The Three Things You Need To Know When Conducting a Mutual Fund Proxy Campaign

Achieving quorum and proposal passage in today's mutual fund proxy campaigns is more challenging than ever before. Mutual funds need to consider regulatory factors that can require them to research internally to determine what changes need to be made to specific funds and when a shareholder vote is required. The majority of mutual fund proxies are triggered by director elections, and other events such as merger and acquisition (M&A) activity and fund reorganizations within complexes. These "triggers" don't occur often, as there is no annual meeting requirement (with the exception of Closed End Funds) and we are seeing a more sophisticated set of issues resulting in more complex proposal mixes. The infrequency of occurrence results in a shareholder's lack of familiarity with mutual fund proxy. This, in part, results in slower response times and lower participation from shareholders.

In this environment, ensuring the right strategic communications plan and timeline are in place, proactively managing the proxy budget, and leveraging the right institutional and retail relationships and touch points provides mutual funds with the best path for a successful outcome.

At the root of every successful campaign is the need for broad insight into where the shares reside, how the funds are distributed and who the shareholders are. Moreover, strong communications and a plan of action with the right vehicles is critical. The nature of proxy communications has evolved significantly in the past few years. A more traditional approach – outbound calling – on average represents between 15 and 20 percent of the shares voted but this method is the most expensive, and has proven to be increasingly ineffective as a result of the inability to reach shareholders by telephone. Mutual funds now have new options to achieve the desired outcome of a proxy campaign such as voting by smartphone, pre-"record date" ballots, additional proportionate voting for IRA accounts, institutional voting, house holding and consolidated ballots. For mutual fund proxies where Broadridge was involved, which represents a large percentage of all campaigns completed last year, smartphone voting resulted in reaching 30 percent of shareholders who historically never voted before.

First, it's important to prioritize what to include in the proxy.
Many times, fund firms include multiple proposals into their proxies. For example, if a firm has to perform a trustee proxy, they may add on sub-advisor changes, fund investment changes, or fee increases. This often increases the difficulty of passage – and often much more expensive due to increased calling or reminder Mailing requirements.

Second, it's imperative for funds to reach the growing number of "hidden" shareholders.
It is increasingly difficult to make contact with shareholders that are otherwise anonymous because of omnibus accounts or their designation as objecting beneficial owners. New approaches and techniques need to be considered to connect with shareholders such as gaining agreement from omnibus firms to allow proxy providers to reach out to their underlying shareholders. Strong relationships are required between the vendor and the omnibus firm for this to be considered.

Third, effective planning can make or break a proxy campaign.
Proxy campaigns are complex — from contact strategies, to proxy document language, and proposal mix, to delivery channels and the best packaging and mailing. Pre-campaign planning and pre-communication to the shareholder base has a direct impact on the outcome of a proxy vote campaign. A bad plan results in a bad result – it is as simple – and as complex – as that.

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