May 2, 2018

All investment advisers with the authority to vote client proxies have an obligation to vote those proxies in the best interests of their clients. Similarly, individual stakeholders in a company have a responsibility to themselves to read company proxies and to vote appropriately. The obligation to vote in accord with client interests generally applies to pension, endowment and institutional clients, in addition to both actively and passively managed funds. Truly active investment advisers such as Wintergreen also have the ability to select the securities that will be in our portfolios. Therefore, we are not limited to the index constituents and can avoid investing in securities that have what we view as excessive look through expenses.

While existing 2011-2013 research by University of Maryland academics is outdated, at the time of this writing, it is still viewed as the most currently available research for all funds. This research states that during the time period measured, active funds were 19% more likely to vote against pay proposals than index funds. More precisely, this research found that from 2011-2013, active funds voted against pay proposals 11.1% of the time, and at that time, index funds voted against pay proposals only 9.3% of the time[1].

Wintergreen's research on "say on pay" proxy voting centers on more current data from S&P 500 index funds voting records from 2015 and 2016. Wintergreen focused on index funds because:

1. they are held out to investors as extremely low cost;
2. index funds represent a continually increasing ownership of the S&P 500;
3. all straight forward S&P 500 index funds own the same securities in the same proportion of their portfolios so there is a comparison of apple to apples, and
4. the registered index funds file with the Securities and Exchange commission on an annual basis precisely how they voted on each proxy proposal for each security held in the portfolio every year.

S&P 500 index funds voted in favor of pay proposal 95% of the time in 2015 and 97% of the time in 2016[2]. Again, we reiterate that the responsibility for proxy voting is shared by all owners of the securities and their advisers with authority to vote. However, without the vote of index funds in favor of the vast majority of pay proposals, some of the pay packages would have failed. We estimate that the financial impact of these voting practices in 2015 cost investors $823 billion and in 2016 $908 billion[2]. Should executives who do a good job be paid well for their service to shareholders? Absolutely! Should these executives receive as much as they do? That is a different question which deserves careful consideration. Wintergreen's research included a review of each company in the S&P 500's annual report, proxy, and executive equity bonus plan for 2015 and 2016.

When viewed in light of the full cost these pay proposals impose upon investors, everyone shares responsibility. Investors have a right to know how their managers are voting to compensate executives in their portfolio companies and just how much those votes are impacting shareholder returns.

[1] Wall Street Journal, April 20, 2018 "Do Index Funds Cost 100 Times As Much As You Think?"

[2] Wintergreen's analysis of data compiled by Proxy Insight