GLASS LEWIS

Change Can Create a Healthier Proxy Advisory Industry

In every business sector, there comes a time for change. In fact, more times than not, change in a business sector creates a healthier, more dynamic environment for all stakeholders.

At Glass Lewis, we recognize that change is all around us. The U.S and European institutional investor markets are increasingly divergent in their definitions of fiduciary duty, their approaches to issuer engagement, the value they place on environmental and social issues and the way in which they leverage their proxy votes to express their rights as shareholders.

This brings us to the realization that a single proxy voting recommendation for some key ballot items is no longer sufficient, no longer reflective of market perspectives and in some cases no longer aligned with market standards.

This divergence of perspectives is one fundamental reason we believe it is time for substantive change in the proxy voting arena. At Glass Lewis, we're ready to lead that change – modifying our own business practices to eliminate the misperception of influence and in doing so, making it clear that ownership of the proxy voting decision lies squarely in the hands of shareowners.

We firmly believe in the long-term, this will be good for our clients and for all stakeholders across the proxy voting spectrum.

Glass Lewis: Addressing Criticisms with Transformative Changes

While proxy advisors can have some influence on vote outcomes, most claims of proxy advisor influence are vastly overstated.

Anyone making these inferences knows quite well that proxy advisors don't control any vote. We don't own the shares -- investors do. That said proxy advisor analysis and recommendations are an important input into the proxy voting decision-making process. For some investors, those recommendations are followed too closely without ample internal deliberation. But for most institutional investors, proxy advisor recommendations are just one input among many when instructing votes.

Regardless of their level of engagement, it is irrefutable that our investor clients own their voting decisions and it is our single most important job to make sure that our clients are able to make those decisions in ways that are consistent with their internal investment philosophies and views on corporate governance. Stated clearly and emphatically, Glass Lewis does not want to be the decision-maker and shouldn't be the decision-maker because we do not own the shares.

Glass Lewis: Leading Change

Successful businesses evolve with the environments in which they operate. Because we believe change is in fact necessary – and now is he time – Glass Lewis is already working to address three key criticisms of proxy advisors:

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Perception of influence: Voting policy guidelines sit at the heart of the proxy voting process. These guidelines, which are meant to reflect each client's viewpoints on corporate governance matters, drive proxy advisor voting recommendations and ultimately client vote decisions. Asset managers and pension funds either adopt a proxy advisor's "house" policy or develop their own custom policy.

Over the next three years, Glass Lewis will make two significant changes to the way in which we provide policy choice.

First, in order to inject more neutrality and offer a more vibrant set of corporate governance viewpoints to our diverse client base, Glass Lewis will open its platform to third party voting policies, beginning with the 2026 proxy season. Additional policy options from other organizations, including other proxy advisors and institutional stakeholder groups, will be offered as alternatives to the Glass Lewis house policy. The additional policies will be offered to clients along with the three special third party policies we already offer, one that follows Taft-Hartley guidelines, one that applies the voting guidelines of the U.S. Conference of Catholic Bishops and one specifically for members of Germany's fund industry known as BVI Bundesverband Investment und Asset Management e.V.

Secondly, we will set a plan in motion over the next three years to engage with all of our asset manager and pension fund clients to help them develop and implement their own custom voting policies that directly reflect their firm-specific views on corporate governance matters and align with their fiduciary duty.

By leveraging data, borrowing frameworks established by other custom policies and facilitating with our own expertise, our goal is to make custom policy development so seamless that the vast majority of our clients will use their own guidelines to drive voting decisions.

The end result of us implementing these two significant voting policy initiatives will be a significant shift away from use of the Glass Lewis house policy and to the vast majority of our clients using third party or custom policy guidelines that more clearly express their specific voting preferences and stewardship goals.

Our role in the process will continue to be one of support, providing data, informed analytical insights, vote execution and excellent client service.

Potential conflicts of interest: Glass Lewis will forego any future opportunity we are considering in the practice of providing corporate governance or proxy voting related consulting services to public companies. In fact, we are willing to go so far as to take the firm position that providing consulting services or solutions to companies on matters specific to proxy voting by proxy advisors or their affiliates should be banned entirely.

These types of services create significant conflict of interest, hold companies hostage to paying for supportive vote outcomes, and cast a shadow of doubt and mistrust over the integrity of the entire proxy voting process.

Absence of Regulatory Oversight: Glass Lewis supports reasonable regulation of the proxy advisory industry. While we are open to registering as an investment adviser if the SEC were to require proxy advisors to do so, we recognize that the rules for investment advisers may not be fit for purpose and that the RIA approach may therefore be seen as window dressing. Instead, we support the creation of a registration classification specifically designed for proxy advisors, that helps these providers operate within specified and understood regulatory parameters.

While we acknowledge that some of the criticisms of proxy advisors are justified, they are more fairytale than fact. Nevertheless, not all that different from proxy advisor critics, Glass Lewis leadership believes that real change is necessary and that now is the time to create a healthier proxy advisory industry for all stakeholders.

Clearly stated and based entirely on what we see as the best way to serve our clients for years to come, Glass Lewis looks to facilitate change that puts the ownership of proxy voting decision-making squarely in the hands of investors, change that enables diversity of corporate governance viewpoints and change that fosters trust and constructive engagement between companies and their shareholders.