

# Optimize your next proxy with retirement plan participants

Mutual funds with growing share positions held in employer-sponsored retirement plans face unique challenges during proxy campaigns. Given the number of entities involved and the complex agreements between funds, plan administrators and plan sponsors, several factors could impact the outcome. Data limitations and a lack of engagement can drive up costs and may prevent funds from achieving quorum.

With the right analysis, preparation and communication, funds can minimize these challenges. Below is an overview of the process for managing proxy solicitation with participants and sponsors in employer-sponsored retirement plans. Understanding the process can help clarify available options—and illuminate ways to achieve your proxy goals.

## WHO'S INVOLVED?

Employer-sponsored retirement plans are workplace programs established by employers to help employees save for retirement. In the Defined Contribution industry, employers who establish these retirement plans are called “plan sponsors.” The employees who take advantage of these plans are called “plan participants.” Plan sponsors—usually with the help of financial advisors—establish plan rules and decide which investments are best suited for their participants.

Plan sponsors rely on organizations called “plan administrators/recordkeepers” to manage and facilitate plans for their participants. Among other things, plan administrators provide the digital portals participants use to access and select investments; they perform the recordkeeping associated with the plans; and they provide custody and asset trading services.

## WHO HAS AUTHORITY TO VOTE?

Soliciting proxy votes from registered and beneficial shareholders is typically straightforward, largely because vote entitlements and shareholder records are transparent and easily accessible. However, proxy campaigns involving retirement plans can be more complicated.

Plan sponsor provisions sometimes do not pass voting authority to participants. In such cases, vote entitlements are assigned exclusively to the plan sponsor, who votes all the shares owned by plan participants. In other cases, vote entitlements are assigned directly to plan participants. Then there are some arrangements that blend the two in a process called “echo voting,” where the sponsor is entitled to vote outstanding *unvoted* shares proportionately with voted shares.



### Sponsor voting

Plan sponsors hold all vote entitlements.



### Participant voting

Participants hold all vote entitlements.



### Echo voting

Participants vote their shares. Remaining unvoted shares can be voted by the sponsor proportionate to the voted shares.



## HOW DOES VOTE AUTHORITY IMPACT PROXY CAMPAIGNS?

Typically, it's easier and less expensive if the plan sponsor retains voting authority. In such cases your proxy partner will need to contact only one decision maker instead of every plan participant. By contrast, in cases where vote authority is assigned to plan participants, it can be more difficult and costly to achieve quorum. Not only are there more voters, but limited visibility into shareholder data can make it challenging to solicit participation.

Consider you will need to secure a "pass-thru data file" from each plan administrator/recordkeeper. A pass-thru file contains the contact information for each plan participant or sponsor with vote entitlement. Depending on the plan administrator, legacy systems sometimes deliver poorly structured data limited in detail. Such cases may add significant lag time for data normalization and processing before you can identify shareholders and distribute proxies.

Unlike campaigns that involve broker-dealers, plan administrators are unlikely to send pass-thru files automatically. In such cases you or your proxy partner will have to chase down the pass-thru files unilaterally, potentially adding time (and cost) to the process.

## WHAT OTHER FACTORS CAN IMPACT OUTCOMES?

There's no question mutual funds face an uphill climb when it comes to driving shareholder participation. Plan participants may not be aware they hold mutual fund shares through their workplace account, and the ones who are aware may not prioritize voting.

Most plan administrators only allow firms to contact plan sponsors or participants via hardcopy mail channels. Clearly, this limits available options. Absent phone calls and emails, proxy solicitation is more difficult and expensive.

## Be proactive.

These best practices can help you achieve your proxy goals.

### **Build relationships with plan sponsors and administrators.**

Funds who have strong relationships can optimize outcomes during proxy campaigns. If there's a contentious item on the proxy, leveraging relationships can help maximize participation.

### **Suggest contracts that assign voting authority to plan sponsors.**

Mutual funds who seek to place products in employer-sponsored retirement plans might consider encouraging sponsors to retain vote authority, or promote echo voting, so they can streamline the process and minimize the burden on plan participants.

### **Plan for data delays.**

You can't prevent poorly structured data files from coming in, but you can help expedite delivery. Some proactive mutual funds reach out to plan administrators in advance of the record date, so they can receive pass-thru files in a timely matter. Allow plenty of time between record date and meeting date in case of data delays.

### **Account for lower participation from plan participants.**

Every proxy campaign begins by identifying the number of votes needed to achieve quorum—and then working backward to secure participation. In most cases, critical mass won't come from retirement plan participants, so you'll need to adjust your strategy accordingly. Make sure your proxy partner understands the unique challenges and opportunities associated with every shareholder base (and voting authority). With the right data analytics and historical voting insights, you can achieve quorum in even the most challenging campaign.

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