

10 AREAS TO CONSIDER WHEN  
CHOOSING  
A PROXY  
PROVIDER

*FOR MUTUAL FUNDS, INSURERS AND  
ALTERNATIVE INVESTMENTS*

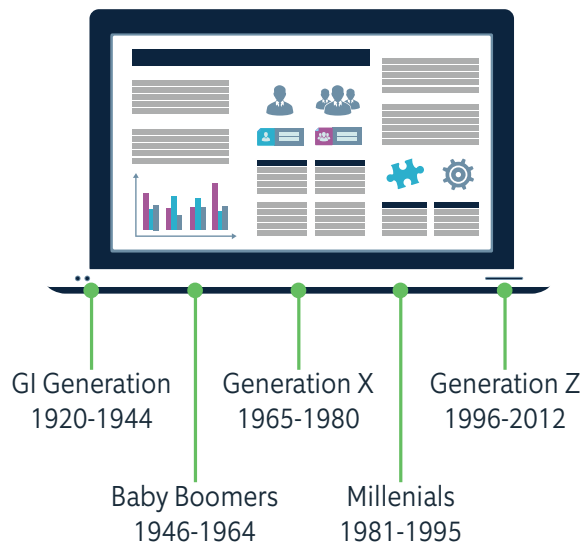
# OVERVIEW

Proxy voting is one of the most powerful ways shareholders can influence a company's operations and corporate governance. However, it's far from a simple and straightforward process. Regulatory compliance requirements, changes in demographics, evolving technology, and new communications channels continue to create a complex environment for mutual fund, insurance and alternative investment firms to engage with shareholders and encourage them to participate in proxy voting.

*In this ebook, we will look at:*

- Why mutual funds, insurers and alternative investment should consider partnering with an experienced proxy solutions provider
- The value a provider can bring in terms of data analysis and reaching shareholders
- How to adhere to the myriad of regulatory compliance
- What to consider when choosing the right proxy solutions provider

People across five different generations are investing online and have annuities or other retirement vehicles.



## ENHANCING YOUR BRAND

Although most funds are not required to hold proxy votes every year — with the exception of closed-end funds and REITs — when they do them, these are significant. Often, they are recommending new directors, changes in policy and even changing fee structures. Engaging shareholders is essential to the fund board’s goals. This is disruptive and expensive.

In 2017, one of the largest funds in the U.S. conducted one of the largest proxy projects in recent memory. The proxy vote had a reported price tag of \$60 to \$70 million. In this large effort, the fund collected client voting data that will help save money, inform the future and deliver a better product.

While most funds will not come close to spending this amount, they are addressing the same challenges: Achieving quorum in a non-traditional proxy landscape.

Why? In short, they are fighting shareholder apathy.

## SHIFTING DEMOGRAPHICS

In the last decade, shareholder demographics have started to change at a rapid pace. It’s not just mature generations who have money in IRA accounts. People across five different generations are investing online and have annuities or other retirement vehicles.

- The Silent or GI Generation (born between 1920 and 1944)
- Baby Boomers (1946 to 1964)
- Generation X (1965 to 1980)
- Millennials or Generation Y (1981 to 1995)
- Generation Z (1996 to 2012)

This means funds, insurance companies and alternative investments must address five generations for their proxy voting. Add in the rise of online investing, and a younger, very tech-savvy generation of investors has emerged. What’s more, the younger generations’ financial stake in the company involved is often modest, both overall and as a part of their total financial holdings. Most meetings tend to be uncontroversial and retail shareholders with smaller share amounts can conclude that their votes are not needed or important to the outcome.

The rise of online investing, and a younger, very tech-savvy generation of investors has emerged.

The numbers speak for themselves. An estimated 99.5 million individuals and 56 million U.S. households own mutual funds, based on 2018 figures from the Investment Company Institute. The Silent or GI Generation accounts for just 11 percent of mutual fund participation, Baby Boomers account for 34 percent, Generation X account for 32 percent, and Millennials for 23 percent.

Funds, insurance companies and alternative investments must keep up with these trends, understand data, and use analytics to model the behavior of each shareholder segment. This can help determine what information should be communicated to them, when to communicate it, and what channel to receive the best response.

## TECHNOLOGY AND COMMUNICATIONS

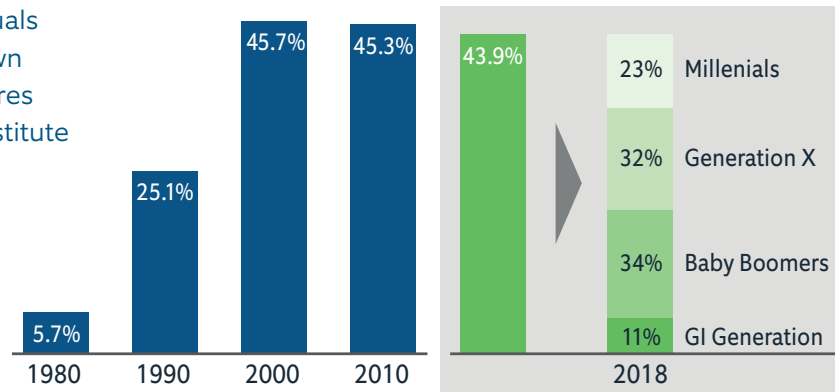
To be successful in reaching your shareholder segments, funds, insurance companies and alternative investments must meet investors where they are and communicate with them based on their preferences.

Thankfully, most of these firms, by and large, enthusiastically adopt and use technology. Mutual funds are arguably the most tech savvy group as they continually reinvest in technology and the majority of their communications are technology driven.

Insurance companies, on the other hand, are ripe for innovative technology and often rely on legacy systems. Furthermore, these legacy systems often cannot communicate with one another inside the enterprise. For an insurance company to gather all that data stored on these disparate systems for proxy requirements can be a cumbersome task. In essence, insurers can be working with six or seven different groups that handle their data differently.

Likewise, REITs crave shareholder voting analytics to help inform engagement strategies for their annual meetings.

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Mediant is a partner with Amazon Web Services and has developed an app that allows shareholders to vote via its Amazon devices; shareholders can say, “Alexa, vote my proxy.”



The silos, legacy systems and lack of analytics are a disruption to their business. These firms need a third-party proxy solutions provider that can reconcile the data from multiple systems and sources and provide innovative and informative analytics while maintaining flexibility and meeting all data security requirements.

The days of calling shareholders for their vote are long gone. Issues exist with reaching shareholders or they have shifted their ownership through a bank or broker, and sometimes their name and information are not available.

With these unique demographics, funds, insurance companies and alternative investments must:

- Be omni-channel communicators
- Educate shareholders about the value of their vote
- Provide anytime, anywhere access for them to cast their votes

Nowadays shareholders are more tech savvy than ever before. While older investors prefer to receive their proxy information via traditional mail, younger shareholders are more comfortable receiving fund information via email, text or social media platforms such as Facebook. Mediant, for example, is a partner with Amazon Web Services and has developed an app that allows shareholders to vote via its Amazon devices. Instead of clicking “submit” on an electronic form or signing a paper document, shareholders can say, “Alexa, vote my proxy.”

## THE DATA ADVANTAGE

In today’s investment world, data is abundant — generated not only on the trading desks and in the back-office server farm but also when companies conduct proxy votes. As any executive knows, companies ignore the treasure trove of data at their own risk. This is where a forward-thinking proxy solutions provider comes in to offer additional value.

Inside the proxy data, funds, insurance companies and alternative investments can create a proxy plan by examining shareholder behavior, past performance, by segment and market environment, and other factors. As the clients’ tabulator and solicitor year over year, a proxy solutions provider has all of the voting history. It should know when to call shareholders, what time of day, did they answer or not, how long did it take to get a conversion. This will not only help with strategy development for future proxy voting, it also helps create profiles of shareholders and the best ways to reach them.

Having better technology and a partner to ease the process every time a proxy is needed can eliminate disruption and increase efficiency.

## MEETING SPECIAL NEEDS OF MARKET SEGMENTS

While mutual funds, insurance companies and alternative investments share some similarities on basic needs for proxy events, not all are the same when it comes to their proxy process.

**Mutual Funds:** Funds have become tech-driven for operational efficiencies, product innovation, client engagement, and even their fund proxy voting process. Mutual funds are continually re-investing in technology to support money management and communications.

Since annual meeting requirements are rare for mutual funds (open-end funds), when a proxy does arise, usually it's prompted by a significant event such as director elections, merger and acquisition (M&A) activity or a fund reorganization. This is critical to the success of that fund company continuing to perform well. When they do a proxy, it's disruptive and expensive.

A key part of the proxy process is tabulating the votes. Mutual funds often have unique tabulation requirements due to the way the voting is structured. This is done as part of their fund bylaws — how they will count their votes and what will count in what way. For instance, is it a fund level or trust level? Those requirements could be one or many. There could be echo voting, fund of fund voting or plurality voting — everything is unique on a fund-by-fund and fund-complex-by-complex basis. This requires a clear understanding of all tabulation requirements and the complexities associated with them.

**Insurance firms:** In the insurance market, millions of annuitants own mutual funds. When a mutual fund goes to proxy, the annuitant needs to receive the information just like a registered retail shareholder. Similar to a bank-broker distribution, annuity providers may be still working on legacy systems that don't talk to each other and are required to have some level of regulatory distribution. This can be cumbersome when insurance firms and counsel need to obtain all of the data for a record date file for proxy. Having as many as six or seven different groups with different file layouts that are all using data differently can add to the complexity.

**Alternative Investments:** As stated earlier, REITs are seeking proxy solutions providers that can help deliver smart analytics to advance shareholder engagement and vote acquisition. They also want a proxy event to be easy for them. Having a provider to manage all aspects of the event saves them significant time that could be allocated elsewhere during the proxy process.

Most established REITs are required to go to proxy every year. Gathering information from the last meeting and leveraging the data is critical. For example, if a REIT is experiencing a liquidity issue or bad press at the time of its proxy event, that data can be used to help drive and inform the strategy for the next proxy event.

Having better technology and a partner to ease the process every time a proxy is needed can eliminate disruption to a REIT's business and increase its efficiency.

# HOW TO CHOOSE THE RIGHT PROXY SOLUTIONS PROVIDER

Consider the following 10 areas to determine the proxy solutions provider that's the right fit for your firm to navigate shifting demographics, evolving technology and communications and various voting segments.

## 1

### EXPERTISE IN REGULATORY COMPLIANCE FOR FUNDS AND THE PROXY PROCESS

While most funds have an in-house general counsel who is knowledgeable about regulatory compliance, a proxy solutions provider also should be at the forefront of the regulatory landscape, adopting changes into their proxy processes and technology. Some of these regulations include and are not limited to:

- The Investment Act of 1940 clearly defines the responsibilities and requirements of investment companies and the requirements for publicly

traded investment product offerings, including open-end mutual funds, closed-end mutual funds, and unit investment trusts.

- The Investment Company Act of 1933 protects investors by ensuring more transparency in financial statements so investors can make informed decisions about investments; and by establishing laws against misrepresentation and fraudulent activities in the securities markets.

## 2

### CUSTOMIZED TECHNOLOGY SOLUTIONS

Look for a provider that can deliver customized, tailored proxy solutions versus a "one size fits most" approach. This will enable funds to communicate with each shareholder segment in their preferred channels, whether it's digital or physical, while providing options for them to vote their proxies in their preferred way. Customization can help increase shareholder engagement and efficiencies during the proxy voting process and deliver creative ways to build more awareness of your brand to extend its reach.

Customization can help deliver creative ways to build more awareness of your brand to extend its reach.



# 3

## VALUE-ADD MENTALITY

A proxy solutions provider should deliver value far beyond traditional expectations. For example, it should be able to work with you to evaluate and determine if more can be done with your branding within the regulatory constraints of a proxy and recommend how you can further engage investors. Ask the provider if it can help you collect consents to save on postage and print costs in the future and what other ways it can help you add value back into your organization — whether it's financial, branding or recognition.

Opportunities exist no matter the size of your fund. Even smaller companies that recently went through an IPO can increase exposure for their

brand through their requirement to hold an annual meeting. This should be included in the proxy solutions provider's services, not an added expense unless it involves aspects like special enhanced packaging. If you're a large mutual fund looking for a proxy solutions provider to help with a proxy event, ask the provider what else you are going to receive in return.

The vote is key, but what else is going to have an effect? Are you going to be able to collect data to inform many things in the future to save money or help you make a better product?

# 4

## NON-COOKIE- CUTTER APPROACH

A proxy solutions provider should have agile practices and systems. As such, it is equipped with the flexibility and creativity to deliver customized strategies that focus on the needs of each client's proxy scenario to reach shareholders and deliver successful proxy voting outcomes.

When a provider looks at a proxy event, it shouldn't look at it from the point-of-view of, "I have to process this through the existing processes." It should have extremely well-thought-out processes and controls to bring a campaign from start to finish. It should look at this in a more

entrepreneurial or agile way to identify opportunities to help distribute proxies more efficiently and use customization to help clients achieve better results.

If a fund company asks a proxy solutions provider for something that is different and out of the ordinary, a cookie-cutter approach isn't going to work. However, if a fund goes to a provider that is nimble and willing to do something different, the response will be, "Yes, we can do it, and we are going to build for this because our systems are completely agile and flexible to accomplish this."



## 5 CONSULTATIVE APPROACH

Whether you are an experienced large mutual fund or a new smaller fund, look for a proxy solutions provider that is proactive and acts as a white glove, high-touch consultant such as:

- Provide information and options to help you successfully meet your goals and guide the way when requested.
- Analyze your data, understand your objectives and effectively communicate the strategy for bringing in votes to the very senior-level executives at your company.

- Communicate how it is going to accomplish this, where the cost is going to be and why it needs to spend more on an activity versus others.
- Deliver transparency throughout the entire proxy process so the client consistently is made aware of challenges and successes.

## 6 DATA MINING AND MANAGEMENT EXPERTISE

A proxy solutions provider should possess deep expertise in data analytics and management so it can help deliver a better experience for shareholders when they are voting proxies and use data differently to deliver value back to that fund company. In addition, a provider should be capable of helping to develop a solid plan and continuously improve processes and results by examining shareholder behavior and past performance by segment and market environment factors. Part of that strategy should be focused on measuring data through every channel, and if something isn't working the way that it was assumed, it should have the ability to be flexible and correct it.

Having data readily available and using it to tell a story back to a fund company as part of its proxy event is powerful and can help forecast what a

future event will look like for a company. If a proxy solutions provider serves as your tabulator and solicitor year over year, it should be able to take all of the shareholder data it has access to from past events, like calling history, and combine it with data you have on consent collection and other key proxy data so it has a clear picture of the shareholder and what it should do with that shareholder moving ahead.

One idea that is consistently misunderstood is that adding more agents to a solicitation campaign in a call center will get to a desired outcome faster. Usually this is not the case and should not be viewed as such. Rather, it's about how resources and technology are leveraged in the call center to manage the data, how it's refined and improved, and how providers are leveraging the technology to produce faster results.

## 7 TEAM PLAYERS

Proxy solutions providers should act as a dedicated and experienced extension of your in-house team. They should work closely with everyone involved in your proxy process including your operations team, C-Suite, legal team, outside counsel, investor relations team, communications

team, and human resources. If the proxy solutions provider works with a business partner on print and distribution management, it should be one unified team that delivers joint services that are seamless. It should also be a good team player with other industry players.

## 8 REAL-TIME, CUSTOMIZABLE REPORTING

To help understand the progress of proxy voting, whether any additional measures may improve results and to capture and share data that will help with future events, proxy solutions providers should offer real-time, customizable reporting. They should not only conduct deep data analysis during planning, but also do this throughout the proxy event to determine a strategy that will help reach quorum and proposal passage in a cost-ef-

fective manner. Daily tabulation reporting should be timely and flexible to provide the right information when needed. Also, providers should be transparent and give all analysis and reporting back to the fund company so it can see exactly what is happening. Some proxy solutions providers even assign a difficulty level on whether a proposal is going to pass or not.

## 9 AWARENESS OF NYSE PRICING STRUCTURE

A proxy solutions provider should be aware of the New York Stock Exchange (NYSE) pricing structure and restrictions for proxies, look at your proxy event holistically, provide extremely competitive rates, and manage the whole project regardless of who is distributing the beneficial accounts. Providers do not need to charge maximum fees for additional options and services that are extra. In other words, the NYSE pricing is the max, but some services could be accommodated within that number that don't have to result in additional charges.

If a mutual fund wanted to do a stratified mailing where some of it is going Standard Mail® and some First-Class Mail®, some providers will charge extra for this. Instead, it should be looked at on a case-by-case basis. If a provider's technology is nimble and flexible, it doesn't need to charge for it because it's included in the service it provides.

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# 10

## TOTAL SOLUTION FOR THE PROXY MANAGEMENT PROCESS

Evaluate whether a proxy solutions provider offers a “one size fits most” approach or a total solution — from beginning to end — with print and online options, and inbound and outbound solicitation. Working with a single provider to handle your entire proxy event can eliminate the need to coordinate multiple vendors, minimize delays and expenses required to print and ship proxy materials, and receive one single invoice.

Deep data analysis throughout your proxy event will enable you to put the best strategy in place that is tailored to match your shareholder demographics and firm’s needs.

### BENEFITS OF WORKING WITH THE RIGHT PROXY SOLUTIONS PROVIDER

By partnering with the right proxy solutions provider, you can create a more customized, efficient and seamless experience for your firm and your shareholders. Deep data analysis throughout your proxy event will enable you to put the best strategy in place that is tailored to match your shareholder demographics and firm’s needs, which will help you reach quorum and proposal passage in a cost-effective manner. Integration of the proxy solutions provider’s in-house call center, real-time data and relationship team will enable flexibility throughout your campaigns.

In addition, planning and transparency throughout your entire event means no surprises with costs. You will also have dedicated, experienced experts who will serve as an extension of your team and coordinate your proxy initiatives with all industry players.

Finally, you will have a partnership to power your proxies and receive greater results.

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*Rich is an active member of leading industry associations including: National Investment Company Service Association (NICSA), Insured Retirement Institute (IRI), Nareit® REIT World, Information Management Network (IMN), and Institute for Portfolio Alternatives (IPA).*

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*Mediant delivers investor communications solutions to brokers, corporate issuers and funds. Our solutions are driven by leading technology and strict compliance with industry regulations, which allows clients to balance innovation with requirements. We enable brokers to effectively manage all potential touchpoints within the investor communications lifecycle — from proxy statements and prospectuses to voluntary corporate actions. We provide corporate issuers with turnkey proxy processing, and we empower mutual funds, REITs and insurance companies with a full-service, end-to-end proxy solution.*