



Big Investors Demanding More Input In Proxy Voting

By Kaja Whitehouse

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NEW YORK (Dow Jones)--Fund managers, who for years relied on third parties to tell them how to vote on corporate issues, like board elections, are now looking to steer their own ships.

Proxy voting enables shareholders to have a say in how companies operate, but managing proxies can be time-consuming and complex, especially for large investors which own hundreds of stocks. So they often outsource the job to firms like San Francisco's Glass Lewis & Co., which specializes in telling firms how to vote and in helping them cast their ballots accordingly.

But now more fund managers - from pension funds to small money-management shops - are looking to take back the helm when it comes to proxy voting. Rather than hand all their voting decisions over to the pros, they are asking to have a say in how their ballots are cast and why.

Meanwhile, firms that assist investors with proxy voting are launching new products to let clients direct their own voting standards.

This year, both Glass Lewis and Proxy Governance Inc. of Vienna, Va., have unveiled such tools. In the past, they would cast votes on behalf investors based on their standards.

"Shareholders and institutional investors are taking much more of an interest in these issues," said Donald Kirshbaum, investment officer in the Connecticut's office of the treasurer, which oversees the state's pension plans. As such, they are "taking it on themselves rather than delegating it," he said.

Growing Business

Some institutional investors - like large, public pension funds - have long had a tight grip over how their proxies were cast. And certain proxy firms, like Institutional Shareholder Services, have long allowed investor clients to direct their own voting policies.

But the numbers are growing as a wider spectrum of investment managers are being pressured to show they're voting in the best interest of their shareholders and beneficiaries.

"More and more institutional investors are moving toward their own spin or their own views of governance," said Cheryl Gustitus, spokeswoman for ISS of Rockville, Md.

ISS has seen interest in the customized side of its voting business grow at an annual rate of 27% over the last three years, said Gustitus. The firm expects similar growth over the next couple of years, she said. Currently, one-third of ISS' clients have customized guidelines, said Gustitus.

Mutual funds, for example, were long accused of shrugging off their voting responsibility - or simply casting a wide net in favor of management. In 2003, the Securities and Exchange Commission required that mutual funds disclose their voting histories once a year to prove that they are fulfilling their duty to vote - a move that critics charge has resulted in more thoughtful voting policies.

Also, pensions that outsource chunks of their portfolios to outside investment management firms like Fidelity Investments or Merrill Lynch & Co. Inc. (MER) are increasingly looking to direct how those managers vote pension shares, said **Espen Eckbo**, director of Dartmouth business school's Center for Corporate Governance.

Pensions - especially smaller ones - often let outside fund managers vote pension assets as they please, he said. But they're starting to question whether this practice is best for their retirement beneficiaries, he added.

"More firms are trying to actively make sure that their representatives - their portfolio managers - are doing the right thing," he said.

More Complex Policies

Since its new service launched this year, about half of Glass Lewis' existing clients have moved to customize at least one aspect of their voting guidelines, and the firm has added about 100 new clients as a result of the new service, Chief Executive Greg Taxin said.

At Proxy Governance, one-third of customers have turned to the company's new Web-based tool, launched late last year, that lets them craft and then execute their own voting policies, said Steve Wallman, chief executive of brokerage firm Foliofn Inc., and founder of Proxy Governance.

And the policies being crafted can be quite detailed. A Glass Lewis client, for example, recently assembled guidelines that instruct the firm to withhold votes from directors who have been members of audit committees that approved financial results that had to be restated if the stock fell by at least 10% in response to the restatement, Taxin said.

"You can have a rule that's much more complex than it ever was in the past," Taxin said. "This allows an institutional investor to dream big, to write on a whiteboard all the rules they would want to see implemented."

-By Kaja Whitehouse, Dow Jones Newswires