

# Morningstar Proxy Data: Fund Voting Aggregate Data Frequently Asked Questions

This document helps Morningstar clients understand the rollout strategy for Fund Proxy Voting data in Morningstar Direct. The questions and answers have been organized into the following sections:

## Overview

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- ▶ [Methodology Questions about Proxy Data \(page 6\)](#)

Ballot Item	Resolution	Management's Recommended Vote
1.1	Jeffrey P. Bezos	For
1.2	Tom A. Alberg	For
1.3	Jamie S. Gorelick	For
1.4	Daniel P. Huttenlocher	For
1.5	Judith A. McGrath	For
1.6	Jonathan J. Rubinstein	For
1.7	Thomas O. Ryder	For
1.8	Patricia Q. Stonestifer	For
1.9	Wendell P. Weeks	For
2	Appointment of Ernst & Young LLP as independent public auditor	For
3	Advisory vote to approve executive compensation	For
4	Shareholder proposal regarding diverse board candidates	Against
5	Shareholder proposal regarding a policy to require an independent board chair	Against
6	Shareholder proposal regarding vote-counting practices for shareholder proposals	Against

Source: Amazon.com's DEF 14a Filing; April 18, 2018.

## General Questions about Proxy Data

This section covers the following questions:

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Proxy data captures information about the proxy process—the primary way shareholders participate in the governance of public companies in equity markets around the world. In the U.S., where fund shareholders are the most powerful corporate stakeholders, the proxy process is a central feature of corporate governance.

Proxy data refers to the items put to vote on a company's proxy ballot each year. These could be either management resolutions, or shareholder resolutions. Proxy data on these issues can also be viewed through the lens of funds holding these equities, because asset managers are often the largest shareholders of a company.

Publicly traded companies must hold a general shareholder meeting at least once a year. At these annual general meetings, shareholders can vote on a variety of issues, including the following:

- ▶ Selecting a slate of corporate directors
- ▶ Choosing auditors
- ▶ Setting executive pay limits
- ▶ Making bylaw changes, and
- ▶ Changes to the capital structure of a company.

For public companies, communications between the company and shareholders about shareholder meetings and shareholder resolution filings are governed by the SEC.

Companies are responsible for preparing the proxy materials and distributing them to shareholders before the meeting. These include the proxy card (or proxy ballot) containing the items to be voted on, and the proxy statement containing information relevant to these items.

### Overview

### What is proxy data?

### What types of issues are usually addressed via the proxy process?

Management resolutions, also referred to as management proposals, are any proposal on a company's ballot put forth by corporate management. They represent most proxy ballot items voted on each year, and may include recurring items such as director elections, as well as ad-hoc items.

A shareholder resolution is a ballot item proposed by one or more shareholders instead of by the management of a company. These items typically focus on ESG themes and are usually opposed by management. Each year, between 10% and 12% of Russell 3000 companies' ballots contain one or more shareholder resolutions, and most are filed at larger companies. Altogether, 450-600 shareholder resolutions appear on 300 to 360 proxy ballots each proxy season.

For each ballot item, a company's board offers its recommended vote (known as the management recommendation). In deciding their own vote, shareholders can choose to vote in line with management's recommended vote or against it by selecting an option not supported by management – this usually means voting 'against' management-sponsored items and 'for' for shareholder-sponsored items.

Where shareholders are dissatisfied with some aspect of how a company is governed, shareholders may vote against management's recommended vote on the relevant ballot item. How well a company is governed determines, to a large extent, its exposure to ESG risk.

Fund voting decisions are influenced by asset managers' voting strategy. Asset managers' voting strategy, in turn, are articulated in their proxy voting guidelines. Asset managers' voting strategies can support stronger governance of ESG risk in funds' portfolios.

Mapping fund-level voting decisions to information about how companies are governing ESG risk reflects on how asset managers both view ESG risks and their willingness to use proxy votes to address ESG risks.

Investor stewardship, also called 'active ownership', refers to the active involvement of institutional investors in the governance of the companies in their portfolios. Resolution filing, proxy voting, and engagement with corporate management and boards are all stewardship strategies investment fiduciaries can leverage to protect long-term portfolio value.

Proxy voting rights are linked to share ownership and underpin the influence shareholders can bring to bear in their engagement with corporate management and boards. Around the world, formal regulations and investor stewardship codes define the obligations of institutional investors (asset managers, and large institutional asset owners) to be active owners.

**What is the difference between shareholder resolutions and management resolutions?**

**How do firms attempt to influence proxy votes?**

**Why are funds' voting records significant?**

**What is investor stewardship?**

## Details on the Fund Voting Aggregate Data Points

This section covers the following questions:

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### Overview

The following table describes how each type of proxy data is collected:

### How does Morningstar collect proxy data?

Proxy Data Type	Collection Technique
Non-Ballot Proxy Materials	Non-ballot data is collected from the initial proxy materials filed by a company.
Ballot Items	Shareholder resolution data is collected from the initial proxy materials filed by a company. Morningstar collects information on the resolutions and categorizes them using a proprietary methodology.  Ballot items put forth by management are currently collected when the vote results are filed by a company. All ballot items are assigned a proposal type based on proprietary Morningstar methodology.
Vote Results	The vote outcome for each ballot item is collected when vote results are filed by a company.
Fund Votes	Individual fund vote records are collected as they are filed by asset managers. Morningstar then indexes the fund vote record to the existing record of the ballot item and company vote results. Because the SEC filing deadline for funds’ voting records is the end of August, Morningstar collects most fund vote filing records in the last week of August through the first week of September.

Initially, United States domiciled 1940 Act funds will be covered, for their vote records of U.S. domiciled companies. Global coverage is in consideration for the future.

### What investments are covered by this data?

The data set consists of 93 data points, which aim to measure whether a fund voted for, against, or abstained from voting (at both a broad and granular level). The data is available historically by Proxy Year, the year in which a fund reported its votes via required filings.

Broadly speaking, the data considers both all shareholder resolutions and all management resolutions a fund voted on for a given reporting year and reports it under the following "buckets:"

- ▶ % Support
- ▶ % Against, and
- ▶ % Abstained.

The data breaks down the fund voting behavior by proposals put forth by shareholders and the (more common) proposals put forth by management of a company.

At a more granular level, metrics are derived for shareholder resolutions for each of 16 First Level Categories, where Morningstar measures % Support, % Against, and % Abstained for each one.

For management resolutions, granular metrics are derived only for each of certain proposal types, namely, those garnering the most attention. Metrics are offered for % Support, % Against, and % Abstained for the following proposal types:

- ▶ Advisory Vote on Executive Compensation
- ▶ Director Election
- ▶ Compensation, and
- ▶ Auditor Ratification.

For the Advisory Vote Frequency proposal type, Morningstar measures only % Support for each option (1 year, 2 year, 3 year). This is because a vote is always for one of these three options and not against/abstaining from making an option.

The new derived data points are based on the Morningstar database of proxy data, where Morningstar collects and standardizes company ballot and fund voting information from various SEC filings. Ballot items for companies are collected via forms DEF 14a, 10-Q and 8-K. Fund vote records are collected from N-PX filings.

Robust coverage begins in 2012, with some limited coverage from 2004-2012.

The aggregate metrics from Morningstar aim to show users broad voting patterns of a fund for a given year and make it easy to compare across different funds, so users can make additional research decisions based on their specific goals or mandates. In short, Morningstar is not saying that being in support of or against shareholder or management resolutions is unilaterally good or bad.

Depending on the stated mandate from a fund, supporting certain types of shareholder proposals could be expected, but even in these cases, a valid reason may exist as to why a fund choose not to support a specific resolution even if that particular ESG theme is stated in the overall investment goals and strategies.

### **What new data points are being included?**

### **What are the data sources of the new calculated data points?**

### **How far back is historical data coverage available?**

### **Do the Fund Vote Aggregate data indicate what is a "good" or "bad" vote?**

## Methodology Questions about Proxy Data

This section covers the following questions:

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### Overview

The Votes Counted data point is meant to provide additional context to users, because 50% of support for only two opportunities can be interpreted differently than 50% of support for 20 opportunities. Eligible ballot items are from U.S. publicly traded companies, for annual meeting proxy ballots. However, certain ballot items or votes may be omitted from the data. The following table names these omissions and describes why they are not included:

### What are considered eligible voting opportunities, or “Votes Counted?”

This item . . .	Is omitted for this reason . . .
Ballots from special meetings	Only annual meeting proxy ballots are included.
Votes withheld	<p>These typically do not hold relevant meaning for other types of ballot items.</p> <p>An exception is made for votes withheld for director elections because withholding a vote for a director election requiring only a simple majority is the only way a shareholder can express lack of support for the proposed director.</p>

This item . . .	Is omitted for this reason . . .
Split votes	No consistent way exists to attribute what proportion of the fund should be split among the different votes.
Trojan Horse shareholder resolutions	<p>Morningstar may tag certain ballot items as Trojan Horse Shareholder Resolutions. These are rare cases where a shareholder resolution is considered to be contrary to the ESG themes it supposedly promotes.</p> <p>These initiatives often seem to promote popular environmental, social, or corporate governance themes, but contain provisions undermining or going against the ESG theme, and/or to dissuade a company from adopting ESG theme policies.</p> <p>Consequently, these resolutions are not truly considered peers with other shareholder resolutions falling under the same ESG theme. When researching shareholder proposals, it is important to recognize these resolutions as qualitatively different from others advocating stronger ESG action.</p>

For 'Advisory Vote Frequency' management resolutions (commonly referred to as 'Say on pay'), only the vote 'For' the 1,2, or 3 year options are counted. This is because a shareholder is voting for one of these three options, they are not voting against anything or abstaining from it.

The Percent Support value is based on the number of ballot items the fund voted "For" divided by the total number of eligible voting opportunities the fund had, otherwise referred to as the "Votes Counted."

**How is the Percent Support value derived?**

The Percent Support value is based on the number of ballot items the fund voted "Against" divided by the total number of eligible voting opportunities the fund had, otherwise referred to as the "Votes Counted."

**How is the Percent Against value derived?**

For Director elections, Morningstar uses both "Against" and "Withheld" votes, because withholding a vote for a director election requiring only a simple majority is the only way a shareholder can express lack of support for the proposed director.

The Percent Abstained value is based on the number of ballot items the fund voted "Abstained" divided by the total number of voting opportunities the fund had, otherwise referred to as the "Votes Counted."

**How is the Percent Abstained value derived?**

The Proxy Year represents the reporting year of the fund's voting record, based on the industry-accepted definition of the proxy reporting calendar. For U.S. domiciled companies, the industry-accepted effective year is July 1 of the previous calendar year to June 30 of the current calendar year. Therefore, a Proxy Year of 2020 means company proxy ballot items put to vote from July 1, 2019 through June 30, 2020, which a fund is consequently required to report via an N-PX filing by August 31, 2020.

### **How is the Proxy Year determined?**

The proposal types shown in the Proxy Data: Shareholder Resolutions view are based on the [Morningstar Shareholder Resolution Category Methodology](#), which uses a hierarchical approach for both broad and increasingly granular categorization of shareholder resolutions. (See the methodology paper for the detailed list of categories.)

### **How are the shareholder resolution proposal types determined?**

The proposal types shown in the Proxy Data: Management Resolutions view are based on the [Morningstar Proposal Type Methodology](#), which categorizes all ballot proposals across approximately 50 different types. (See the methodology papers for the detailed list of categories.)

### **How are the management resolution proposal types determined?**

Because more than 50 different proposal types exist, Morningstar chooses to measure aggregates on those key to investor stewardship decisions within the industry.

### **Why are only certain management resolutions measured?**

Common reasons why the new metrics will not calculate for a fund include the following:

- ▶ The fund does not hold any publicly traded U.S. companies, or
- ▶ The fund is not required to file an N-PX and therefore is not currently covered by Morningstar.

### **What are the reasons why a fund will not have a vote aggregate?**

If a fund did not have the opportunity to vote for a certain subset of issues, the corresponding Percent Support/Percent Against/Percent Abstained will be blank.

If a fund had one or more opportunities but cast zero votes for For/Against/Abstained, then the fund derives a value of 0, to represent that the fund voted that way for 0% of the opportunities it had.

### **What is the difference between a zero and blank value?**

No, Morningstar does not currently offer ratings of fund voting records. The Morningstar Research group has published a number of thought leadership pieces which offer qualitative insights on how funds vote, and Morningstar is exploring how to meaningfully quantify how a fund votes as a future data offering.

### **Does Morningstar rate a fund's voting record?**



The Morningstar Sustainability Rating is entirely independent of proxy data. The fund-level Morningstar Sustainability Rating, also known as the Globe rating, evaluates how much ESG risk is embedded in a fund relative to its Morningstar peer group. It is based on an asset-weighted roll-up of the ESG Risk Rating of holdings in each portfolio from the most recent 12 months. The Morningstar Sustainability Rating is entirely based on Sustainalytics' company-level ESG risk evaluations and does not incorporate proxy data.

**Does a fund's proxy voting practice factor into the Morningstar Sustainability Rating?**