Do Registered Investment Funds undermine shareholder activism? Evidence from Hedge Fund proposals

Gilberto Loureiro*

University of Minho, School of Economics and Management & NIPE

Cesar Mendonça**

University of Minho, School of Economics and Management & NIPE

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* Gilberto Loureiro, Associate Professor of Finance, University of Minho & NIPE (Center for Research in Economics & Management); E-mail: gilberto@eeg.uminho.pt

** Cesar Mendonça, Ph.D. candidate, University of Minho & NIPE (Center for Research in Economics & Management); E-mail: id8396@alunos.uminho.pt

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Abstract

We examine the voting behavior of Registered Investment Funds (Mutual Funds, ETFs and Close-end Funds) on Hedge Funds proposals, which are commonly associated with value-driven shareholder activism. Registered Funds are the largest class of institutional equity investors in the U.S.; their holdings play a pivotal role in disputes between management and dissident investors. We compare the support rates of Registered Funds versus other voting shareholders about the proposals set up for voting at shareholders meetings and investigate a set of fund-level characteristics that may explain the variation in support rates. Our results show no significant difference in support rates for Hedge Fund and non-Hedge Fund proposals by Registered Funds, whereas other voting shareholders tend to be more supportive of Hedge Fund proposals (about 7 percentage points higher support rate).. We also find significant reductions in the probability of favorable votes on Hedge Fund proposals when Registered Funds have business ties with the target firm (19.4 percentage points) or are passively managed (2.9 percentage points). Our results suggest that the growing ownership in public companies by passively managed Registered Funds reduces the overall support of shareholder activism channeled through Hedge Fund proposals.

Keywords: shareholder activism; hedge funds; shareholder voting; corporate governance; institutional investors, conflicts of interest

1. Introduction

Shareholder activism has been subject to a profound transformation over the last two decades. The empirical evidence suggests that it has become more specialized and valuable over time. Activists are an important vehicle of corporate governance by providing active monitoring of managerial activities and promoting important changes in companies without effective control of the companies' ownership (Gantchev, 2013; Gillan and Starks, 2007). It is well documented in the literature that activist investors typically do not look for controlling blocks on their campaigns[1]. Rather than taking control of their targets, activists pursue value-enhancing changes in favor of shareholders' interests, who can free-ride and benefit from the outcomes of their interventions without incurring the costs of initiating them. But to what extent do shareholders, in general, support activism?

Most literature on activism focuses on campaigns initiated by the filing of Schedule 13D form[2] with the SEC, through which shareholders attempt to influence corporate control. However, many of those campaigns are conducted behind-the-scenes, through private conversations between the management of the target company and the activist investor, leading the parts to settle agreements without the necessity of contested voting. In such cases, it is not possible to measure the support for activist campaigns by other shareholders. Shareholder proposals, on the other hand, are different in three main aspects. First, shareholder proposals are a more accessible activism instrument due to lower ownership requirements. Secondthey enable all shareholders to participate on the decision and express their support through voting. Third, they provide additional transparency to activist campaigns, not only about the voting outcomes, but also because regulated funds are required to annually disclose their proxy voting records

There is a legitimate concern about the way institutional investors vote their proxies. Reasons other than the interests of target firms' shareholders may influence their decisions, as shown in previous studies (Davis and Kim, 2007; Iliev and Lowry, 2015; Cvijanovic et al., 2016; Liu, 2019; Duan et al., 2021). Conflicting issues or lack of economic incentives can affect fund managers' willingness to oppose management of invested companies by supporting dissident shareholders.

Evidence from recent literature shows positive outcomes in target companies as a result of activist campaigns initiated by Hedge Funds. Their characteristics and means of action are typically highly aligned

[1] Reported initial ownership by activist investors is around 8 to 10% of equity participation and even when considering the 95th percentile of the sample, activist participation is far from a controlling stake, reaching nearly 22% of capital (Boyson and Mooradian 2011;Greenwood and Schor, 2009)).

[2] The Schedule 13D filing is mandatory for any shareholder who owns 5% or more of any class of publicly traded securities of a company and intends to influence corporate control.

with the interests other shareholders, increasing their chances to succeed. For this reason, we should expect their proposals to gather higher support rates when compared to proposals submitted by other proponents.

In this paper we examine the voting behavior of Registered Investment Companies (hereafter Registered Funds) on shareholder proposals submitted by Hedge Funds. Registered Funds include Mutual Funds, ETFs, Close-end funds and Unit investment Trusts[3]. Registered Funds are professionally managed investment vehicles, subject to specific regulation by the U.S. Securities and Exchange Commission (SEC) and their decisions regarding portfolio management and voting on shareholder meetings should be aligned with the best interest of their clients. As such, demands made by activists seeking financial, operational or governance related improvements are expected to positively reverberate among them. Being the largest equity holders among institutional investors, their support is critical to proxy voting outcomes in most companies. Unlike Registered Funds, Hedge Funds enjoy less regulatory limitations, besides other specific characteristics that position them as the most likely class of institutional investors to engage and succeed in activist campaigns, according to the recent literature.

The rise of institutional corporate ownership in the U.S. (accounting for 72% of U.S. equity market capitalization in 2017[4]), combined with a shift in investors type from actively to passively managed funds, put a pivotal power on the hands of large institutions – e.g., index funds and ETFs, such as BlackRock, Vanguard and State Street, which are referred in the literature as "the Big Three". Considering all shareholder proposals in our sample, the average ownership in target companies from the Big Three reached 8.53% of total shares, and in 32% of the meetings their combined ownership was over 10%. But investment managers operating the portfolio of large passive funds may have a different agenda than maximizing shareholders' return due to the lack of incentives to outperform (Bebchuk and Hirst 2019; Fichtner, Heemskerk, and Garcia-Bernardo 2017; Morley 2019). As they benefit less from engaging in activism, their role in monitoring corporate management becomes less effective.

Although critics of activist investors are skeptical about their engagement in long-term goals, the bulk of the literature contests that view and advocates that activist campaigns create long-term value for shareholders (L. A. Bebchuk, Brav, and Jiang 2015). There is an upward trend in the numbers of activism events and funds dedicated to it, which is consistent with the rising success of Hedge Fund activism (Brav, Jiang, and Kim 2015).

[3] The first two accounted for, as of the end of 2020, nearly 99% of total net assets in U.S. equity within this investor category according to the Investment Company Institute (U.S.). 2021. Investment Company Fact Book – 61th edition. Washington, D.C.: Investment Co. Institute. www.icifactbook.org

[4] De La Cruz, A., A. Medina and Y. Tang (2019), "Owners of the World's Listed Companies", OECD Capital Market Series, Paris (Pg. 6) www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm

Previous studies on Hedge Fund activism mostly focus on the characteristics of target companies, the means of actions used by activists and the effects of interventions on firm value and performance. Few studies examined the voting behavior of mutual funds on shareholder proposals, aiming at proxy fights or do not considering the effect of the proposal sponsor on the outcomes (Brav et al., 2019; Liu 2019; Duan, Jiao, and Tam 2021). We contribute to the literature by investigating the behavior of Registered Funds by examining their voting patterns on proposals submitted to general meetings by Hedge Funds and comparing their support rates with those from other voting shareholders (here hence, 'non-Registered Funds'). We also test for characteristics at the fund level, such as firm-fund business relations and lack of incentives to oppose target companies' management that may help explain the lower support levels from Registered Funds on Hedge Fund proposals. The identification of variables affecting Registered Funds' voting behavior contributes to better monitoring public companies through suggesting possible sources of agency costs.

Using a sample of 4,454 proposals submitted by shareholders between 2010 and 2020, 814 of which submitted by Hedge Funds, we provide new evidence on differences in support rates from Registered Fund and non-Registered Fund voters according to proposal sponsor. Given Hedge Funds' contribution to firm value through activist campaigns and their higher approval rates on shareholder proposals when compared with other sponsors, we hypothesize that their interventions would also gather higher support from Registered Funds. Instead, we find no significant evidence that Registered Funds are more supportive of proposals presented by Hedge Fund than other proponents. In contrast, non-Registered Funds tend to be more supportive of Hedge Fund proposals (support rates are 7 percentage points higher, on average) compared to those of other proponents.

We test a set of fund level characteristics that could contribute to differences in support rates within Registered Funds. Our estimates show a significant negative effect associated with fund-firm business ties on Registered Fund probability of favorably voting on a Hedge Fund proposal. We also find a significantly lower support rates by funds that are passively managed, consistent with our hypothesis of lack of economic incentives negatively influencing support for activists.

The remaining of this article is organized as follows. Section 2 provides a review of the related literature and outlines our research hypotheses. Section 3 describes our sample and presents descriptive statistics from our data, Section 4 presents main empirical results and Section 5 concludes.

2. Related Literature

This section starts by discussing the literature on how Hedge Funds became important vehicles of shareholder activism. We then discuss the incentives for investor engagement in activism, including

considerations about conflicts that may affect Registered Fund voting and the possible implications of institutional investor concentration on equity ownership.

2.1. Institutional investors and Hedge Fund activism

The lack of appropriate mechanisms and regulation to deal with the problems arising from the separation between corporate ownership and control in listed companies lasted for a very long period in the 20th century. The growth in market capitalization and the increase in ownership dispersion were obstacles to shareholders balance management power. This landscape started to change in the 1980's with the increase in institutional investors' ownership in public companies, particularly among funds seeking to mimic stock index returns (Denes, Karpoff, and McWilliams 2017). But early activism by that time consisted mainly of heterogeneous actions driven by large investors, mostly Mutual Funds and Pension Funds, who opposed management on specific issues. These investors submitted shareholder proposals under the SEC Rule 14a-8, pressured management behind-the-scenes for corporate reforms, and used the press to target management and board members of poorly governed or performed companies (Gillan and Starks 2007). There was little coordination of actions or methods, and the lack of transparency and regulation on institutional investors eased the emergence of conflicting situations.

The results of activist campaigns by that time, consequently, were not encouraging. Using a 1986 to 1990 sample of shareholder proposals, Karpoff, Malatesta, and Walkling (1996) find that, although target firms were poor performers, signaling that proposal sponsors had reasons to seek for improvements, there was little evidence of advance in performance indicators as an outcome of such proposals. The continuous growth of institutional investors' ownership in equity holdings wasn't enough to promote a substantial increase in the number of interventions and a higher specialization of investors with an activist approach, which could ultimately lead to more successful campaigns. Institutional investors saw their share in total equity ownership in the U.S. market rise from 38% in 1981 to 53% in 1990, and Mutual Funds were the class of investors who experienced the higher expansion in the same period, reaching a 7.2% share by 1990, almost three times its participation in 1981 (Black 1992). The growth in representativeness, however, was not accompanied by a protagonist role in shareholder activism and there is little evidence of Mutual Fund interventions on invested companies during the 1990s and early 2000s.

The following wave of activism in the 2000s marked a transformation in its characteristics. Changes in regulation accounted for an important role in modifying the profile and means of action of activist investors. In 2003, the SEC adopted Rule 30b1-4 of the Investment Companies Act, which requires Registered Funds to annually disclose their votes cast for proposals arising in portfolio companies (Cvijanovic, Dasgupta, and Zachariadis 2016). As many Registered Fund families are affiliated with financial institutions that provide

other services to firms, such as the management of their pension plans, these business ties were an important source of concern related to conflicts of interest on the way funds vote their proxies. The existence of fund-firm business relations could put support for management proposals ahead of shareholders' interests when voting on general meetings.

Those changes led to a higher specialization of investors dedicated to activism and in this new context, Hedge Funds appeared as the main actors, showing significant and positive results both in terms of abnormal returns and operational performance on target companies (Bebchuk, Brav and Jiang, 2015; Brav, Jiang, and Kim, 2015; Brav et al. 2008; Clifford, 2008; Gillan and Starks, 2007; Krishnan, Partnoy and Thomas, 2016; Becht, Franks and Grant, 2010; Denes, Karpoff and McWilliams, 2017). A comprehensive review on the effects of activist campaigns (Denes, Karpoff, and McWilliams 2017) shows that shareholder activism has become more valuable over time. The success rate and positive outcomes of activist campaigns became more effective when comparing the results of interventions in the last 10 to 15 years with those in the 1980's and 1990's.

Hedge Funds played an important role in this development. Despite their lower size when compared to Registered Funds, during the last two decades theyhave become a dominant investor in shareholder activism. The activities of Hedge Fund activism give substance to the hope that they may act "like real owners" and provide a check on management discretion (Kahan and Rock 2007). Their structures provide a more suitable set of incentives to initiate activist campaigns and to succeed on them. Hedge Fund managers have stronger financial incentives to increase the performance of companies within their portfolios since they generally receive, in addition to a fixed management fee, a proportion of excess returns as performance fee. A typical hedge fund charges its investors a fixed annual fee of 2% of its assets plus a 20% performance fee based on the fund's annual return and may require that investors agree to "lock-up" their funds for a period of 2 years or longer (Brav et al. 2008). Registered Funds managers' compensation is typically composed of less or none direct performance-based compensation when compared to that of Hedge Fund managers (Clifford 2008). Additionally, Hedge Fund managers frequently invest a significant portion of her personal wealth in the fund (Kahan and Rock 2007). Such incentives provide a higher alignment of interest between the fund manager and the ultimate investor, since both will be directly benefited by increases in the equity value of the invested companies.

In contrast to Registered Funds, Hedge Funds do not accept investments from 401(k) plans (Bebchuk, Cohen, and Hirst 2017). Other financial services usually offered by Registered Funds' parent companies are not part of the Hedge Fund business. Consequently, Hedge Funds managers face less conflicting situations which could affect their ability of starting activist campaigns in portfolio companies. Their incentives to oppose corporate managers are also higher when dealing with governance or performance issues that can

increase firms' market value. One can conclude that there are fewer conflicts of interest on fund-firm relation when considering Hedge Fund activity because they are less attached to the management of the firms whose shares they hold. The recent literature in shareholder activism is mostly dedicated to evaluating the outcomes of interventions undertaken by Hedge Funds, the tactics used in their campaigns and target firms' characteristics.

We build upon the above literature to formulate our first hypothesis.

Hypothesis 1: Shareholders' support for proposals submitted by Hedge Funds is higher than the support for proposals submitted by other proponents

2.2. Registered Funds' incentives for supporting activism

As of the end of 2017, institutional investors hold 72% of public companies equity in the U.S. market[5], being included in this category Pension Funds, Mutual Funds, Exchanged Traded Funds and Hedge Funds, among other less representative institutions. Besides their great share of the market as a whole, ownership by these institutions is also concentrated at the fund and company levels. The U.S. market presents the highest level of concentration of institutional ownership among OECD countries, with the 3 largest institutional investors holding, on average, 24% of the capital in listed companies and the 10 largest institutional investors holding, on average, 43% of the capital[6]. The size of their holdings put some perspective on their capacity of influencing management decisions on invested companies.

Registered funds are the largest equity holders among institutional investors. The net assets of domestic equity managed by domestic Registered Funds totaled $ 12.9 trillion as of Dec. 2020, equivalent to 28.3% of total equity of the U.S. market[7]. Despite characteristics that could position them as leading activist investors, such as (i) size and relevance, (ii) capacity to dilute the costs associated with interventions and (iii) common governance issues among different companies, there are some disadvantages that may not generate enough incentives for Registered Funds to effectively monitor invested companies.

They are registered with the SEC under the Investment Company Act of 1940 and may accept investments from the general public, which in turn demands special disclosure requirements not applicable to other types of investors. Registered funds must file semiannual lists showing the amounts and values of the securities they own, making it harder to accumulate positions in portfolio companies without the market at large

[5] De La Cruz, A., A. Medina and Y. Tang (2019), "Owners of the World's Listed Companies", OECD Capital Market Series, Paris (Pg. 11) www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm
[6] De La Cruz, A., A. Medina and Y. Tang (2019), "Owners of the World's Listed Companies", OECD Capital Market Series, Paris (Pg. 23) www.oecd.org/corporate/Owners-of-the-Worlds-Listed-Companies.htm
[7] Investment Company Institute (U.S.). 2021. *Investment Company Fact Book – 61h edition*. Washington, D.C.: Investment Co. Institute. www.icifactbook.org

becoming aware of their activities (Kahan and Rock 2007). Losing the surprise effect of an intervention can be unfavorable to the activist, since the management of the target company can look for protection against the campaign and other investors can simultaneously build on positions and affect share price, increasing the amount necessary to hold a major stake in the company.

A significant number of Registered Funds are organized under a parent company that provide other financial services to companies, including investment advising, management of pension funds and investment banking services. The existence of such business ties between funds and invested companies may influence their support on invested companies' management decisions, reducing the propensity of them exerting an activist behavior, as suggested by evidence in the literature. Ashraf, Jayaraman, and Ryan (2012) examined the relationship between mutual fund votes on shareholder executive compensation proposals and pension-related business ties between fund families and firms, finding a positive relationship between fund family support and existence of pension ties to the firm. Cvijanovic, Dasgupta, and Zachariadis (2016) examine voting decisions of Mutual Funds whose parent companies held business relations with portfolio companies by managing their 401(k) retirement plans and find an incremental effect of business ties on pro-management voting for shareholder proposals relative to management proposals, with larger fund families with business ties voting in a more management-friendly manner than small families with business ties. Davis and Kim (2007) investigate how mutual funds voted on similar issues across different companies and their proxy for business ties show a negative effect on the willingness of funds to vote against management. The conflicting nature of these business relations is also present among the investment funds' industry. Kuhnen (2009) analyzed favoritism when Directors from subadvisors' funds negotiate the management fees with the Mutual Fund's primary advisor and also when they select a new subadvisor, finding that more connected subadvisors are more likely to win contracts.

Another important disadvantage is related to the costs of monitoring, which are fully internalized by the fund, while the public benefits are shared among all firm shareholders. Theory suggests the free-rider problem is a possible obstacle for many institutional shareholders to participate in activist campaigns in firms within their portfolios, since every investor would benefit from a positive outcomes, without incurring at any cost. Although it could be expected that large shareholders would be able to overcome this potential problem given their increased equity stake in the firm (Clifford 2008), Registered Funds participate in a very competitive market and additional costs may compromise their profitability, since the fee structure in those institutions usually do not incentivize managers to pursue an activist approach with direct reward performance. Intensive engagement is expensive and is likely incompatible with the lower fees of passive management (Becht, Franks, and Wagner 2019). Evidence from previous studies also suggests that cost-saving measures are used by Mutual Funds on their voting, like delegating their decisions to proxy voting

advisors (Choi, Fisch, and Kahan 2013; Cvijanovic, Dasgupta, and Zachariadis 2016), while initiating activist campaigns can be very costly. Gantchev (2013) estimates the costs of common activist approaches, finding that it can reach nearly $ 11 million. Considering the average expense ratio of 1.16%[8] charged by Mutual Funds in 2020, a $1 billion stake in a single company would result in $11.6 million annually for the Mutual Fund. Estimating that a successful activist campaign could lead to a 10% increase in the value of the target company during a whole year, it would result in additional $1.2 million to the fund, which cannot be enough to cover the intervention costs. The cost issue is even more problematic to passive Registered Funds. Average expense ratios charged by index Mutual Funds and ETFs in 2020 were 0.06% and 0.18%, respectively. As they operate with a low fee structure, any additional cost will result in loss of competitiveness among the industry and they will see other players directly benefiting from their intervention without any disbursement.

The rise of passively managed funds among Registered Funds is promoting a transformation in corporate ownership landscape that ultimately can affect shareholder activism. In the last decades there has been a significant increase assets managed by passive funds relatively to actively managed funds . While in 1999 net assets from active Mutual Funds represented 90% of the total assets managed by Mutual Funds, at the end of 2020 this share has dropped to 66%[9]. In the same period, index ETFs experienced a cumulative annual growth rate of 25% in net assets, resulting in an increase in the total share of passive funds (Index Mutual Funds and Index ETFs) from 11% to 50% in the period, as shown in **Figure 1**.

[Insert Figure 1 around here]

This increase in the share of passive investing may bring undesired consequences for corporate governance and monitoring. Passively managed funds have fewer incentives to spend resources engaging in shareholder activism due to their low cost structure. This lack of incentives are difficult to reconcile with a "no-agency-cost" view under which stewardship choices are made to maximize the value of managed portfolios (Bebchuk and Hirst 2019). Besides the lack of financial incentive to outperform, passive funds face a collective action problem since any disbursement incurred by the fund with the objective of improving the performance of a portfolio will benefit all funds that track that same index in the same way. Since investment managers operating passive portfolios from Registered Funds may have a different agenda than maximizing shareholders' return, their role in monitoring corporate becomes less effective

Ownership concentration in larger financial institutions may also affect the outcomes of activist interventions. The group of "the Big Three", which predominantly operate with passive funds, accumulated

[8] Investment Company Institute (U.S.). 2021. *Investment Company Fact Book – 61th edition*. Washington, D.C.: Investment Co. Institute. www.icifactbook.org
[9] Investment Company Institute (U.S.). 2021. *Investment Company Fact Book – 61th edition*. Washington, D.C.: Investment Co. Institute. www.icifactbook.org

substantial holdings in a great number of listed companies. According to Morley (2019), in 2016, BlackRock was the beneficial owner of 5 percent or more of the stock of 2,632 different publicly listed companies, more than one half of all listed companies in the U.S. market, while Vanguard held a similar position in 1,855 companies. Taken together, the equity holdings from Vanguard, BlackRock, and State Street would represent the largest block of shares in 88 percent of all firms on the S&P 500. Fichtner, Heemskerk, and Garcia-Bernardo (2017) analyzed to what extent "the Big Three" use their potential shareholder power through an active centralized corporate governance strategy, finding a coordinated voting strategy among their families of funds. This result suggests the existence of a centralized corporate governance strategy, reinforcing their capacity of deciding proxy voting outcomes.

Any shareholder seeking for activist campaigns must consider the cumulative voting power of passive investors and their propensity to support their interventions. Brav et al. (2019) examine the voting behavior of mutual funds in proxy contests and find that passively managed funds are significantly less likely than active funds on supporting dissidents. Appel, Gormley, and Keim (2016) find evidence that level of passive ownership is significantly related to the goals of activist campaigns and greater passive ownership is associated with the increased use of confrontational (and costlier) tactics by activists, suggesting that the presence of passive institutions and their concentrated ownership stakes alter the strategic choices of activists. The same study also report that activists' success rates were affected by higher passive ownership, with evidence of more successful outcomes coming from corporate governance or control issues.

The recent trend in investors' preference among index funds indicates that the concentration of equity holdings in large institutional investors should be even higher in the near future. For one side, the formation of blocks of shareholders large enough to limit the power of management and entrenched boards could ultimately be viewed as a positive governance mechanism to reduce agency conflicts. On the other side, the passive mandate of these shareholders do not incentivize them to invest time and resources in monitoring activities and there is little evidence on them supporting activist campaigns that aim to increase firm value.

Building upon these arguments, we formulate the following second hypotheses:

Hypothesis 2a: Registered Funds with business ties in target companies vote less favorably on Hedge Fund proposals

Hypothesis 2b: Passively managed Registered Funds vote less favorably on Hedge Fund proposals

3. Sample Construction and Data

Our sample contains all proposals submitted by shareholders to be included in target firms' proxy statement[10], together with proxy contests solicited to oppose management board nominations to board of directors[11] on annual or special shareholders meetings, during the period from 2010 to 2020. For this purpose, we used data from Proxy Insight, which collect information on proposals submitted by shareholders from SEC Form DEF 14A[12] as well as voting records of Registered Funds from their SEC Form N-PX[13]. To augment its database, Proxy Insight also gathers votes cast by Pension Funds directly from fund managers in a best-effort basis. During the voting seasons from 2010 to 2020, 6,917 proposals were submitted by shareholders, of which 4,454 were voted. The remaining proposals have been excluded from the proxy card, withdrawn by the proponent or have unknown outcome, and as a result were not considered in our data. Total votes cast by Registered Funds amounted 3,098,470, while 423,895 votes from Pension Funds were included, averaging 791 votes per proposal. Since recommendations from proxy advisory firms can influence shareholders' proxy voting decisions (Alexander et al. 2010; Morgan et al. 2011; and Larcker, McCall, and Ormazabal 2015), we also collected recommendations for each proposal from Proxy Insight[14]

Proxy Insight also provides additional information on shareholder proposals and voters that we included in our database, such as proponent name and classification, voter parent group, historical support for management proposals and assets under management. We used the proponent name and classification to identify whether the proposal was submitted by a Hedge Fund or other type of shareholder. Information about target companies, such as stock performance, return-on-assets (ROA), price-to-book ratio, market capitalization, institutional ownership and corporate governance score were collected from the Refinitiv Eikon platform.

As voters are not properly identified by Proxy Insight (they only provide the fund and parent group names), we used other databases to gather key fund identifiers, like CUSIP, ISIN code and/or Lipper ID using a matching procedure[15]. We used those identifiers to include additional data about the voters from Refinitiv

[10] The SEC Rule 14a-8 regulates the submission of proposals by shareholders and the procedures to be taken by the target company. In order to be eligible to submit a proposal, the shareholder must have continuously held at least $2,000 in market value, or 1%, of the company's securities entitled to be voted on the proposal at the meeting for at least one year by the date the proposal is submitted.
[11] Proxy contests are instruments more frequently used by institutional investors on their interventions. In 2011, the SEC proposed a specific rule mandating proxy access at all public companies stating that any shareholder or shareholder group holding more than 3% of a public company's shares for more than 3 years would be eligible to nominate candidates for up to 25% of the company's board seats (Rule 14a-11). The U.S. Court of Appeals, however, vacated the rule and the SEC amended Rule 14a-8 to prohibit companies from excluding shareholder proposals that seek board nominations from proxy materials.
[12] Form DEF 14A must be filed by companies with the SEC when a shareholder vote is required.
[13] Form N-PX must be filed by all Registered Funds with their complete proxy voting record until August 31 of each year for the most recent twelve-month period ended June 30.
[14] Proxy voting adviser recommendations include Glass Lewis historic vote recommendations and International Shareholder Services (ISS) synthetic historic vote recommendations, calculated by Proxy Insight through investors voting who follow the ISS policy.
[15] We first matched their full names with those from Refinitiv Eikon ownership database and then matched the remaining names excluding spaces or special characters on both data. We repeated this procedure using fund names from CRSP Mutual Fund Database. The remaining fund names were manually checked with the help of score similarity functions on STATA. At last, from 14,718 Registered Funds in our data, only 735 (5%) remained unidentified.

Eikon, such as fund style (active or passive), annual charge, ownership and weight of target company on portfolio.

We also used IRS Form 5500[16] to collect information on existing business ties between target companies and voters, as well as the total values received by voters' parent groups on providing pension plan management services to companies within our database. We considered the values received as direct compensation for services related to management of corporate pension plans. Finally, we identified proposals submitted by shareholders who also filed a Schedule 13D form within the target company. About 2.2% of all proposals in our database were submitted by investors who previously filed a Schedule 13D related to the target company (90% of those proposals came from Hedge Funds).

Considering the 4,454 shareholder proposals on our sample, overall approval rate is 20% and the average rate of Registered Funds support for shareholder proposals is 33%. But these rates vary significantly according to proposal sponsor (

Figure 2). Given the low ownership requirements established by the SEC for submitting proposals, these differences may be explained by proponent's capacity of influencing other shareholders of the target company. We focused on Hedge Fund proposals given their intrinsic characteristics and favorable track record on activist campaigns, as early detailed in this paper, expecting it would ultimately turn into higher support from other investors.

Confirming our expectations, Hedge Funds gather the highest approval rate among proponents, with 37% of their proposals approved. Overall support rates (considering votes from all shareholders) are also higher for Hedge Fund proposals (40%), contrasting with a 33% support rate for non-Hedge Fund proposals. As for Registered Funds, their support to Hedge Fund proposals (34%) is in line with support for non-Hedge Fund proposals (33%), while for non-Registered Funds we see a significant drop in support rates for non-Hedge Fund proposals (35%) when compared with Hedge Fund proposals (41%).

[Insert Figure 2 around here]

Considering only Hedge Fund Proposals, our data contains voting records from 12,575 Registered Funds during the period of analysis. About 75% of those funds use proxy advisory services, with International Shareholder Services (ISS) being the most popular choice among them (65% of the funds use their services). Nearly 22% of all funds casted 100% of their votes on Hedge Fund proposals accordingly to ISS recommendations, while 41% of total funds voted at least 80% of their votes the same way ISS issued recommendations. When considering proposals submitted by all shareholders, about 13% of Registered

[16] The IRS Form 5500 must be filed annually with the U.S. Department of Labor (DOL) by employee benefit plans and contains information about plan's financial condition, investments, and operation.

Funds followed all ISS recommendations and 35% of them had a similarity with ISS over 80% of the time. These results suggest a higher influence of ISS advice on Registered Fund voting on Hedge Fund proposals than proposals from other shareholders. Funds may use proxy advisory recommendations as a face-saving mechanism for clients or target companies' management on more controversial proposals, as those submitted by Hedge Funds, or to reduce costs of a more informed voting required by such proposals.

Among Hedge Fund proposals that ISS issued a "For" voting recommendation, 48% were approved, while only 16% of proposals with other recommendations ("Against", "Do not vote" or "Withhold") passed. Registered Funds voting is also strongly related with proxy advisory guidance, with an average of favorable votes reaching 50% when there is a positive recommendation and only 11% support otherwise (**Figure 3**).

[Insert Figure 3 around here]

We looked for characteristics of target companies that could influence the outcome of Hedge Fund proposals and be useful as control variables. Previous studies in mutual fund voting literature found a positive relation between target company size (measured by total assets) and mutual fund support for management proposals (Iliev and Lowry 2015). Ashraf, Jayaraman, and Ryan (2012) found a negative relation between firm market capitalization and fund support for shareholder proposals. Our data also shows that Hedge Fund proposals have lower approval rates in companies with larger market capitalization. Firms in the first and second quartiles (smaller values for market value) had 51% and 54%, respectively, of the proposals approved, while only 2% of proposals submitted to larger companies (4th quartile) passed. Registered Funds seem to have an important role on this result, as their support to proposals submitted to larger companies is significantly lower than in proposals submitted to smaller companies (

Figure 4).

[Insert Figure 4 around here]

Other firm characteristics such as price-to-book ratio, abnormal stock return, return over assets (ROA) and debt-to-equity ratio were also considered in our models, as they represent proxies for the valuation, profitability and leverage of target companies. Such attributes were reported in previous works as meaningful control variables for predicting outcomes of activist interventions. Following Renneboog and Szilagyi (2011) and Gnutti, Martin, and Ramsey (2014), we also included institutional investor ownership in target companies as control variables since ownership concentration levels may also influence voting outcomes. Data statistics on the variables used are presented on **Table 1**.

[Insert Table 1 around here]

Despite the contribution of the control variables, we should expect that Registered Funds vote based on their understanding of the proposal impacts for the target company and their portfolios, as well as the expected costs associated with such voting. As many funds hold portfolios with a large number of invested firms, a depth analysis of each proposal demand higher resources, which ultimately translates into costs. As a result, investment companies may adopt cost saving measures into their decision making process, especially on proposals that involves a higher complexity. For this reason, we examined attributes related to fund size (measured by assets under management), style (active or passive management), ownership in the target company, annual charge, and alignment with ISS recommendations.

Our data on Registered Funds contains information about the institution voting on shareholder proposals in three levels. The lowest one represents the fund that actually voted the proxy. The mid-level represents the investor, also referred as fund-family. The upper level is the parent group, which in some cases can also provide other services than fund management, such as investment banking, loans or pension plans administration. There are 12,575 different funds in the database, 1,549 investors (or fund-families) and 1,181 parent groups.

Confirming prior results in the literature (Morgan et al. 2011), we find strong evidence of voting coordination among parent groups. Considering all 458,923 parent group-proposal pairs in our sample, the average consistency in voting is 96.6%[17]. Results are similar when examining only Hedge Fund proposals, with a 96.4% voting consistency. **Table 2** shows voting coordination, shareholder support and average ownership among the ten largest parent groups in our database (measured by assets under management).

[Insert Table 2 around here]

Average support for Hedge Fund proposals from the top ten largest groups totaled 20.9%, contrasting with an average support rate of 37.0% from the complete sample of parent groups voting, and a 41.5% support rate if we do not account for the votes from the top ten groups. Their voting effect on the outcomes of Hedge Fund proposals is even more pronounced, since target companies average ownership from the top ten parent groups is 1.58%, while the average ownership from the remaining parent groups is 0.09%. The Vanguard Group, for example, has the lowest support rate for Hedge Fund proposals in the list (10.8%) and has the second largest average ownership at the same time (3.58%). Prior literature already highlighted the passive stance from "the big three" (BlackRock, Vanguard and State Street) when it comes to shareholder activism. Fichtner, Heemskerk, and Garcia-Bernardo (2017) found evidence that "the big three" generally vote with

[17] Average consistency is measured by dividing the higher number of votes cast by the funds from a single parent group in the same fashion on a given proposal, by the total votes cast by the funds from that same parent group on the proposal. Eg: In a given proposal, Vanguard Funds casted 100 votes, of which 90 were "For" and 10 were "Against". Vanguard consistency on such proposal was 90%. We considered the period from Jan-2010 to Jun-2020 to calculate voting consistency.

management in proxy contests. Other authors called attention for the potential negative effects deriving from such equity concentration in just a few asset managers, as well as their unwillingness to play an active role in terms of corporate governance (L. Bebchuk and Hirst 2019; Lund 2017; Morley 2019; Fichtner (2020). Data statistics on parent groups' variables used are presented on

Table 3.

[Insert Table 3 around here]

4. Empirical Results

4.1 Registered Fund vs. non-Registered Fund support rates on shareholder proposals

We first tested the contribution of Hedge Funds proposals to explaining differences in support rates from Registered Funds and non-Registered Funds. As previously shown, the average support rate for Hedge Fund proposals considering the votes from non-Registered Funds is higher than the average support rate from Registered Funds. The significance of this difference is examined by a t-test with unequal variances. We also use Wilcoxon rank-sum test to compare the median of the difference in support rates for Hedge Fund and non-Hedge Fund proposals. Our tests show no significant differences in support rates from Registered Funds for Hedge Fund and non-Hedge Fund proposals. As for non-Registered Fund voters, support rates differ significantly according to proposal sponsor. Their average (median) support rate increase from 34% (33%) to 41% (39%) when the proponent is a Hedge Fund. The results for non-Registered Fund voters are consistent with proposal voting outcomes and suggest they see Hedge Fund proposals as more beneficial to their invested companies than non-Hedge Fund proposals. Results from Registered Funds, on the other hand, do not indicate change in voting behavior when the proponent is a Hedge Fund. All results are presented on **Table 4**.

[Insert Table 4 around here]

We then examine whether the effect of Hedge Fund proposals in the difference in support rates between Registered Funds and non-Registered Funds remain significant after controlling for other factors that were used in previous studies which examined investor support to shareholder proposals, as in Equation (1):

$$DSR_{p,i,i} = \alpha + \beta_1 HF_{p,i,t} + \beta_2 ISS_{p,i,i} + \beta_3 \times X_{i,i} + \beta_4 . RT_p + \varepsilon_{p,i,i} \quad (1)$$

where ($DSR_{p,i,t}$) is the dependent variable that corresponds to the difference in support rates from Registered Funds and non-Registered Funds on proposal *p* put forward on shareholder meeting at the date *t* of the target

company i. $HF_{p,i,t}$ is ISSan indicator variable that equals to one if the proposal was submitted by a Hedge Fund and zero otherwise. $ISS_{p,i,i}$ is an indicator variable that equals to one if the proposal .had a positive recommendation from ISS, and zero otherwise. $X_{i,t}$ corresponds to a set of target company characteristics at the time the proposal was voted[18]. RT_p is a categorical variable related to proposal resolution type.

The results for our models show a significant effect of Hedge Fund proposals on the differences in support rates between Registered Funds and non-Registered Funds voting. This result remains significant when controlling for variables at the target company and proposal level. A proposal submitted by a Hedge Fund is associated with 2.9 to 5.3 percentage point decrease in Registered Funds support rates relatively to non-Registered Fund support rates (Table 5Table 4: Univariate analysis of support rates on shareholder proposals

In this table we report mean and median support rates from Registered Funds and non-Registered Funds for shareholder proposals according to proponent (Hedge Funds and non-Hedge Funds). Support rates from Registered Funds are calculated at the parent group level using voting data from Proxy Insight and ownership data on target companies from Refinitiv Eikon. Votes "For" were collected at the proposal level from Proxy Insight. Non-Registered Funds support rates are calculated using support rates from Registered Funds and Votes "for" previously described, as well as ownership data from Refinitiv Eikon. *T-test* is used to test the significance of the difference in support rate means. Wilcoxon rank-sum test is used to test the significance of the difference in support rate medians. ∗, ∗∗ and ∗∗∗ indicate statistical significance at the 10%, 5% and 1% levels, respectively.

	HF proposals			Non-HF proposals			Difference (HFs - Non-HFs)			
	Mean	Median	N	Mean	Median	N	Mean	P-Value	Median	P-Value
Registered Funds	34,3%	26,2%	743	32,7%	26,1%	3042	0,0160	(0.2133)	-0,0005	(0.2587)
Non-Registered Funds	41,1%	39,0%	743	34,2%	33,2%	3042	0,0691***	(0.0000)	-0,0581***	(0.0000)
Votes "For"	40,9%	38,4%	743	33,4%	31,1%	3042	0,0747***	(0.0000)	-0,0733***	(0.0000)

[18] We used one-year abnormal return, return-over-assets, ownership by registered funds and market value as target companies' characteristics on our regression model.

Table 5). The magnitude of this effect is significant, since the average unconditional difference in support rates observed between Registered Funds and non-Registered Funds 2.6 percentage points. As discussed earlier, evidence from the literature showing lower support rates from Registered Funds on shareholder proposals could be attributed to existence of business ties with the target company.

[Insert Table 5 around here]

Previous studies on shareholder activism had already evidenced low support rates from Registered Funds on shareholder proposals. Our results suggest their support rates remain low when the proponent is a Hedge Fund, even though voting from non-Registered Funds and approval rates increase significantly. As earlier discussed, Hedge Funds have a superior ability to pose real threats to management status quo when compared to other dissident investors and their activist campaigns usually involve more conflicting disputes. As a consequence, it is possible that Registered Funds are influenced not to vote in a pro-activist way in the presence of certain characteristics that result in lower benefits from opposing management of target companies, which are further explored in this article.

4.2 Registered Funds attributes and support to Hedge Fund proposals

Our findings from the previous section show lack of support from Registered Funds on proposals submitted by Hedge Funds when compared with voting from other shareholders. In this section we assess Registered Fund attributes that contribute to differences in voting behavior on Hedge Fund proposals. We build our hypotheses under the premise that Registered Funds tend to vote in a pro-management way, as evidenced by literature (Fichtner, Heemskerk, and Garcia-Bernardo, 2017; Davis and Kim, 2007). A decision to oppose (support) a management (shareholder) proposal would be preferably avoided by fund managers as it may result in undesired effects to funds' relationship with the invested company, unless they can benefit from it. Previous results in the literature evidenced decreasing mutual fund support to shareholder proposals in the presence of fund-firm business ties. We follow Ashraf, Jayaraman, and Ryan (2012), Cvijanovic et al.(2016) e Duan et al. (2021) by examining the effect of business ties related to the management of target companies' pension plan by Registered Funds' parent groups. We expect that funds with such relationship with companies by the time of shareholder meetings vote less favorably to Hedge Fund proposals when compared with funds without business ties. Additionally, we hypothesize that fund voting can be affected by the lack of economic incentives to oppose management (or to favor dissident investors). Passively managed funds follow a portfolio composition as defined by certain indexes and compete in costs with other fund managers investing in those same companies. Additional resources spent on portfolio management activities, such as examining proposals submitted to voting on their invested companies, will further reduce their

competitiveness as they ultimately would have to pass-through expenses to clients. As a result, they have lower incentives to promote value increasing changes in portfolio companies, which would also benefit other fund managers tracking that same index, as opposed to actively managed funds, given their competition based on performance. We expect support rates from passive funds on Hedge Fund proposals to be lower than those from active funds. We employ regression models according to the following equations:

$$VF_{p,i,t,f} = \alpha + \beta_1 . BT_{i,t,f} + \beta_2 . Log(FS_f) + \theta_p + \varepsilon_{p,i,t,f} \quad (2)$$

$$VF_{p,i,t,f} = \alpha + \beta_1 . PF_f + \beta_2 . Log(FS_f) + \theta_p + \varepsilon_{p,i,t,f} \quad (3)$$

$$VF_{p,i,t,f} = \alpha + \beta_1 . BT_{i,t,f} + \beta_2 . PF_f + \beta_3 . Log(FS_f) + \theta_p + \varepsilon_{p,i,t,f} \quad (4)$$

where ($VF_{p,i,t,f}$) is the dependent variable that corresponds to vote cast by Registered Fund *f* on a Hedge Fund proposal *p* put forward on shareholder meeting at the date *t* of the target company *i*, with value equal to one for favorable votes and zero otherwise. In Equation **Error! Reference source not found.** our explanatory variable is ($BT_{i,t,f}$), an indicator assuming a value equal to one in the presence of fund-firm business ties related to pension plan administration services at the time of voting and zero otherwise. In Equation **Error! Reference source not found.** our explanatory variable is (PF_f), an indicator related to fund style, assuming a value equal to one for passively managed funds and zero otherwise. In Equation **Error! Reference source not found.** we use both explanatory variables from previous models. (FS_f) is fund's parent groups size, measured by its assets under management, and we use it in all our models since results from other studies also indicated significant effects from this variable in shareholder support. (θ_p) is proposal fixed effects, used to control for other variables at the target company or proposal level that may also impact voting support rates.

Results from our models indicate a significant negative effect on support for Hedge Fund proposals when voting fund's parent group provides services related to pension plan administration of target companies. When controlling for proposal fixed effects, the presence of fund-firm business ties is associated with a decrease of 19.4 percentage points in the probability of fund support to a Hedge Fund proposal. Results from our linear regression model at parent group level also show a significant decrease in average support rates from parent groups (15.8 percentage points). The magnitudes of these effects are very significant, since the unconditional support rate from Registered Funds on Hedge Fund proposals is 34.3%. Our results suggest that ties resulting from business relationships are strong enough to influence Registered Funds' voting decisions even on proposals seen as more beneficial to portfolio companies by other shareholders.

Fund style is also significant in influencing voting behavior of Registered Funds on Hedge Fund proposals, according to our results. Passively managed funds are associated with a 2.9% decrease in the probability of supporting Hedge Funds. At the parent group level, average support rates drops by 1.6 percentage points. Although these magnitudes are lower than those we observed for business ties effects, the share of passive funds among voting funds is very significant (39.4% of all Registered Funds votes), and growing. Influence of parent group size on all regression models is also worth mentioning, with a decrease in the probability of Hedge Fund support by voting funds belonging to larger parent groups, as measured by their assets under management. All results are shown in

.

[Insert Table 6 around here]

5. Conclusion

Registered Funds are large institutional investors and play an important role on deciding the outcomes of shareholder proposals submitted to public companies. Not all proposals can be considered beneficial, but do Registered Funds take others interests into account when deciding their votes?

We aimed to answer this question by looking at Registered Fund voting behavior on shareholder proposals. We focused on those submitted by Hedge Funds, given their successful track record on activist campaigns evidenced by the recent literature and their intrinsic characteristics and objectives, which are highly aligned with maximizing the value of the target company. Our data shows that proposals submitted by Hedge Funds gather higher approval and support rates from shareholders when compared to proposals submitted by other proponents. However, that difference is only significant among voters that are not Registered Funds. As for Registered Fund voters, there is no evidence that they support more proposals from Hedge Funds as one might expect given the previous findings about positive outcomes resulting from Hedge Fund activism.

Our multivariate model for differences in support rates between voters at the proposal level also evidence lower support rates from Registered Funds when compared to other shareholders. Hedge Fund proposals are associated with 2.9 to 5.3 percentage point decrease in Registered Funds support rates relatively to non-Registered Fund support rates.

Our estimates for support rates from Registered Funds on Hedge Fund proposals show a significant effect of fund-firm ties related to pension plan administration. Funds with business relationships show a decrease of 19.4 percentage points in the probability of supporting Hedge Fund proposals. This result confirms our hypothesis of fund-firm relationships influencing voting decisions. Passively managed funds also contribute

to lower support rates from Registered Funds, with a 2.9 percentage point reduction in the probability of voting favorably to Hedge Funds. Lack of economic incentives to outperform seems to influence passive Registered Funds when voting their proxies. A possible reason for this behavior may be related to their unwillingness to oppose management by supporting Hedge Funds, as there is no clear benefit on doing so. Registered Funds' parent group size also show a significant and negative effect on support rates for Hedge Funds, reinforcing concerns related to the growing ownership by these large groups dominating the voting outcomes in management or shareholder proposals.

Overall, our results suggest that Registered Funds' role as monitors is weakened by the lack of economic incentives or by the presence of fund-firm business ties. Besides not participating through submitting proposals to portfolio companies, funds' support rates for Hedge Fund proposals are low when compared to support offered by other investors and recommendations from proxy advisors. We find no evidence of changes in this behavior on Hedge Fund initiated proposals. The increase in share of assets managed by passive and index funds tends to intensify this situation, limiting the ability of investors such as Hedge Funds to promote corporate change through the use of shareholder proposals.

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Appendix A - Definitions and Sources of the variables

VARIABLE	DEFINITION	SOURCE
Firm-level		
Industry	Categorical variable as defined by Global Industry Classification Standard (GICS) identifying target companies' industry	Refinitv Eikon
Market value	Natural logarithm of the market value of equity from company *i* at year *t*	Refinitv Eikon

Ownership from Registered Funds	Share of total capital in target company *i* owned by investment funds required to file N-PX form with the SEC at year *t*	Refinitv Eikon
Return-over-assets (ROA)	Net income before extraordinary items divided by total assets from target company *i* in year *t*	Refinitv Eikon
Fund-level		
Passive Fund	Indicator variable that equals one if voting fund *f* is passively managed and zero otherwise	Refinitv Eikon
Parent group-level		
Business ties	Indicator variable that equals one if parent group provided pension plan management services to target company *i* in year *t and zero otherwise*	Form 5500 Series - U.S. Department of Labor
Parent group AUM	Natural logarithm of total assets under management by parent group from voting fund *f* as of December 31st, 2020	Proxy Insight
Share of Passive Funds	Number of passive funds from a parent group that voted on a proposal *p,* divided by the total number of funds from the same parent group that voted in the proposal *p*	
Proposal-level		
Hedge Fund proposal	Indicator variable that equals one if proposal *p* was submitted by a Hedge Fund and zero otherwise	Proxy Insight and U.S. Hedge Funds website
ISS “For” recommendation	Indicator variable that equals one if proposal *p* received a "For" recommendation from Proxy Insight ISS synthetic model and zero otherwise	Proxy Insight
Resolution type	Categorical variable identifying proposal *p* type of resolution, between "Board of Directors", "Comittees & Reporting", "Corporate Structure", "Environmental & Social", "General Governance" or "Remuneration"	Proxy Insight

Figure 1: Increase in share of Passive Funds

This figure shows the evolution of total net assets in billion dollars (right hand side) invested in actively managed equity mutual funds, represented by the blue bars, and equity index funds, represented by the red bars, considering assets in ETFs and mutual funds and in the U.S. market, from 1999 to 2020. The green line represents the share of assets invested in index funds (left hand side). Source: Investment Company Institute – ICI.

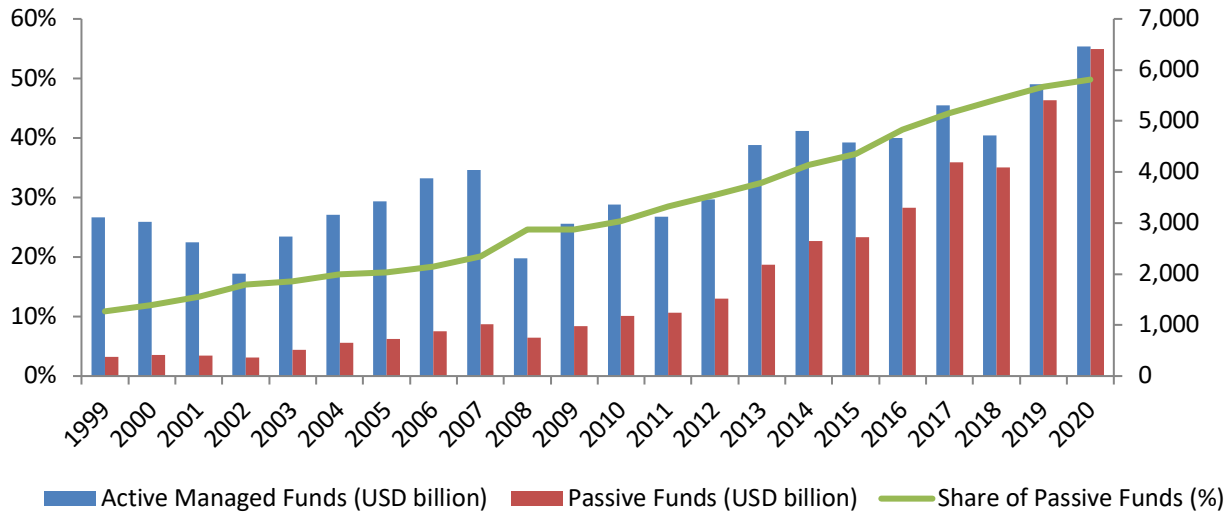

Figure 2: Proposal approval and support rates

This figure shows the average Registered Fund support rates, non- Registered Fund support rates and average approval rates according to sponsor type (Hedge Fund vs. non-Hedge Funds). The data include shareholder proposals voted during our period of analysis (Jan-2010 to Jun-2020) where sponsor and voter's parent group were identified in Proxy Insight and Refinitiv Eikon databases. Registered fund support rates are measured at the proposal level by considering the average support rate from parent groups to a given proposal and their ownership in target companies at the time of voting using data from Refinitiv Eikon. Non-Registered fund support rates are calculated using overall voting rates from Proxy Insight and Registered fund support rates. Average approval rates are calculated using Proxy Insight data on proposal voting outcomes.

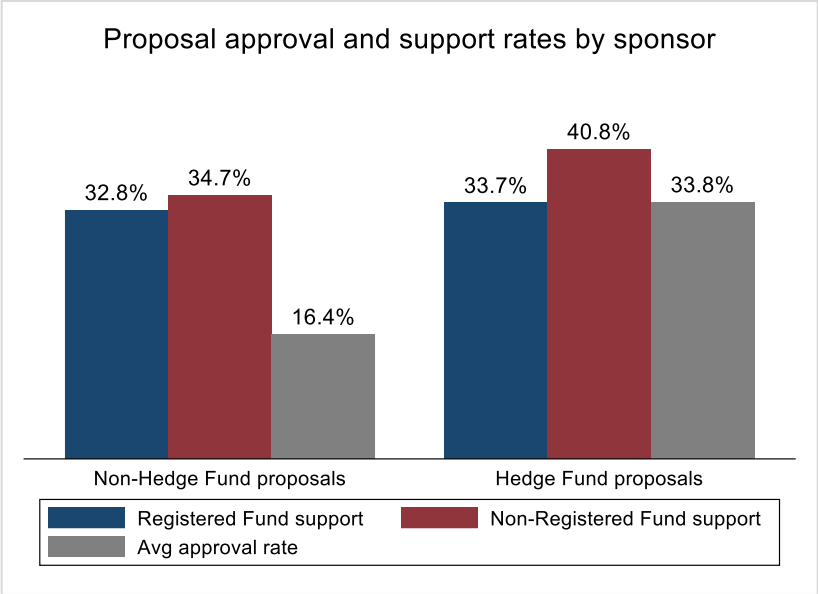

Figure 3: Proposal approval and Registered Fund support rates

Average Registered Fund support and average approval rates for Hedge Fund proposals at the proposal level, classified according to ISS synthetic voting recommendations calculated by Proxy Insight. The sample considers all proposals submitted by Hedge Funds that came to a vote during our period of analysis (Jan-2010 to Jun-2020). Recommendations

issued as “For” are classified as “ISS=For” and any other recommendation is classified as “ISS≠For”. Proposals without recommendations were discharged.

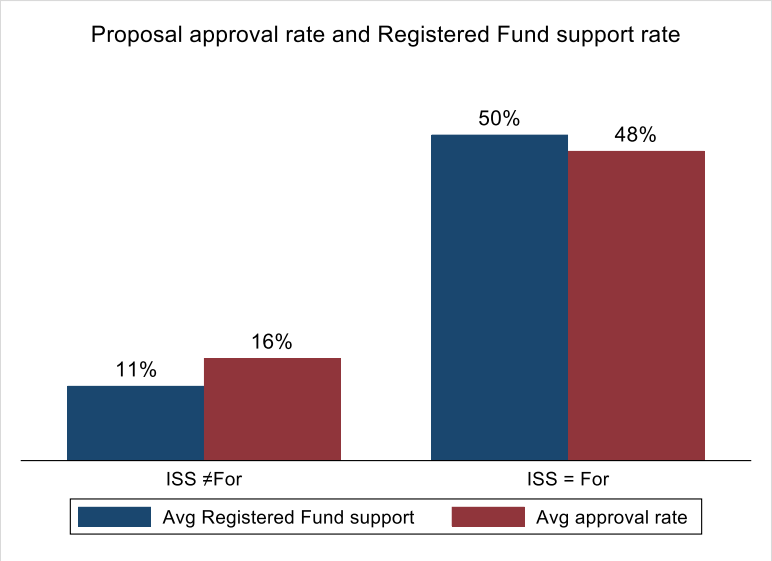

Figure 4: Approval rates by target company size

Average Registered Fund support and average approval rates for Hedge Fund proposals at the proposal level, classified according to the target company size. Company size is measured by total market capitalization as in the last day of the year previous to the voting date and was taken from Refinitiv Eikon. Companies are divided into quartiles according to their size, with first quartile containing the smaller companies. The sample considers all proposals submitted by Hedge Funds that came to a vote during our period of analysis (Jan-2010 to Jun-2020).

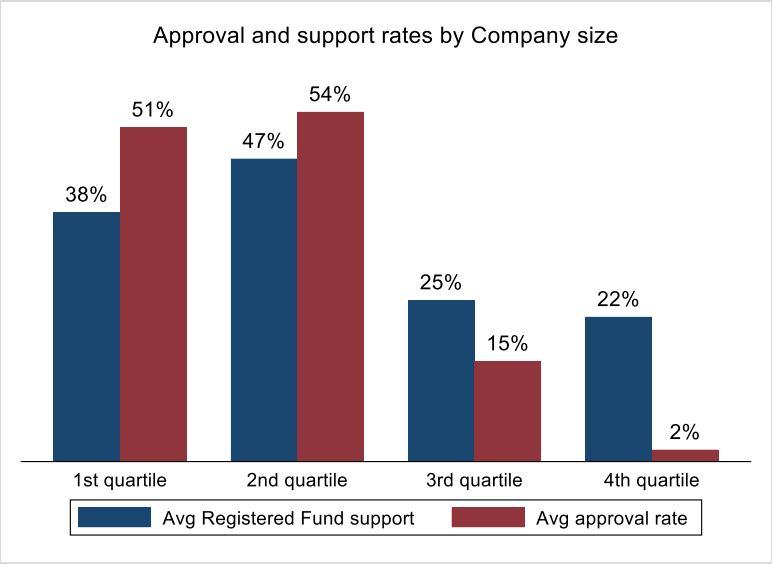

Table 1: Descriptive statistics of proposal and target companies variables used in regression models

This table provides descriptive statistics on shareholder proposals voted during the period from Jan-2010 to Jun-2020. Data on proposals characteristics are from Proxy Insight. Data on target companies’ characteristics were taken from

Refinitiv Eikon as of the year end previous to the voting date. The one year abnormal return was calculated using Fama-French 5 factors model and parameters were taken from Professor Kenneth R. French website. Classifications on whether a proposal "Passed" or "Failed" are also from Refinitiv Eikon. Proposals without voting outcome were discharged. Data on Panel A includes proposals submitted by all shareholders while data on Panel B only includes proposals submitted by Hedge Funds.

Panel A: Descriptive statistics for all shareholder proposals

	Total (100%)	**Passed**	**Failed**
Total proposals voted	4,454	905 (20.3%)	3,548 (79,7%)
Votes per proposal	791	424	884
ISS recommended "For"	2,931	727 (24.8%)	2,204 (75.2%)
ISS not recommended "For"	1,136	60 (5.3%)	1,076 (94.7%)
Proxy contests	523	262 (50.1%)	261 (49.9%)
Target market cap – median (U$ bi)	22.4	3.58	35.5
Target ROA – median	5.66%	2.98%	6.40%
Target P/B ratio – median	2.60	2.37	2.68
Target institutional ownership – median	36.2%	37.0%	36.0%
Target debt-to-equity ratio – median	73.8	62.2	77.0
Target 1 year abnormal return – median	-3.18%	-6.93%	-2.75%

Panel B: Descriptive statistics for Hedge Fund proposals

	Total (100%)	**Passed**	**Failed**
Total proposals voted	814	298 (36.6%)	516 (63.4%)
Votes per proposal	576	207	790
ISS recommended "For"	420	200 (47.6%)	220 (52.4%)
ISS not recommended "For"	279	44 (15.8%)	235 (84.2%)
Proxy contests	395	206 (52.2%)	189 (47.8%)
Target market cap – median (U$ bi)	2.53	0.53	15.9
Target ROA – median	2.41%	-0.28%	5.94%
Target P/B ratio – median	1.93	1.80	2.42
Target institutional ownership – median	32.3%	28.9%	33.5%
Target debt-to-equity ratio – median	48.7	49.1	48.7
Target 1 year abnormal return – median	-3.26%	-9.77%	-2.31%

Table 2: Voting coordination, shareholder support and ownership among the top ten Parent Groups

This table presents voting consistency, shareholder support and average ownership data from the largest parent groups in our sample, separated by Hedge Fund and all shareholder proposals. Parent group size is measured by total assets under management as of the end of 2020 and was taken from Proxy Insight. Shareholder support is measured by averaging proposal support rates for each parent group. Average ownership by parent group uses ownership data from Refinitiv Eikon as of the year end previous to the voting date.

Parent Group	AUM ($ billion)	Hedge Fund proposals			All shareholder proposals		
		Voting consistency	Shareholder support	Average ownership	Voting consistency	Shareholder support	Average ownership
BlackRock	7,808	98.5%	18.3%	2,93%	98.6%	15.3%	3,00%
Vanguard	5,716	99.7%	10.8%	3,58%	99.8%	10.7%	3,90%
State Street	2,690	98.7%	20.6%	1,55%	98.7%	24.5%	1,58%
Fidelity	253,0	96.2%	18.4%	2,84%	96.0%	12.2%	2,55%
BNY Mellon	2,200	97.5%	29.8%	0,41%	97.4%	33.8%	0,38%
JP Morgan	2,100	98.4%	17.6%	0,51%	97.5%	17.8%	0,57%
Crédit Agricole	1,792	90.9%	38.5%	0,11%	93.9%	47.1%	0,14%
Allianz SE	1,760	96.7%	59.5%	0,16%	95.5%	71.3%	0,19%
Legal & General	1,640	95.0%	58.1%	0,03%	95.9%	65.1%	0,03%
Capital Group	1,600	96.3%	22.1%	3,68%	95.0%	24.9%	4,00%

Table 3: Descriptive statistics of parent groups' variables used in regression models

This table provides descriptive statistics on the variables at the parent group level used in our regression models. Assets under management and ownership in target cmopany are taken from Refinitiv Eikon as of the year end previous to the voting date. Annual charge and active fund classification are also from Refinitiv Eikon, as of the last data available on Jun-2021. Voting consistency and voting with ISS recommendations are calculated at the parent group level using data from Proxy Insight considering the period from Jan-2010 to Jun-2020.

	Mean	Median	p.25	p.75
Assets under management (USD million)	65,154	2,325	377	15,037
Voting consistency	96.4%	100%	96.4%	100%
Ownership in target company	0.11%	0.01%	0.002%	0.7%
Votes with ISS recommendation	58.7%	59.7%	41.7%	80.0%
Share of active funds	91.1%	100%	100%	100%
Annual charge	0.68%	0.66%	0.48%	0.84%

Table 4: Univariate analysis of support rates on shareholder proposals

In this table we report mean and median support rates from Registered Funds and non-Registered Funds for shareholder proposals according to proponent (Hedge Funds and non-Hedge Funds). Support rates from Registered Funds are calculated at the parent group level using voting data from Proxy Insight and ownership data on target companies from Refinitiv Eikon. Votes "For" were collected at the proposal level from Proxy Insight. Non-Registered Funds support rates are calculated using support rates from Registered Funds and Votes "for" previously described, as well as ownership data from Refinitiv Eikon. *T-test* is used to test the significance of the difference in support rate means. Wilcoxon rank-sum test is used to test the significance of the difference in support rate medians. ∗, ∗∗ and ∗∗∗ indicate statistical significance at the 10%, 5% and 1% levels, respectively.

	HF proposals			Non-HF proposals			Difference (HFs - Non-HFs)			
	Mean	Median	N	Mean	Median	N	Mean	P-Value	Median	P-Value
Registered Funds	34,3%	26,2%	743	32,7%	26,1%	3042	0,0160	(0.2133)	-0,0005	(0.2587)
Non-Registered Funds	41,1%	39,0%	743	34,2%	33,2%	3042	0,0691***	(0.0000)	-0,0581***	(0.0000)
Votes "For"	40,9%	38,4%	743	33,4%	31,1%	3042	0,0747***	(0.0000)	-0,0733***	(0.0000)

Table 5: Multivariate analysis of differences in support rates between Registered Funds and non-Registered Funds

In this table we report results for estimating differences in support rates between Registered Funds and non-Registered Funds using a linear regression model. Positive value for the dependent variables means Registered Funds voted more favorably to a given proposal than other shareholders. Hedge Fund proposal is a dummy variable with value equal to one if proposal was submitted by a Hedge Fund, and zero otherwise. ISS "For" recommendation is a dummy variable with value equal to one if proposal was issued "For" according to Proxy Insight ISS synthetic recommendation, and zero otherwise. Return-over-assets (ROA), Ownership from Registered Funds and Institutional and Market Value are variables from target companies measured at the year-end previous to the voting date and were collected from Refinitiv Eikon. Resolution type is a categorical variable indicating the proposal resolution type as classified by Proxy Insight. Industry is a categorical variable as defined by Global Industry Classification Standard (GICS) and was collected from Refinitiv Eikon. All regressions include an intercept, which is not reported. The t-statistics are based on robust standard

errors. In each column we report coefficients and t-statistics. ∗, ∗∗ and ∗∗∗ indicate statistical significance at the 10%, 5% and 1% levels, respectively.

VARIABLES	(1)	(2)	(3)
Hedge Fund proposal	-0.0531***	-0.0334***	-0.0291**
	(-4.15)	(-2.62)	(-2.44)
ISS "For" recommendation		0.0626***	0.0576***
		(7.78)	(7.22)
Return-over-assets (ROA)		0.0014***	0.0007
		(2.97)	(1.42)
Ownership from Registered Funds		-0.0026***	-0.0026***
		(-5.98)	(-5.66)
Market value		0.0030	-0.0019
		(1.12)	(-0.67)
Resolution type fixed effects	No	Yes	Yes
Meeting year fixed effects	No	No	Yes
Industry fixed effects	No	No	Yes
N	3,785	3,495	3,495
Adjusted R^2	0.006	0.107	0.166

Table 6: Multivariate analysis of Registered Fund support to Hedge Fund proposals

In this table we report results for estimating Registered Funds voting on Hedge Fund proposals at the fund voting level (Panel A - probit regression model) and parent group voting level (Panel B - linear regression model). We use individual and grouped voting data from all Registered Funds voting in the 814 proposals submitted by Hedge Funds within our database. For individual voting data, the dependent variable is a dummy with value equal to one if Registered Fund voted favorably to a shareholder proposal, and zero otherwise. For parent group voting data, we use the support rate by each parent group in a given proposal. Fund firm business ties is a dummy with value equal to one if the parent group of the voting fund provided services related to pension plan administration to the target company by the time the proposal was voted, and zero otherwise. Passive Fund is a dummy variable with value equal to one if the fund is classified as passively managed, and zero otherwise. For regression at the parent group level, we used the share of passively managed funds from total funds belonging to given parent group that voted for the proposal. Parent group AUM is the natural logarithm of total assets under management from parent groups measured in USD million as of December 31st, 2020, collected from Proxy Insight. We used proposal fixed effects. The t-statistics are based on robust

standard errors. In each column we report coefficients, t-statistics and marginal probabilities. ∗, ∗∗ and ∗∗∗ indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Panel A: Model at individual fund voting level

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Business ties	-0.217***	-0.193***			-0.217***	-0.194***
	(0.00350)	(0.00365)			(0.00350)	(0.00364)
Passive Fund			-0.0200***	-0.0286***	-0.0191***	-0.0291***
			(0.00162)	(0.00181)	(0.00162)	(0.00181)
Parent group AUM		-0.0229***		-0.0241***		-0.0220***
		(0.000340)		(0.000341)		(0.000345)
Proposal fixed effects	No	Yes	No	Yes	No	Yes
N	414,136	411,937	414,136	411,937	414,136	411,937
Pseudo R^2	0.0047	0.2770	0.0003	0.2740	0.0050	0.2770

Panel B: Model at parent group voting level

VARIABLES	(1)	(2)	(3)	(4)	(5)	(6)
Business ties	-0.1583***	-0.1585***			-0.1599***	-0.1580***
	(-9.44)	(-10.75)			(-9.53)	(-10.73)
Shareof Passive Funds			0.0200***	-0.0160***	0.0206***	-0.0157***
			(4.63)	(-4.39)	(4.76)	(-4.32)
Parent group AUM		0.0089***		0.0086***		0.0091***
		(17.42)		(16.87)		(17.77)
Proposal fixed effects	No	Yes	No	Yes	No	Yes
N	93,356	92,343	93,356	92,343	93,356	92,343
Pseudo R^2	0.001	0.298	0.000	0.298	0.001	0.299