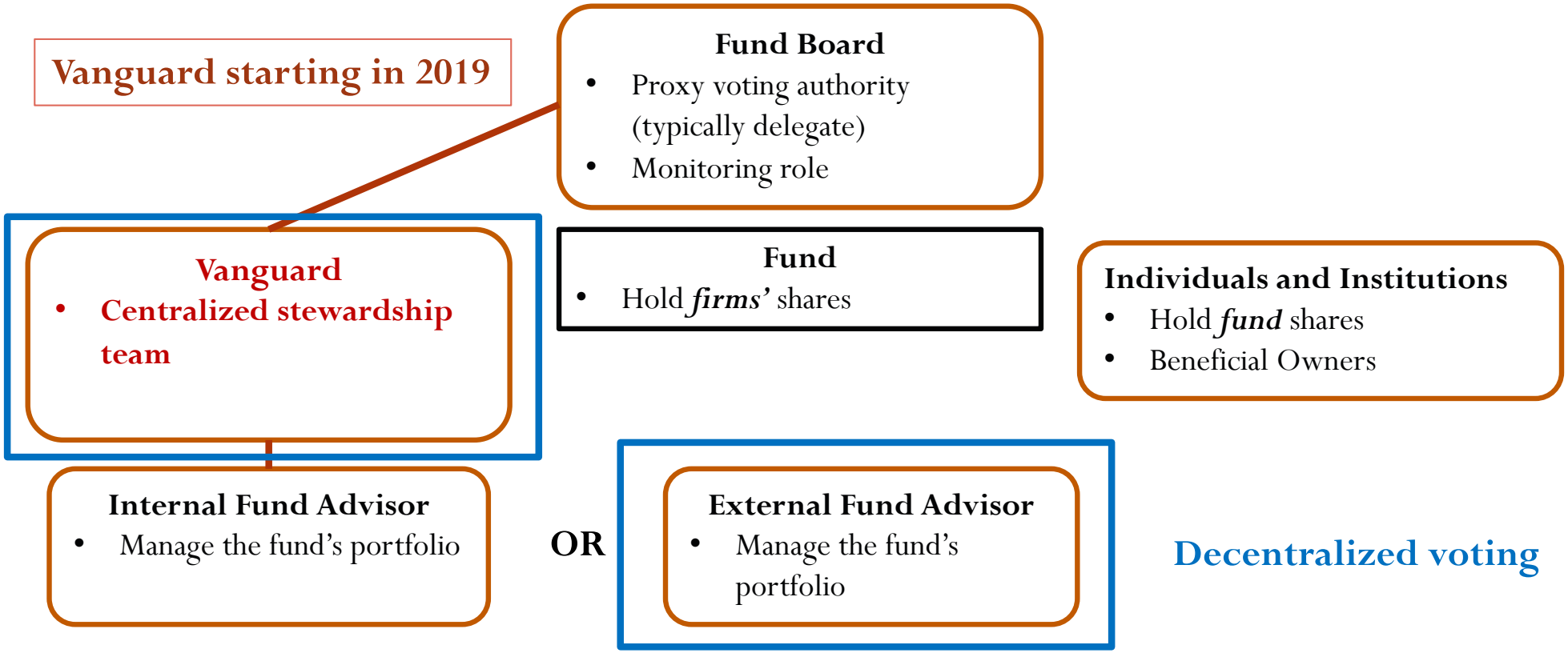

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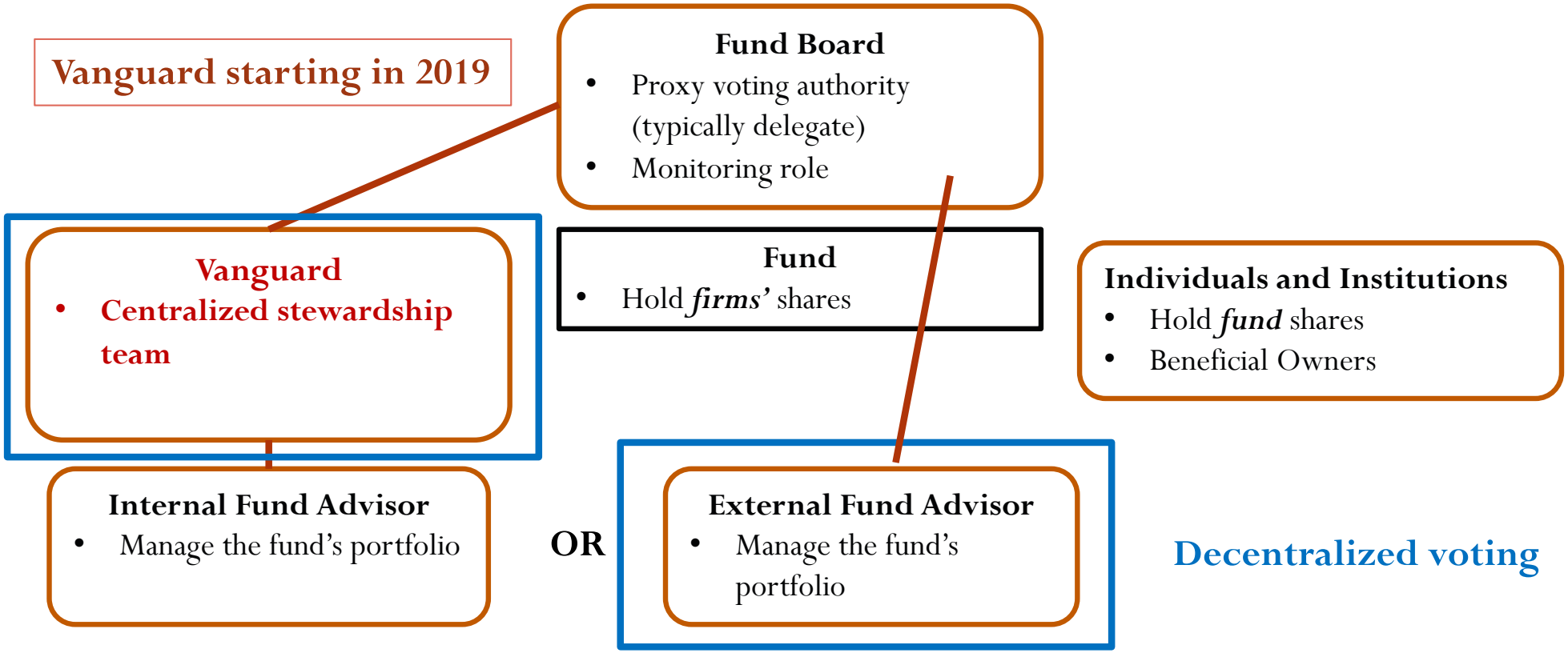
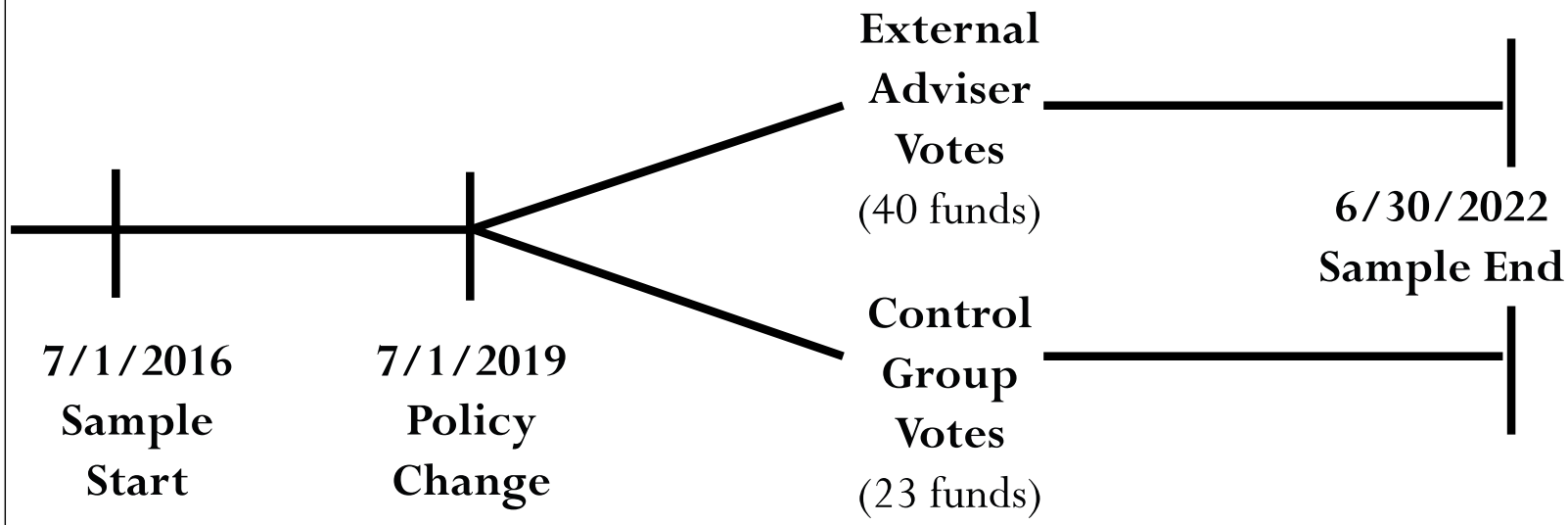


Research design to measure changes in voting

A difference-in-differences analysis within one fund family

Sample: all votes by Vanguard's actively managed funds 7/1/2016 – 6/30/2022



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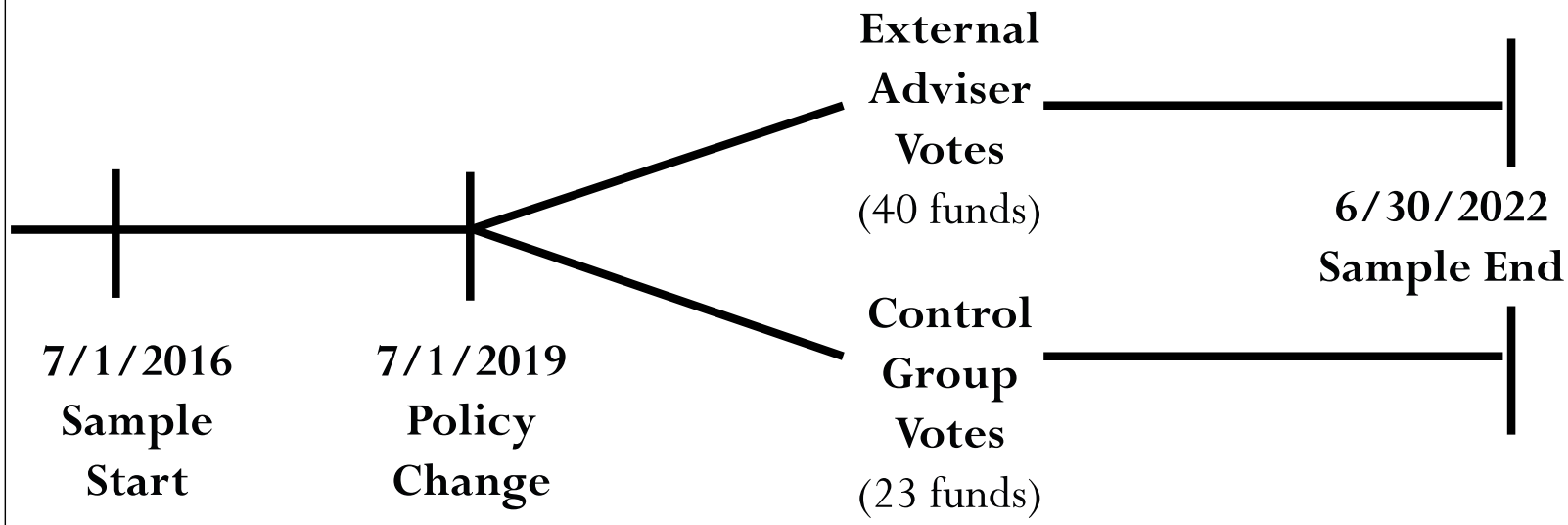


Holding fund, firm and ballot item constant, so votes are compared on the same item at the same meeting

Quick look at major findings: Changing the voter changes the vote

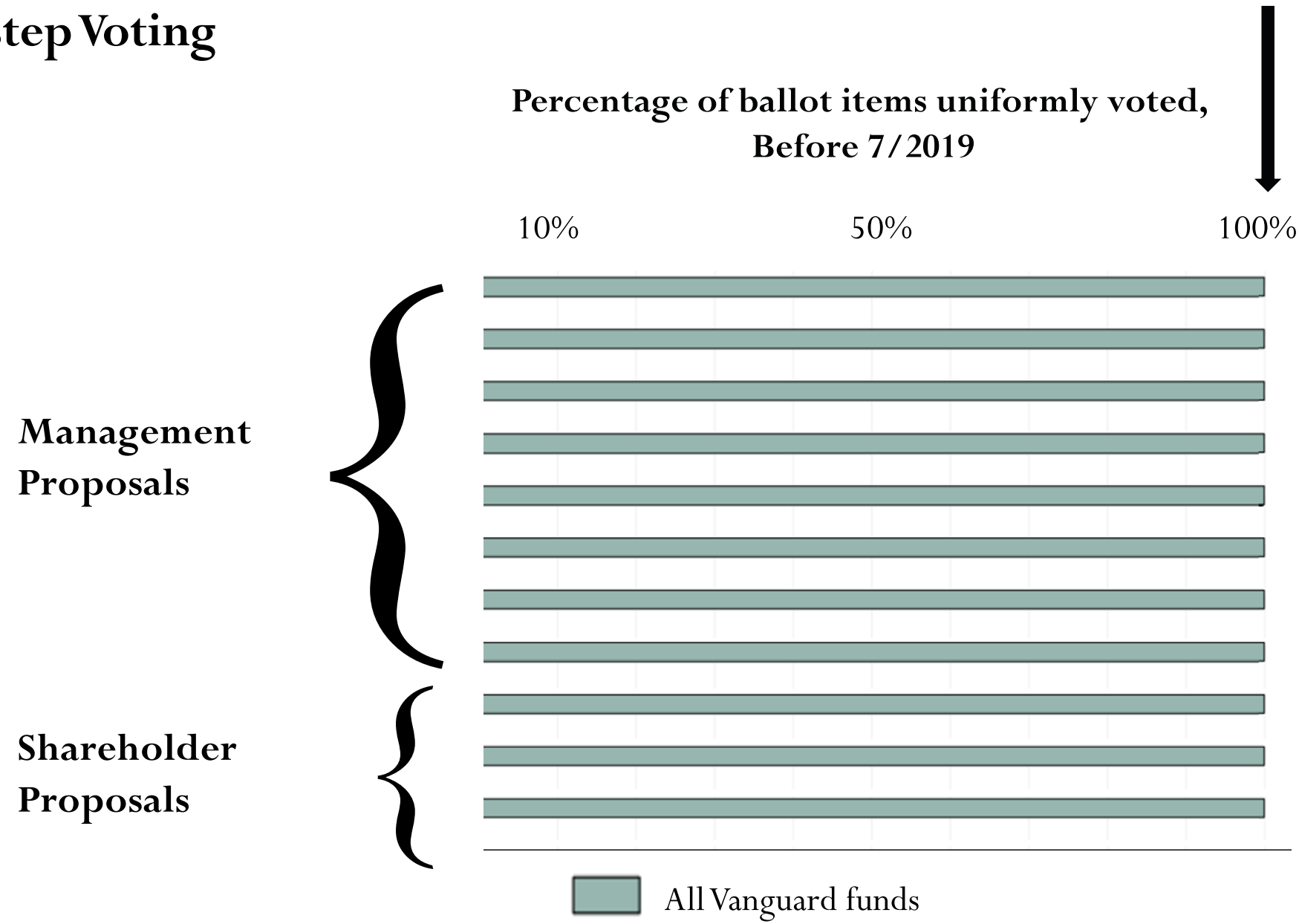
Major findings:

- Decentralization **increases opposition** to management on both management and shareholder proposals
  - **Increases the probability** of opposing management on ESG shareholder proposals by **26.9 percentage points**
- Most external advisers **vote independently** rather than following proxy advisor benchmark recommendations

Explanations:

- **Economic incentives and voting preferences**

Lockstep Voting



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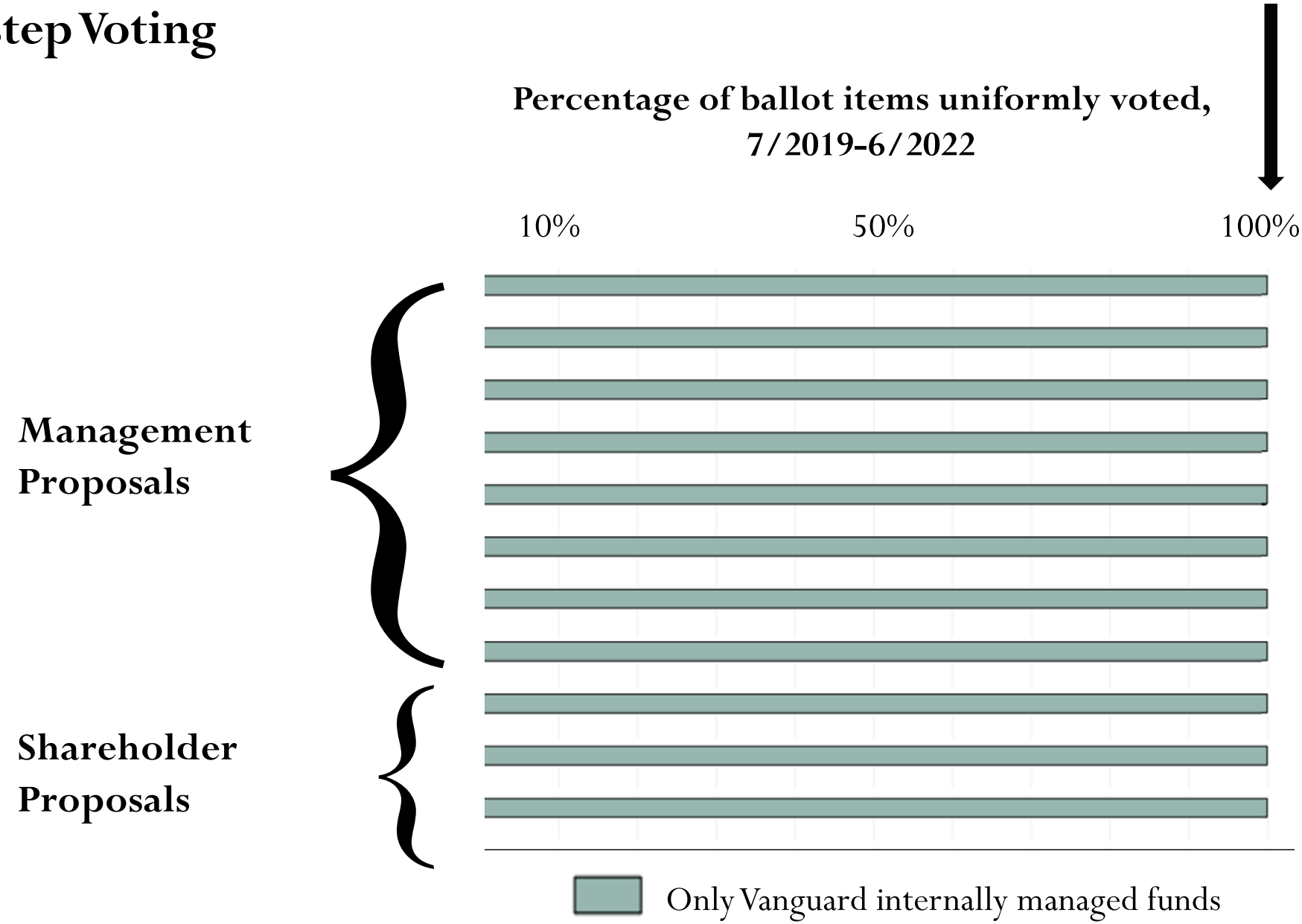
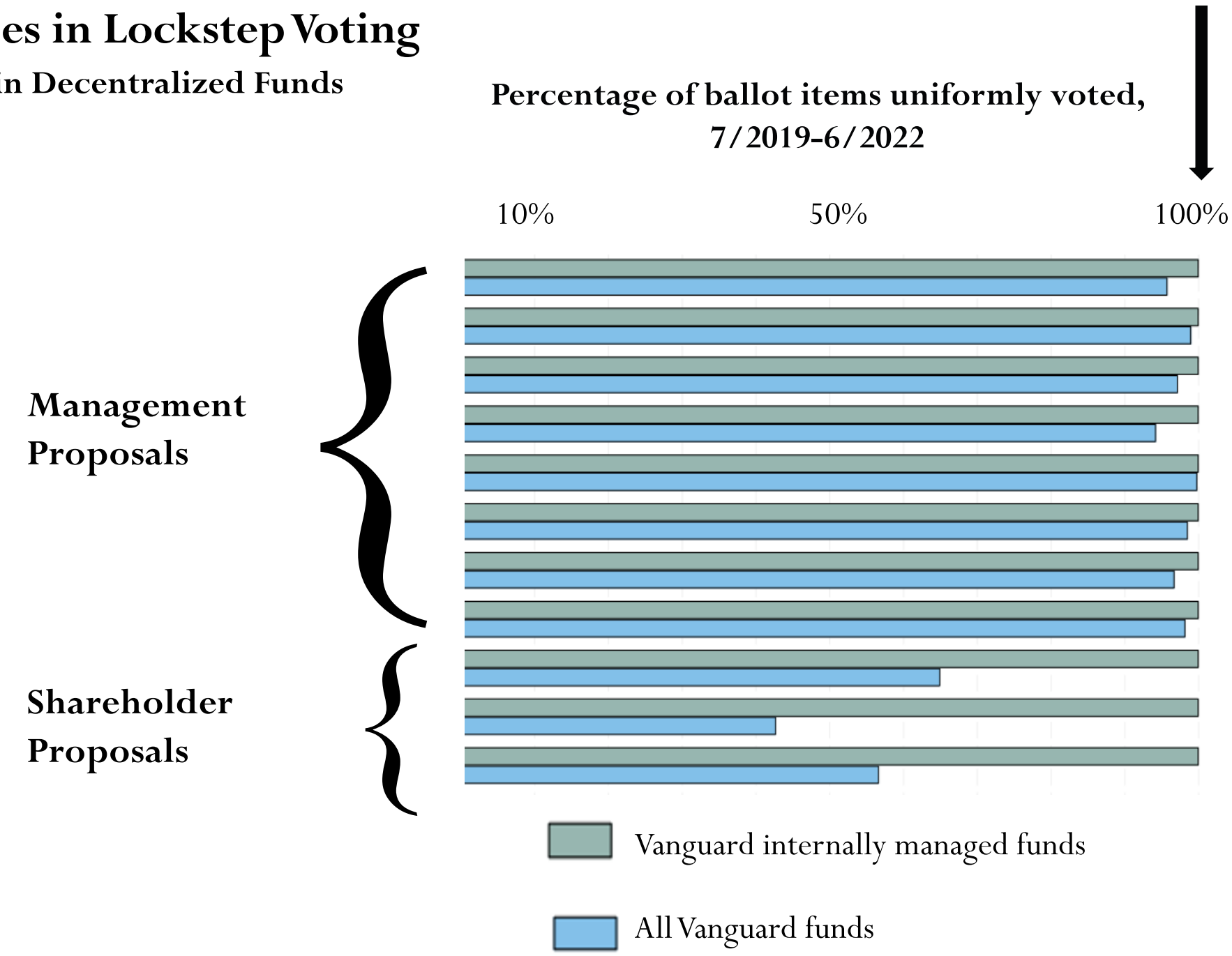


Changes in Lockstep Voting

Adding in Decentralized Funds



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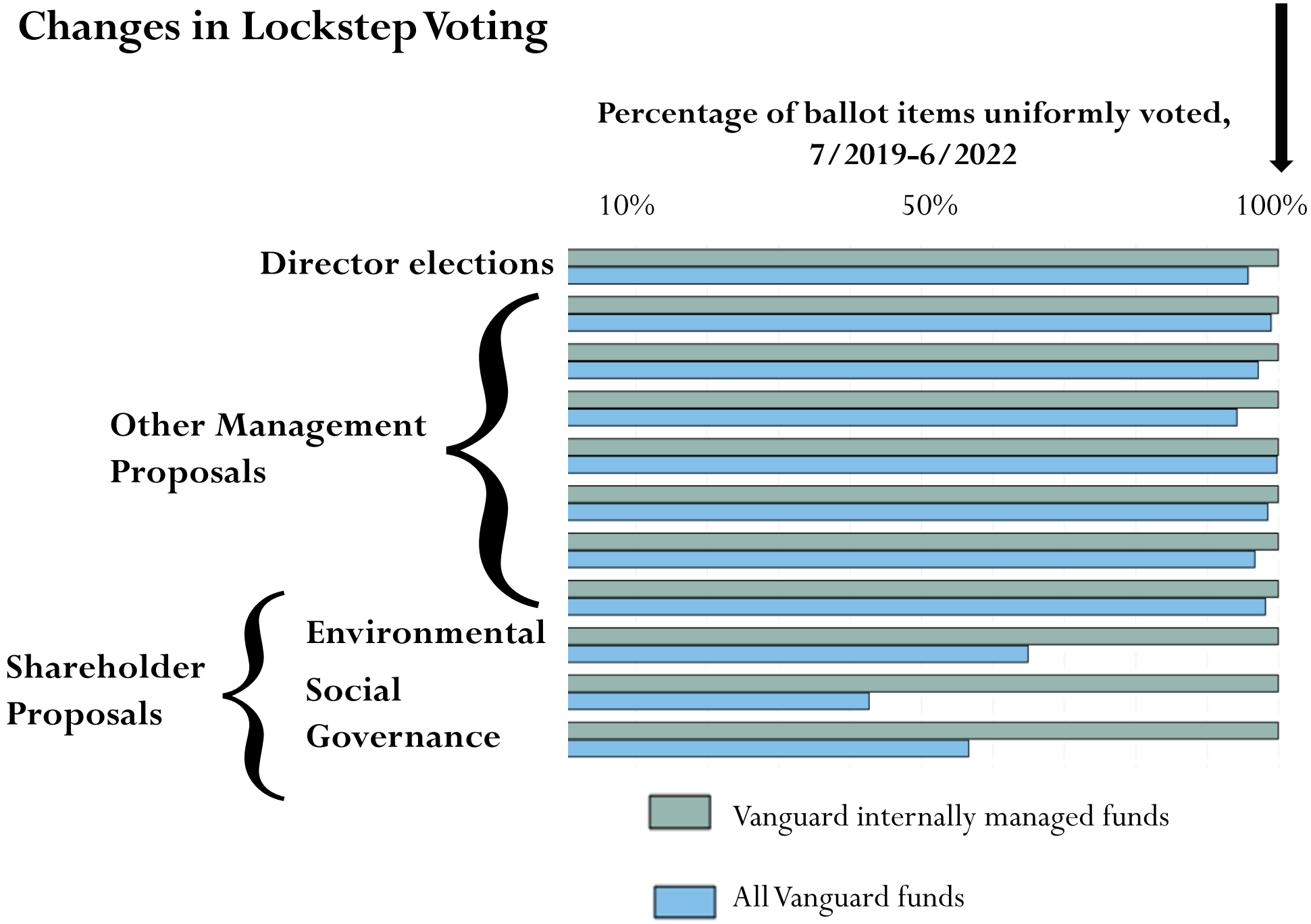
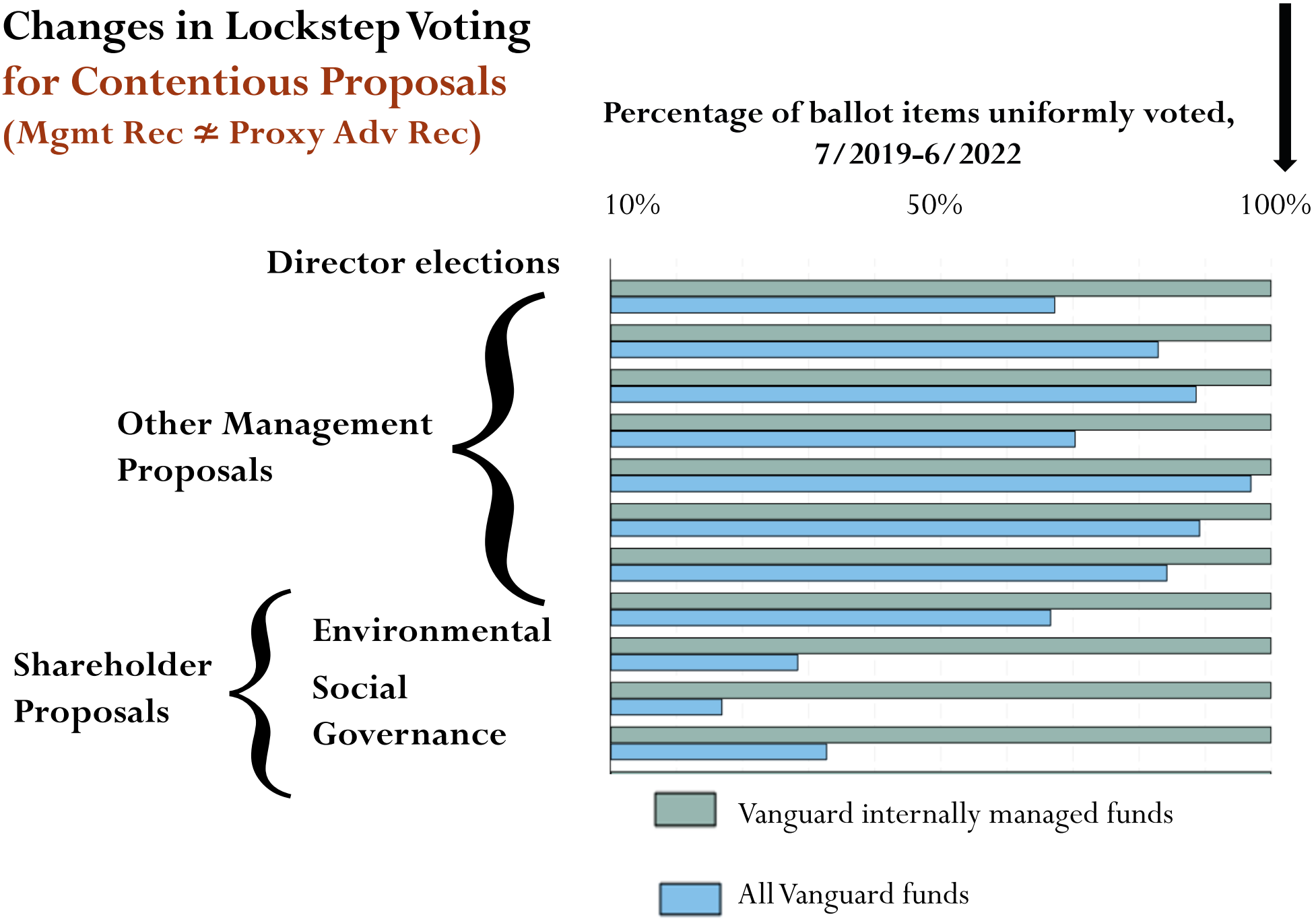


Changes in Lockstep Voting for Contentious Proposals (Mgmt Rec ≠ Proxy Adv Rec)



Proposal types with the largest disagreements

	Percentage of votes "For"	
Agenda Item	Dec. Voters	Vanguard
Environmental: Community- Environmental Impact	46%	11%
Environmental: GHG Emissions	65%	36%
Environmental: Report on Climate Change	41%	22%

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Social	Racial Equity and/or Civil Rights Audit	45%	7%
Social	Miscellaneous Proposal - Social	29%	0%
Social	Link Executive Pay to Social Criteria	27%	0%

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	Miscellaneous Proposal - Social	29%	0%
	Link Executive Pay to Social Criteria	27%	0%
Governance	Call Special Meetings	52%	5%
	Require Independent Board Chair	46%	6%
	Provide Right to Act by Written Consent	40%	4%

Research design: Measuring voting changes after decentralization

Differences in difference within funds

$$Voting\ Outcome = \beta_1 Decentralized_i \times Post_t + \beta_2 Decentralized_i + \beta_3 Post_t + FE + \varepsilon_{it}$$

Research design: Measuring voting changes after decentralization

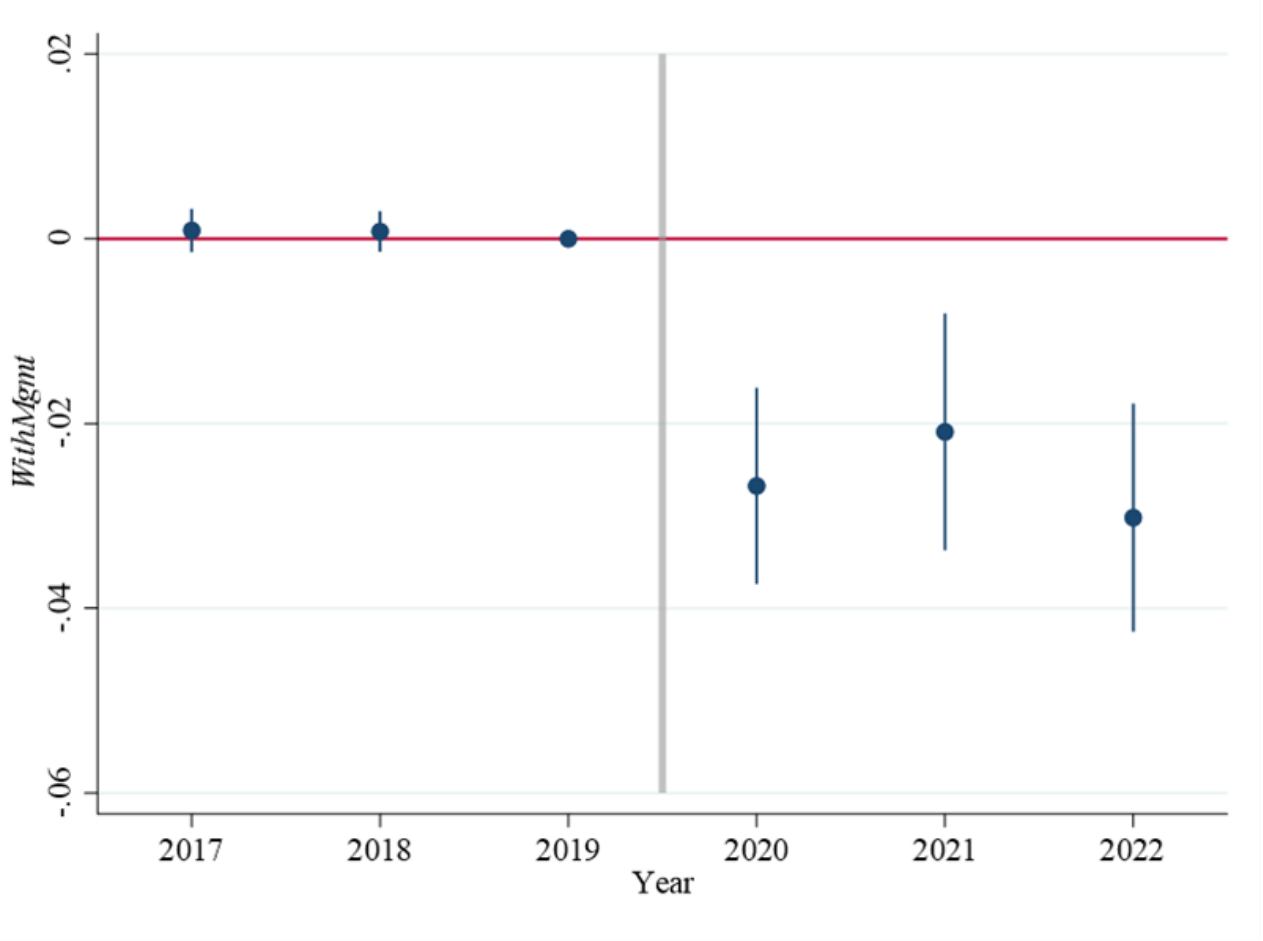
Differences in difference within funds

$$Voting\ Outcome = \beta_1 Decentralized_i \times Post_t + \beta_2 Decentralized_i + \beta_3 Post_t + FE + \varepsilon_{it}$$

- Hold constant the fund (strategy, structure, manager) and proposal
- Vary voting authority

Results: Annual changes in votes with management recommendations

Differences between Decentralized votes and Internal fund votes in Voting with management recommendations



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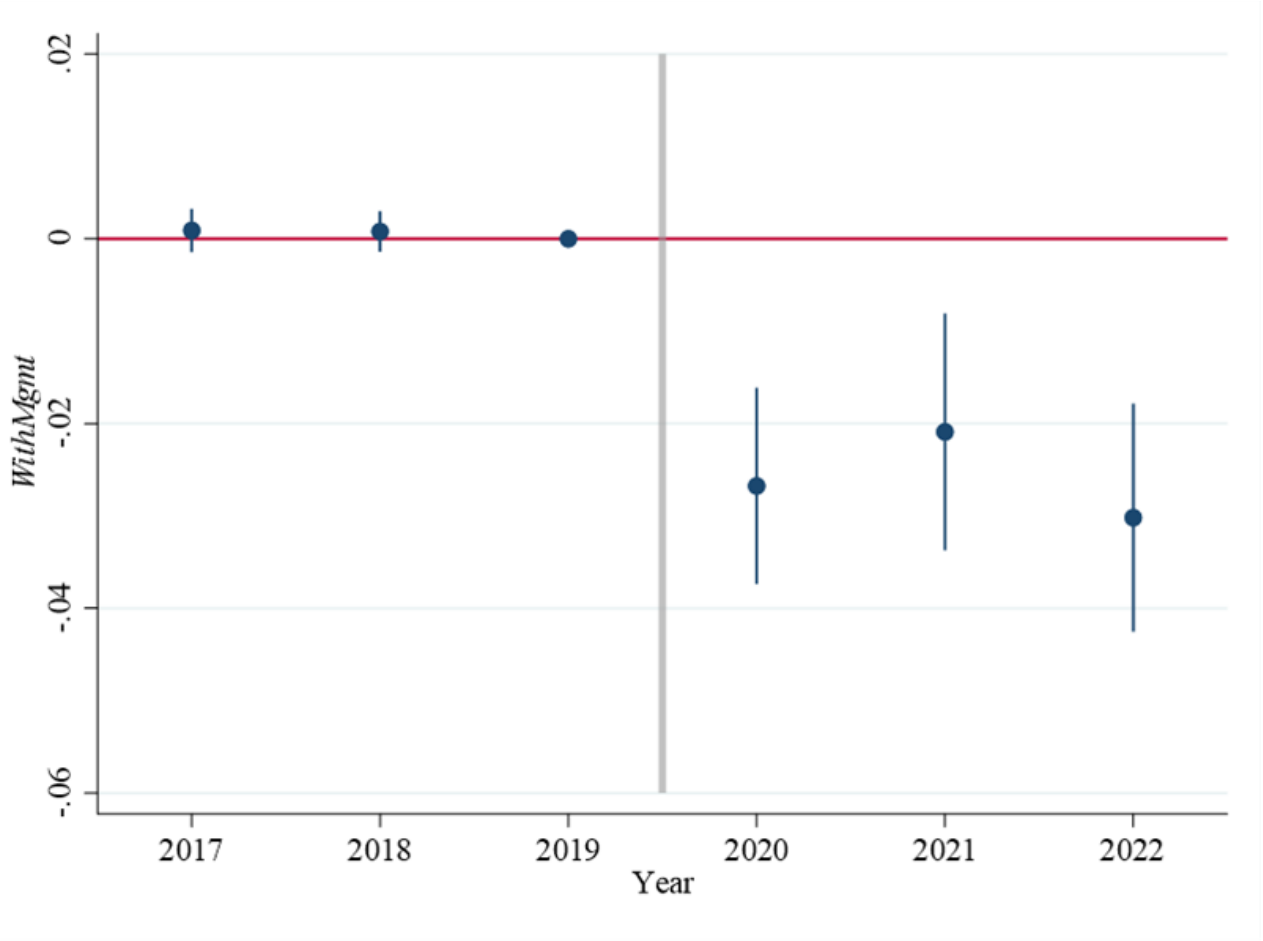
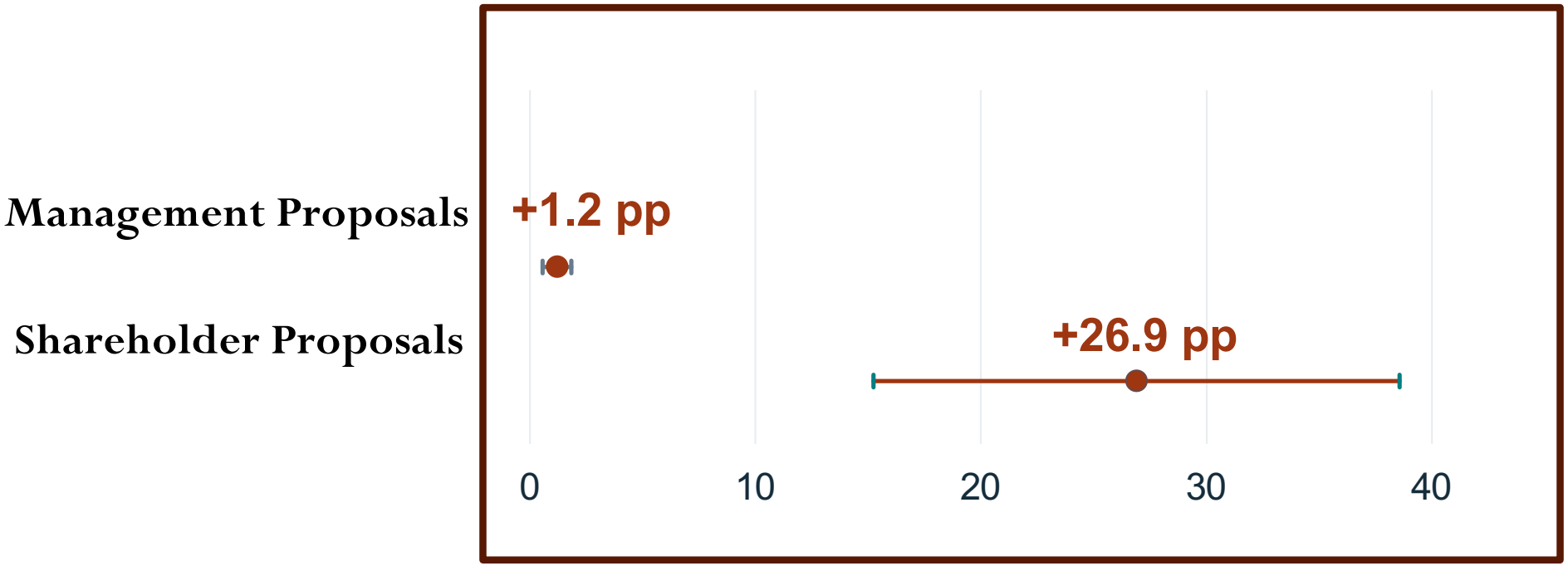


Much more Opposition to Management

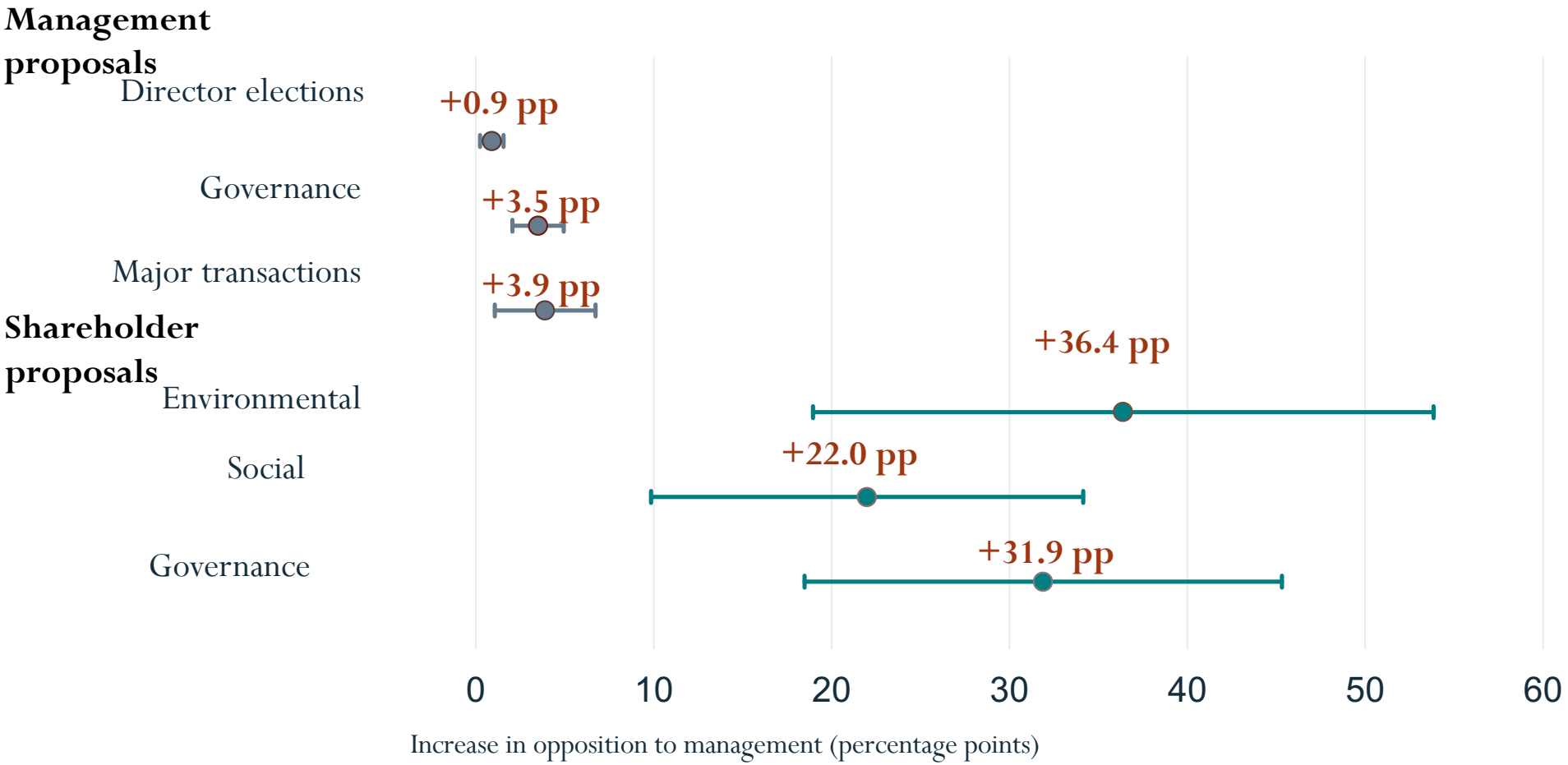
Results: Management versus shareholder proposals

Decentralization increases opposition to management

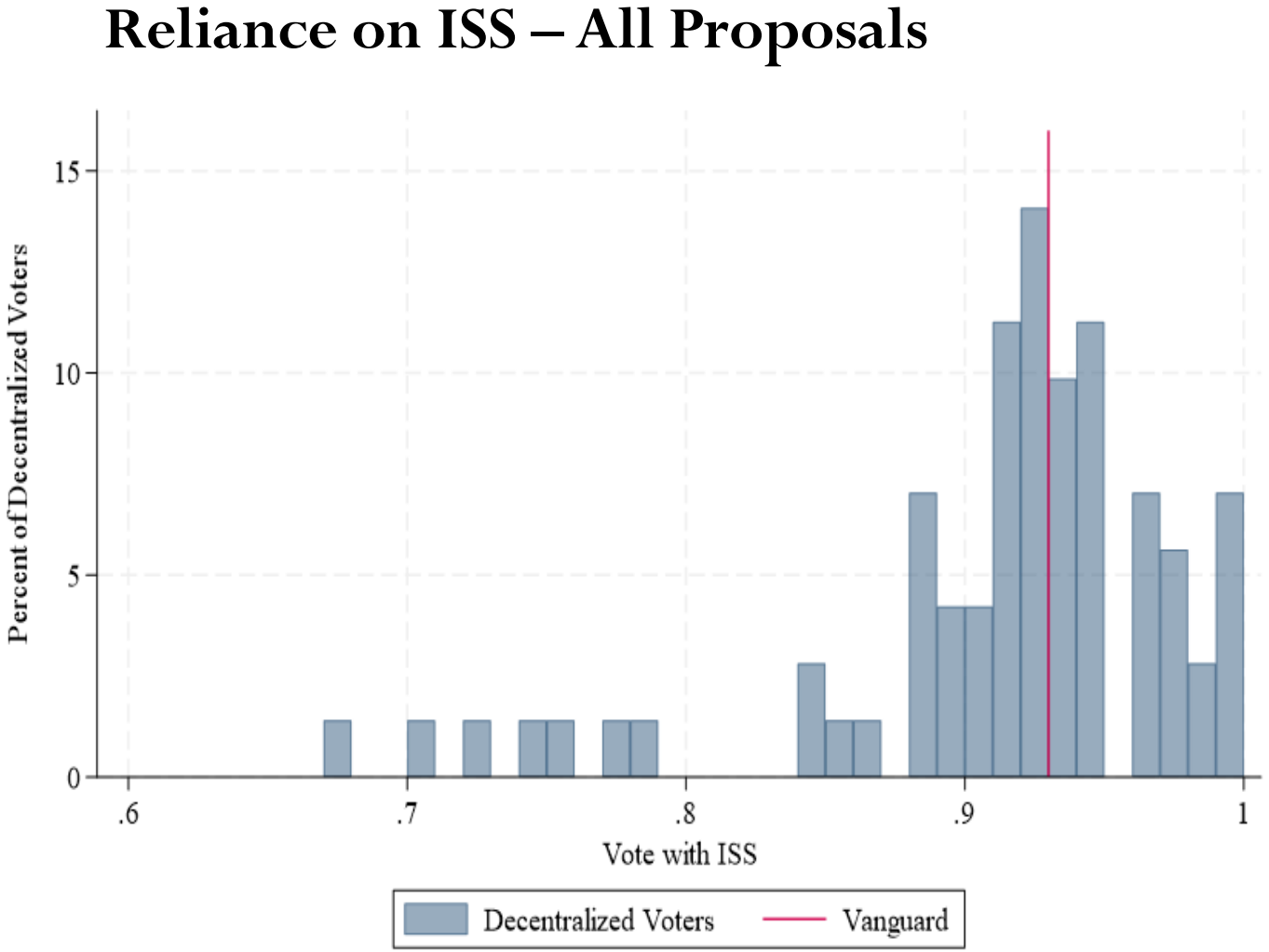


Changes in opposition to management
in percentage points

Delegation increases opposition across proposal categories



Are the decentralized voters voting independently or relying on proxy advisers?



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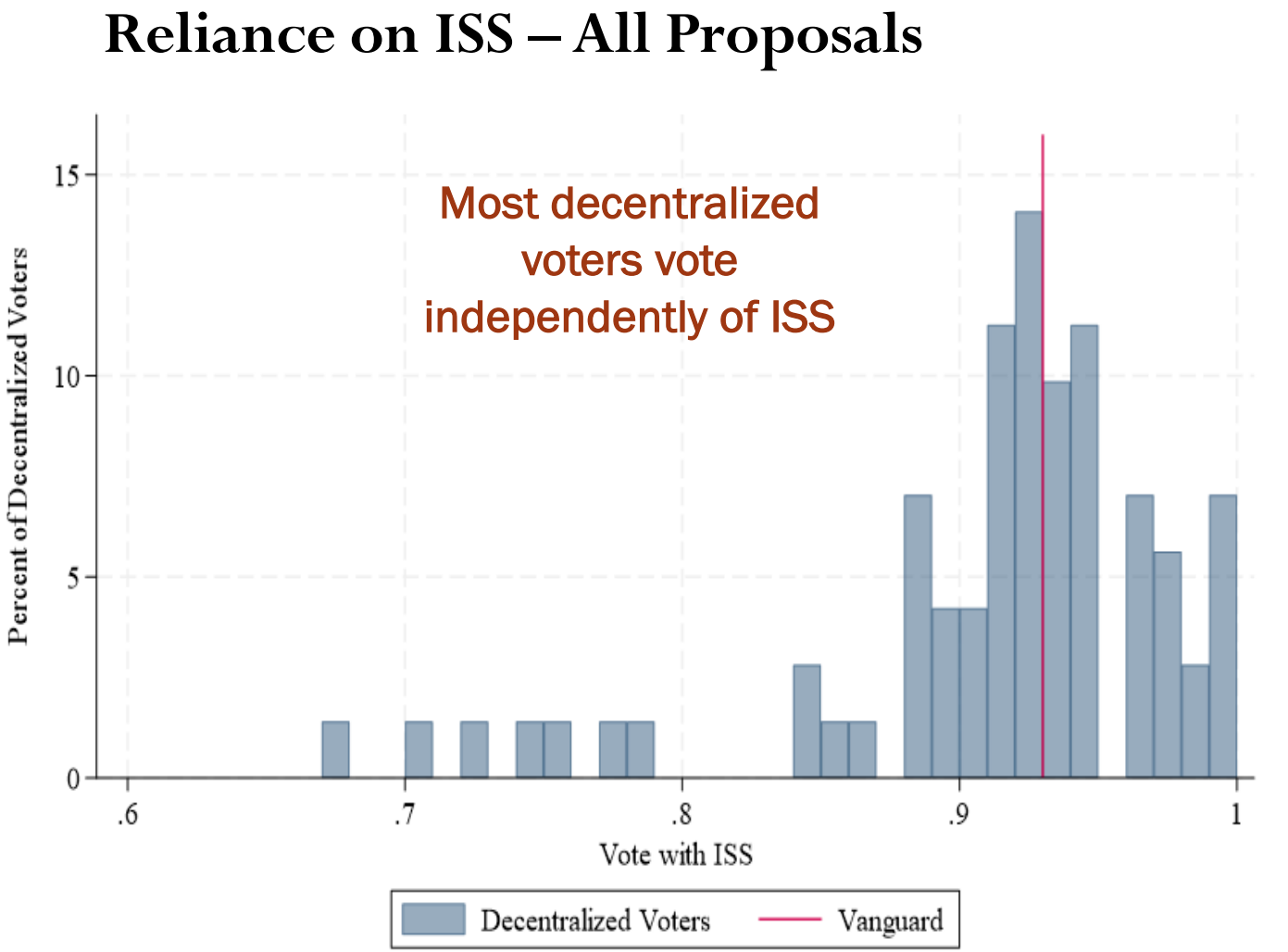

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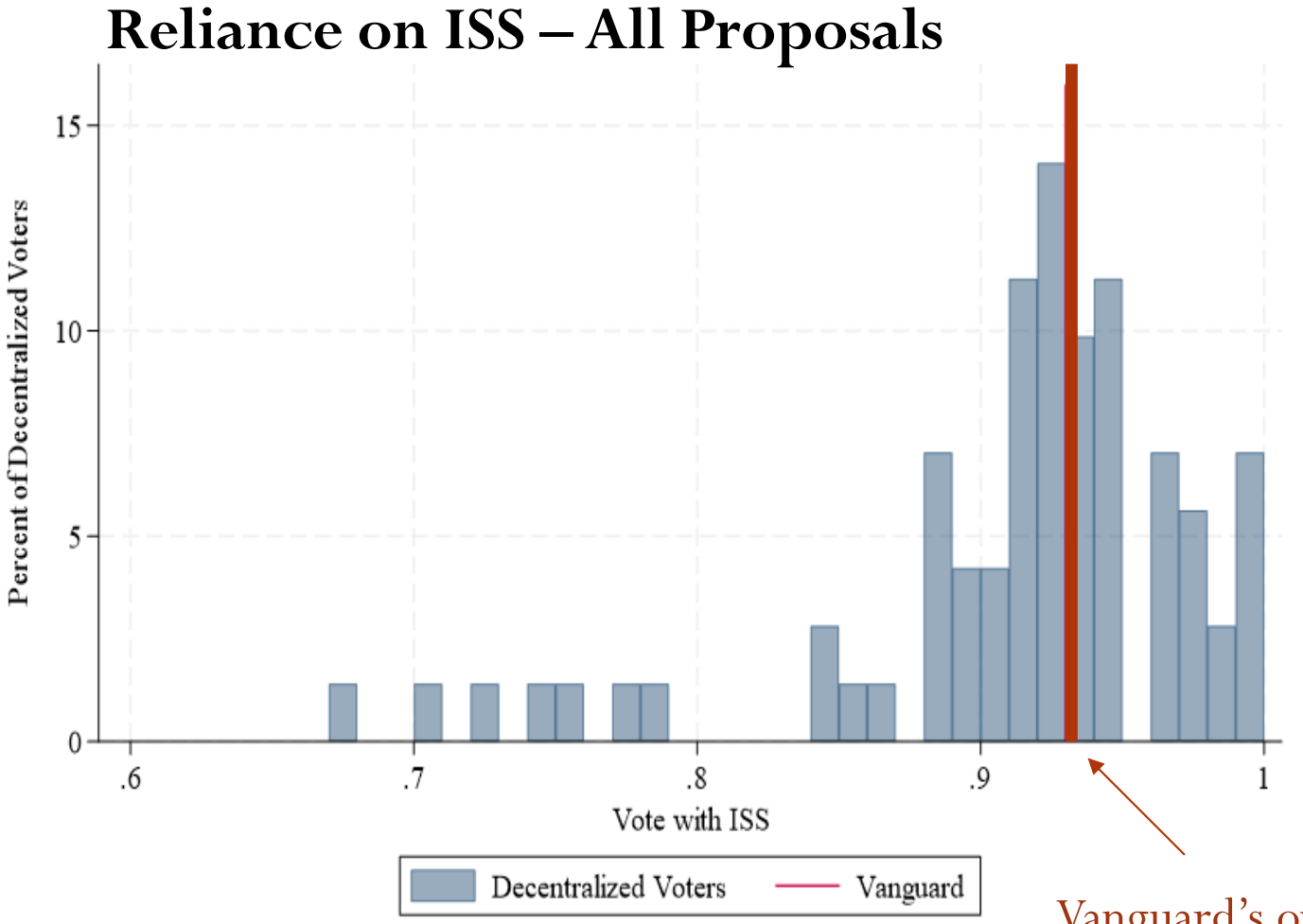
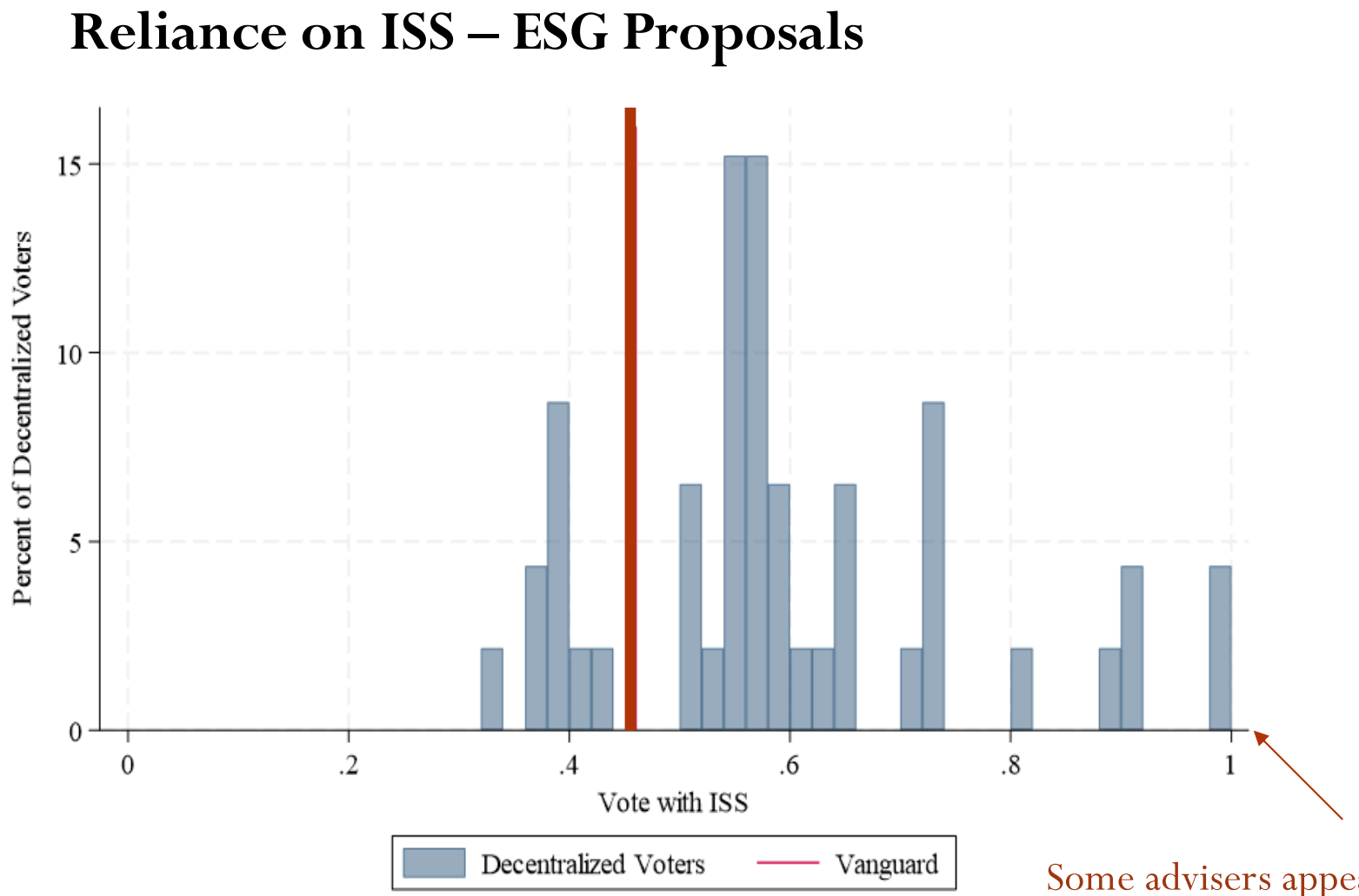


Vanguard's own agreement with ISS

93.0%

Are the decentralized voters voting independently or relying on proxy advisers?



Some advisers appear to be near-total outsourcers

Why would decentralized voters vote independently or rely on proxy advisers?

When **information acquisition is costly**, voting choice can weaken **incentives to become informed**.

Malenko and Malenko (RFS forthcoming, 2026)

Voters with **more concentrated holdings** face **lower aggregate monitoring and engagement costs** because they hold fewer firms.

Malenko, Malenko and Tsoy (WP 2026)

Voting **independently** of proxy advisors **depends** on **costs and benefits**.

Iliev and Lowry (RFS, 2015)

ESG funds with **stronger incentives to engage** acquire more information and **exercise greater discretion** in voting.

Lowry, Wang and Wei (RFS, 2026)

Decentralized voters: Independence versus relying on proxy advisor recommendations

Two measures of proxy costs for external advisers:

Portfolio concentration and **voting experience**

Measure **portfolio concentration** with each Vanguard portfolio's holdings
Concentration = (*1 / Number Securities in portfolio*).

Measure **voting experience** with the voting from non-Vanguard funds managed by the external advisers:
Total number of votes cast by each adviser for three years before June 30, 2019

Decentralized voters: Independence versus relying on proxy advisor recommendations

Results:

More concentrated holdings and **more prior voting experience** predict **more independence,** i.e., less ISS alignment

	ISS alignment	Economic interpretation
Portfolio concentration	**−4.8 pp**	Greater benefits from informed voting
Prior voting experience	**−2.2 pp**	Lower costs from existing voting infrastructure

Why do votes change?

Three possible mechanisms

Mechanism	Test	Results
Economic incentive: **Business ties**	Vanguard's retirement-plan relationships with portfolio firms	**Supported on shareholder proposals** + 17.3 pp more likely to oppose management when Vanguard has a business relationship with the portfolio firm
Economic incentive: **Flows and fees**	Fund flows and expense ratios after the change	**Little evidence of a reward**
Voting preferences	Advisers' votes in their non-Vanguard funds before 2019	**Supported on both management and shareholder proposals**

Generalizability
Voting before policy change

Percentage of "For" votes

Proposal Category	Vanguard	BlackRock	SSGA	ISS Rec
Shareholder Proposals				
Environmental	7%	7%	23%	53%
Social	4%	6%	20%	61%
Governance	22%	26%	30%	72%
Other	4%	4%	5%	11%

7/1/2016-6/30/2019

Generalizability

- **Pass-through voting**

  Our evidence has suggestions for how pass-through voting could change voting for the Big Three

  BlackRock and State Street have many institutional investors as shareholders. We expect that these investors should have the same reaction as the external advisers, depending on who they are.

Implications

- **Judge a reallocation of voting authority by who receives the votes**

  Regarding pass-through voting:

  - **Theory:** A trade-off exists between coordinated stewardship and delegation to fund managers (Malenko, Malenko and Tsoy, WP 2026)

  - **Our results**: Our finding that more concentrated advisers exercise greater discretion relative to ISS is consistent with the importance of fund-level incentives, although we do not directly measure monitoring effectiveness.

Implications

- **Judge a reallocation of voting authority by who receives the votes**

  Regarding pass-through voting:

  - **Theory:** Voting choice can improve preference representation without necessarily improving informed decision-making or investor welfare (Malenko, Malenko and Tsoy, WP 2026)

  - **Our results**: For institutional investors that are the recipients of decentralization through voting choice, our findings show how reallocating voting authority can reveal pre-existing differences in decisionmakers' preferences that were not expressed under centralized stewardship.

Implications

- **Judge a reallocation of voting authority by who receives the votes**

  Regarding fund manager :

  - **Previous evidence:** Funds with greater benefits and lower costs of researching proposals rely less on ISS and are less likely to use one-size-fits-all voting strategies (Iliev and Lowry, RFS 2015)

  - **Our results**: We extend the economics-of-voting perspective to a change in voting authority: advisers' portfolio concentration and prior voting experience help explain how they exercise newly delegated votes.

Implications

- **Judge a reallocation of voting authority by who receives the votes**
  - **Regarding disclosure:** Disclose who votes and how policies are chosen.
  - **Regarding research on proxy voting:** Need to identify who exercises voting authority. Fund-family labels in common datasets can hide the identity, and family-level records can understate disagreement

Implications

- **Judge a reallocation of voting authority by who receives the votes**

  - **Overall conclusion:** Our findings show that decentralization changes voting. However, decentralization alone sets neither direction nor size of the change. One needs to evaluate recipients' identity, incentives, preferences and capacity.