

(Re)call of Duty: Mutual Fund Securities Lending and Proxy Voting

Finance Working Paper N° 1107/2025

November 2025

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Abstract

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Keywords: Securities lending, stock loan recalls, proxy voting, ESG funds, corporate governance

JEL Classifications: G23, G32, G34, G38

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I. Introduction

Theory suggests that large shareholders, such as mutual funds, have strong incentives to monitor their portfolio firms, thereby reducing agency costs and improving corporate governance (Grossman and Hart, 1980; Shleifer and Vishny, 1986). Yet the value that funds place on monitoring likely varies substantially across institutions. While most asset managers publicly emphasize the importance of “voice,” particularly proxy voting, as a key monitoring mechanism (Hamlin, 2021), empirical evidence indicates considerable heterogeneity in their actual monitoring practices. Some funds actively engage in proxy voting, while others rely entirely on proxy advisors to delegate their voting decisions (e.g., Iliev and Lowry, 2015; Malenko and Shen, 2016). This variation in practices suggests that funds differ meaningfully in how much they value monitoring. In this paper, we develop a novel approach to infer differences in funds’ true preferences for monitoring.

Nearly half of U.S. equity mutual funds engage in securities lending (Dong and Zhu, 2023). This activity creates a monitoring trade-off: when funds lend portfolio shares, voting rights transfer to the borrower. To vote proxies, funds must recall loaned shares before the record date. Share recalls, however, entail a direct cost—funds must forgo the associated lending revenue. This trade-off provides a revealed-preference framework for assessing how much a fund values voting rights. Because a rational fund recalls shares only when the perceived benefits of voting exceed the forgone lending income, recall decisions reveal the minimum value a fund places on proxy voting for specific governance issues. By examining heterogeneity in lending and recall practices across funds, we can infer which types of institutions value voting rights more, and under what circumstances.

We also examine whether share recalls systematically predict how those shares are voted. This analysis addresses two key questions about the governance implications of securities lending. First, under the revealed-preference logic, because recalling shares is costly, how recalled shares are voted should be especially informative about a fund’s approach to corporate governance. Second, if recalled shares exhibit distinctive voting patterns, they may

collectively influence proposal outcomes, particularly in close contests where marginal votes matter. These dynamics have drawn regulatory attention: the U.S. Securities and Exchange Commission's (SEC) recent rules on Reporting of Securities Loans and Amendments to Form N-PX cite concerns about limited transparency in how securities lending affects proxy voting outcomes.¹

To study these issues, we assemble a comprehensive dataset on individual mutual funds' securities lending positions, recall decisions, and recall policies from multiple sources. First, we use funds' reported securities lending positions from N-PORT filings to infer recall decisions at the quarterly frequency. Second, we manually collect statements on loan recall policies for proxy voting from regulatory disclosures and classify funds into three categories: (i) case-by-case recall, (ii) generally recall for proxy voting, and (iii) generally do not recall. Third, we collect funds' proxy voting records from their N-PX filings.

We find strong evidence that mutual funds strategically recall shares prior to proxy voting events. On average, funds are 1.3 percentage points more likely to recall loaned stocks during quarters containing proxy voting dates than in other quarters. This pattern persists even for "on special" stocks with substantial lending fees (at least 100 basis points) and when shorting demand is strong, suggesting that voting considerations can override significant financial incentives to maintain loans. Mutual funds' recall patterns also align with their stated policies. Funds with "generally recall" policies exhibit recall rates that are 10.3 percentage points higher than those without explicit disclosure, while funds with "generally not recall" policies have recall rates 4.3 percentage points lower than the baseline. This variation in both disclosed policies and observed behavior demonstrates substantial heterogeneity in how mutual funds value voting rights.

Mutual funds' recall decisions also vary systematically with fund characteristics in ways consistent with economic theories of monitoring incentives. A larger ownership stake in portfolio firms and a longer holding horizon both positively predict a fund's propensity to

¹These rules can be downloaded from <https://www.sec.gov/files/rules/final/2023/34-98737.pdf> and <https://www.sec.gov/files/rules/final/2022/33-11131.pdf>.

recall shares during proxy quarters relative to non-proxy quarters. Conversely, larger funds are less likely to recall shares for voting, likely reflecting the higher operational costs of monitoring numerous loaned positions across extensive portfolios.

We also examine how funds' environmental, social, and governance (ESG) orientation affects recall behavior, contributing to the debate on sustainable investing. Evidence is mixed on whether ESG funds meaningfully influence portfolio firms' sustainability policies or merely engage in greenwashing (e.g., [Dyck, Lins, Roth, and Wagner, 2019](#); [Lowry, Wang, and Wei, 2022](#); [Li, Naaraayanan, and Sachdeva, 2021](#)). Our recall data offer a new perspective: ESG funds are more likely to recall loaned shares for proxy voting than conventional funds, with recall rates 5.2 percentage points higher for meetings featuring close votes. This behavior suggests that ESG funds prioritize voting rights over lending revenue, particularly when governance outcomes are uncertain.

Mutual funds' recall decisions also vary systematically with proposal characteristics and firm-specific factors in economically intuitive ways. Funds recall at higher rates for high-stakes governance events where voting outcomes have substantial value implications. M&A-related proposals and proxy contests generate the most recalls, consistent with these situations creating sufficient voting value to justify forgoing securities lending revenue. Similarly, funds are more likely to recall shares of companies with poor governance quality. These patterns suggest that funds strategically deploy their voting rights when they perceive the greatest potential for value creation through improved corporate governance.

Next, we examine how recalled shares are voted and assess their potential influence on proposal outcomes. For uncontested management and shareholder proposals, funds voting recalled shares are 1.8 percentage points more likely to vote against management. This finding is consistent with [Aggarwal, Saffi, and Sturgess \(2015\)](#), who document that reduced stock-level lending supply correlates with increased opposition to management. The anti-management effect is substantially more pronounced for certain proposal types, such as environmental and social (ES) proposals, and proxy contests, in which recalling funds are

9.9 percentage points more likely to back dissident slates.

However, the association between recalled shares and voting direction can reflect both (i) a selection effect, where more recalls occur before meetings in which most shareholders are galvanized against management, and (ii) the voting difference between funds that recall shares and non-lending funds voting in the same meeting. Our granular data allow us to go beyond prior studies and disentangle these effects using individual proposal fixed effects. This specification yields more nuanced results. For uncontested management proposals, the voting of funds that recall shares is not statistically different from that of non-lending funds. For shareholder proposals, however, recalled shares remain more likely to oppose management, though the difference is more moderate.

Most notably, in proxy contests, recalled shares are 8.8 percentage points more likely to support dissident slates—a large effect suggesting distinct voting differences rather than selection. In high-stakes corporate battles, funds that sacrifice lending revenue to vote appear more willing to challenge incumbent management than other shareholders at the same meeting. Interestingly, ESG funds are 14.3 percentage points more likely to oppose management in proxy contests when recalling shares, compared with other funds.

Recalled shares have the potential to alter voting outcomes. Observationally, the fraction of funds that recall shares is positively related to rejecting management proposals or passing shareholder proposals. The effect is especially pronounced for proxy contests: a one standard deviation increase in the fraction of recall funds is associated with a 7.0-percentage-point greater likelihood of a dissident win. Counterfactual analysis shows that if recalled shares had remained lent, 11.0% to 12.2% of failed close-call management proposals (winning margin -5 to +5 percentage points) would have passed, and 10.5% to 14.5% of passed close-call shareholder proposals would have flipped.

Beyond shares being lent and recalled, we argue that a fund's responsiveness in recalling loaned shares can serve as a proxy for its overall monitoring intensity and corporate governance sophistication. Under this interpretation, recall-sensitive funds should exhibit

distinctive voting patterns across their portfolios, even for positions they do not lend. To test this hypothesis, we construct a fund-level recall-voting sensitivity measure that captures each fund's incremental probability of recalling shares before a shareholder meeting versus non-meeting periods. We find that recall-sensitive funds are significantly more likely to oppose management recommendations, support shareholder proposals, and back dissident slates for positions they hold but do not lend.

Finally, we consider mutual funds' trade-off in recalling shares for voting. Recalling shares reduces lending income, potentially harming fund performance and triggering investor outflows. However, active monitoring through voting may enhance long-term portfolio value, and some investors may favor funds that demonstrate strong governance stewardship, particularly on ES issues (Brav, Li, Lund, and Pan, 2025). Our analysis suggests that while recall-sensitive funds forgo modest lending revenue, they tend to attract larger institutional fund flows, indicating that investors reward diligent proxy voting as evidence of responsible stewardship.

Our paper contributes to several strands of literature. First, it advances the understanding of securities lending in the corporate governance context. Using data from a large lending agent, Christoffersen, Geczy, Musto, and Reed (2007) find a sizable increase in loan volume on proxy record dates and conclude that the equity loan market "facilitates the trading of votes," decoupling economic ownership from voting power. Using option prices, Kalay, Karakas, and Pant (2014) estimate that the market value of voting rights for the average firm is 0.10%-0.25% of the stock price under normal conditions.²

Our study is closely related to Aggarwal, Saffi, and Sturgess (2015), who document declines in aggregate lendable supply around proxy record dates and find correlations with voting outcomes. We extend this research in several ways. First, we use fund-level lending positions to infer individual funds' recall decisions rather than relying on aggregate supply changes, allowing us to examine heterogeneity in funds' revealed preferences for monitoring.

²In addition, Kolasinski, Reed, and Ringgenberg (2013) and Porras Prado, Saffi, and Sturgess (2016) study the interplay between equity lending activities, institutional ownership, and limits to arbitrage.

Second, we link recall decisions to subsequent voting behavior, distinguishing genuine behavioral differences from selection effects—specifically, whether recalling funds vote differently or simply recall around contentious meetings where most shareholders are predisposed to oppose management.

We contribute to the literature on the governance role of institutional investors, who influence corporate governance through “voice” or “exit” (for recent surveys, see [Edmans, 2014](#); [Edmans and Holderness, 2017](#); [Dasgupta, Fos, and Sautner, 2021](#)). [McCahery, Sautner, and Starks \(2016\)](#) survey institutions and find that they engage portfolio firms via proxy voting. We add to the literature on shareholder voting by providing novel evidence on whether the decision to recall loaned shares relates to mutual funds’ voting behavior.³ Complementing [Malenko and Malenko \(2024\)](#), who model how funds decide between delegation and self-vote, our study highlights a fundamental trade-off in funds’ voting decisions: retaining profitable lending revenue versus exercising governance rights that can enhance long-term value. This revealed-preference approach sheds light on funds’ actual, rather than stated, commitment to corporate governance.

II. Data and Sample

A. *Securities lending data*

Mutual funds’ securities lending activities are obtained from their quarterly N-PORT filings. Beginning in 2019, mutual funds report their portfolio holdings via Form N-PORT. For each position, Form N-PORT asks, “Is any portion of this investment on loan by the Fund?” If

³Notable studies examining incentives that affect mutual fund voting include [Davis and Kim \(2007\)](#), [Matvos and Ostrovsky \(2008\)](#), [Harford, Jenter, and Li \(2011\)](#), [Butler and Gurun \(2012\)](#), [Cvijanovic, Dasgupta, and Zachariadis \(2016\)](#), [Bodnaruk and Rossi \(2016\)](#), and [Brav, Jiang, Li, and Pinnington \(2024\)](#). The literature has also explored other issues related to mutual fund proxy voting, including [Cai, Garner, and Walkling \(2009\)](#), [Cuñat, Gine, and Guadalupe \(2012\)](#), [Iliev and Lowry \(2015\)](#), [Malenko and Shen \(2016\)](#), and [Bolton, Li, Ravina, and Rosenthal \(2020\)](#). For a more comprehensive review of mutual fund voting, see [Yermack \(2010\)](#) and [Bolton et al. \(2020\)](#). In addition, studies have examined mutual funds’ engagement with portfolio companies, for example [Becht, Franks, and Wagner \(2025\)](#), [Dimson, Karakaş, and Li \(2015\)](#), and [Heath, Macciocchi, and Ringgenberg \(2024\)](#).

the answer is yes, the filing provides the value of the portion on loan.

We collect all N-PORT filings of U.S. domestic equity funds from the SEC's EDGAR system. Domestic equity funds are defined as those in the CRSP Mutual Fund database with a CRSP objective code beginning with "ED." We link the CRSP Mutual Fund database to N-PORT filings through each fund's series CIK. The sample period begins in 2019Q3, the first quarter mutual funds submitted N-PORT filings, and ends in 2024Q2.

Because we observe mutual fund securities lending positions only at quarter-ends, we infer recalls of loaned-out securities as follows. First, we restrict our sample to stock positions held by a fund at both quarter-ends, $t - 1$ and t . Second, for each fund-stock-quarter observation, we define an indicator variable, $D(Recall)$, which equals one if the fund had the stock on loan (any positive amount) at the end of quarter $t - 1$ but had no shares on loan at the end of quarter t , while still holding a positive amount of the stock.

Our $D(Recall)$ variable provides a noisy but informative proxy for mutual funds' recall activities. The measure may underestimate true recall activity when funds recall shares between quarter-end $t - 1$ and the record date, vote proxies, and then successfully re-lend the same shares before quarter-end t . However, as discussed later, industry practices make immediate re-lending after voting highly unlikely, mitigating this concern. Conversely, the measure may overestimate fund-initiated recalls if borrowers terminate agreements, generating false positives.

We address these measurement issues using a difference-in-differences approach that compares recall rates for the same fund-stock pair between meeting and non-meeting quarters. This within-variation strategy yields unbiased estimates of incremental recall activity as long as measurement error does not vary systematically across periods—a plausible assumption since borrower-initiated terminations should be uncorrelated with proxy voting schedules. We further validate our approach using a subsample with strong shorting demand following [Cohen, Diether, and Malloy \(2007\)](#). In this subsample, where short interest increases, our inferred $D(Recall)$ is less likely driven by borrower terminations.

B. Shares on loan from N-PX filings

In 2022, the SEC adopted amendments to Form N-PX, effective for votes cast on or after July 1, 2023. Under the amended rules, mutual funds must disclose both the number of shares voted and the number of shares loaned but not recalled as of the record date. This reform provides investors with a clearer view of the trade-off between lending revenue and shareholder engagement through proxy voting.

We collect mutual funds' N-PX filings from EDGAR for the period from July 1, 2023, through June 30, 2024. This granular dataset allows us to construct an alternative intra-quarter recall indicator, $D(Recall)^{NPX}$, which equals one if a fund held a positive number of shares on loan at the previous quarter-end but none on the record date.

This measure substantially reduces measurement error by capturing lending position changes over shorter intervals than a full quarter. However, $D(Recall)^{NPX}$ can only be constructed for quarters containing proxy record dates. Consequently, we adopt a two-step approach: for comparisons across meeting and non-meeting quarters, we use our baseline $D(Recall)$ from N-PORT filings for consistent coverage. For analyses of how recalled shares are actually voted, we combine the two data sources, using the more precise $D(Recall)^{NPX}$ for the 2023–2024 period and $D(Recall)$ for earlier periods.

The intra-quarter observations from the new N-PX filings also provide information on the rate of recalls likely initiated by lenders versus borrowers. Because proxy record dates are distributed throughout each quarter, we can calculate the average $D(Recall)^{NPX}$ as a function of days elapsed since the previous quarter-end. Figure 1 shows that recall probability increases over time since the previous quarter-end, offering insight into the underlying recall dynamics. Under the plausible assumption that borrower-initiated recall propensity rises over time (e.g., due to short sellers' investment horizons) while lender-initiated recall propensity remains constant, the y -intercept of a regression of $D(Recall)^{NPX}$ on t captures the baseline rate of lender-initiated recalls.

Using both fourth-degree polynomial and kernel regressions, Figure 1 estimates this y -

intercept at approximately six percentage points per quarter. This estimate appears reasonable in light of existing evidence. D’Avolio (2002) provides anecdotal evidence that the monthly rate of lender-initiated recalls is about 1.5 percentage points, translating to a quarterly rate of approximately 4.5 percentage points.

[Insert Table 1 here.]

C. Fund recall policies

First, we download from EDGAR all N-1A filings submitted by our sample funds from 2019Q3 through 2024Q2. These documents typically include proxy voting guidelines and discussions of securities lending. We then extract paragraphs containing the keywords “securities lending,” “equity lending,” “stock lending,” or “recall.” Each filing may contain multiple relevant paragraphs. We consolidate repeated statements, yielding 2,525 unique paragraphs, which we read manually.

A typical N-1A filing includes multiple funds (the filing is at the “registrant” level), some of which may be sub-advised. When a fund has no subadvisor, its advisor is responsible for proxy voting. For sub-advised funds, proxy voting is generally handled by the subadvisor. Consequently, most N-1A filings include multiple recall policies for different sub-advised funds. We manually identify each sub-advised fund’s subadvisor and apply the subadvisor’s recall policy to the fund.⁴ By fund family, we refer to a fund’s advisor when the fund is not sub-advised, or otherwise its subadvisor.

D. Mutual fund voting records and outcomes

Our voting data include mutual funds’ records for both uncontested meetings and proxy contests. From 2019Q3 through 2023Q2, the source is ISS Voting Analytics, which provides each fund’s vote on every proposal (For, Against, or Abstain), fund and fund family

⁴For the few cases where a sub-advised fund’s advisor, rather than its subadvisor, is responsible for proxy voting, we apply the advisor’s recall policy.

identity, company identity, meeting type (annual, special, or proxy contest), meeting date, proposal description, management and ISS recommendations, and sponsor type (management or shareholder). From 2023Q3 through 2024Q2, we use N-PX filings from EDGAR, as documented in Section II.B. Aggregate votes for each proposal (i.e., For, Against, Abstain), the passing threshold, and the vote base are also obtained from ISS.

Because proxy contests include both management and dissident slates, we follow Brav, Jiang, Li, and Pinnington (2019) and Brav et al. (2024) by aggregating ISS recommendations, fund votes, and voting outcomes at the meeting level. We define two key indicators: *Vote for dissident*, which equals one if a fund votes for the dissident slate, and *Dissident wins*, which equals one if a dissident secures at least one board seat.

E. Mutual fund characteristics and other datasets

We obtain mutual fund characteristics from the CRSP Mutual Fund database. Matching funds between our voting data and CRSP is nontrivial. First, we match each voting fund to a CRSP fund using its fund and family names, applying a fuzzy matching algorithm followed by manual verification. Second, we manually search CRSP to identify funds that remain unmatched. Because ISS uses historical fund names while CRSP lists the most recent, we rely on N-CSR filings (annual and semiannual stockholder reports) to track name changes during our sample period. About 90% of voting funds match CRSP records. Since CRSP reports data by share class, we aggregate across share classes to the fund level and merge the voting dataset with securities lending and recall policy data using each fund's series CIK.

Lending fees and the total number of shares borrowed are obtained from Markit. Financial accounting and stock return data come from Compustat and CRSP, respectively. Our final sample comprises 8,062 firms and 2,563 lending funds over the period from 2019Q3 through 2024Q2.

Identifying ES proposals and ESG funds We read the description of each shareholder proposal and classify ES proposals as either environment-related, including climate-change and other environmental issues, or social-related, primarily covering political, diversity, and other social topics (e.g., human and animal rights, consumer issues).

To identify ESG funds, we rely on fund names and search for keywords such as ESG, CSR, SRI, environment, and social.⁵ Several existing studies, including [Curtis, Fisch, and Robertson \(2021\)](#) and [Li, Naaraayanan, and Sachdeva \(2021\)](#), use this search-based approach. Through this process, we identify 255 unique ESG funds. We supplement the list with funds from reputable sustainable fund families—Calvert, Pax World, Trillium, Praxis, Parnassus, Boston Trust, and Green Century—and hand-verify each fund’s prospectus to confirm ESG themes. This step adds 36 funds, bringing the total to 291.

F. Descriptive statistics

We begin by presenting fund–stock–quarter–level characteristics for mutual funds engaged in stock lending, which form the basis of our main analyses. As shown in Table I, Panel A, the average (median) firm has a market capitalization of \$7.3 (\$1.6) billion, while the average (median) annualized lending fee is 160 (31) basis points. The average fund manages \$28.6 billion in assets, the average fund family owns 1.5% of a stock’s outstanding shares, and the average fund’s holding horizon is 2.9 years. This ownership level indicates that while most fund families are unlikely to be pivotal in proxy matters, they could cast the deciding vote in close-call proposals.

[Insert Table I here.]

Not surprisingly, roughly 25% of quarters fall within the proxy season, when most shareholder meetings are held. Only 1.5% of fund-quarters include meetings featuring shareholder-

⁵Our list also includes responsible, climate, equality, ethic, green, clean, sustain, renew, diversity, women, impact, low carbon, progressive energy, fossil fuel free, alternative energy, energy solution, eco leader, and ecological strategy.

sponsored proposals, while management proposals, such as director elections and Say-on-Pay votes, constitute the vast majority.

At the fund-month level, recall-voting sensitivity—a normalized variable that proxies for a fund’s propensity to recall shares during the sample period—exhibits considerable variation, as shown in Panel B. About 39% of sample funds engage in stock lending, and 23% of them are index funds. For the average fund, institutional share classes constitute the majority. Other fund-level characteristics are broadly similar to those reported at the fund–stock–quarter level (for funds that engage in stock lending).⁶

Panel C shows that recalled shares are 1.6 percentage points more likely to be voted against management in uncontested proposals relative to non-recalled shares. The difference is much larger for shareholder proposals (5.8 percentage points), especially ES proposals (6.5 percentage points), than for management proposals such as director elections and Say-on-Pay votes. Similarly, the “opposition gap” in proxy contests exceeds 6.9 percentage points. These patterns suggest that in high-stakes voting events, such as proxy contests and ES proposals, funds that incur the cost of recalling shares are more eager to have their “voice” heard and to influence voting outcomes.

III. Recalls of Loaned Securities before Proxy Voting

A. *Institutional background*

Securities lending is a well-established practice among institutional investors, including mutual and pension funds, aimed at generating additional portfolio returns. Under these arrangements, funds lend portions, or the entirety, of their security holdings to borrowers (typically short sellers) in exchange for lending fees. This practice creates a fundamental trade-off for fund managers regarding proxy voting rights. When funds lend portfolio se-

⁶Fund TNA figures reported in Panel A are generally larger than those in Panel B because Panel A reports statistics at the position level, while Panel B does so at the fund level. Funds with larger TNAs typically hold more positions, leading to their overrepresentation in position-level data.

curities, voting rights transfer to the borrower and remain with them (or with subsequent purchasers) until the loan terminates and shares are returned. To exercise voting rights on loaned shares, a fund must recall them before the proxy record date to regain control.

Because securities lending agreements are open-ended, both parties may terminate the loan at any time. When a fund initiates a recall, it returns the collateral to the borrower, who must then return the borrowed shares within two business days—the standard U.S. equity settlement period. In practice, this process can take longer.⁷ These timing constraints require funds to anticipate voting needs well in advance of proxy record dates, adding complexity to portfolio management decisions.

When funds recall shares for voting, they typically forgo lending income for an extended period beyond the voting event itself. Conversations with industry practitioners indicate that recalled shares cannot be re-lent immediately after voting due to several constraints. First, when shares are recalled, lending agents often arrange substitute loans from other available lenders to maintain borrower relationships, making it difficult for the original lender to quickly re-enter the lending market for the same security. Second, recalled shares must be formally restricted in custody systems to prevent inadvertent re-lending during the voting period. Although beneficial owners are responsible for removing these restrictions after voting, the process is not automated, and funds are often not prompt to do so.⁸

B. Narrative evidence from fund disclosures

The SEC mandates that fund managers recall loans in time to vote on “material” corporate proposals affecting loaned securities but does not explicitly define materiality. To understand how funds operationalize this materiality standard, we systematically reviewed N-1A filings for our sample funds (Section II.C), focusing on disclosed considerations for recall decisions.

⁷Borrowers typically use borrowed securities to settle short positions or other transactions, requiring them to either source replacement securities from third parties or purchase shares in the open market before returning them. Aggarwal, Saffi, and Sturgess (2015) report that actual recall cycles often take one to two weeks to complete.

⁸We thank Mark Klein from S&P Global Market Intelligence for sharing these insights.

This analysis reveals several recurring factors that funds cite as influencing their willingness to forego lending income in order to exercise voting rights.

Nature of the meeting A number of funds mention that they will recall shares to vote in special meetings, proxy contests, or meetings that feature M&As or certain shareholder proposals. Presumably, these are high-stakes circumstances that can significantly affect shareholder value. For example, Charles Schwab Investment Management “will use its best efforts to recall a Fund’s securities on loan and vote such securities’ proxies in certain circumstances including if (a) the proxy relates to a special meeting of shareholders of the issuer (as opposed to the issuer’s annual meeting of shareholders).” Federated Investors states that “the Adviser will take all reasonable steps to recall shares prior to the record date when the meeting raises issues that the Adviser believes materially affect shareholder value, including, but not limited to, excessive compensation, mergers and acquisitions, contested elections...”

Stake size and holding horizon Another important factor appears to be the size of fund holdings. For instance, Charles Schwab will recall a loan to facilitate voting when a “[f]und owns more than 5% of the outstanding shares of the issuer,” while Manulife Investment Management focuses on “preserving voting rights for issuers where funds hold 2% or more of an issuer as aggregated across funds.” Vanguard Group also considers the “individual and/or aggregate equity investment in a company” when making recall decisions. In addition to stake size, ALPS Advisors considers “whether the security is considered a long-term holding” when deciding whether to recall a loaned stock.

Firm and stock characteristics Some funds comment that efforts to recall foreign securities may be unsuccessful and involve additional expenses.⁹ Recalling foreign stocks often involves multiple intermediaries and is more time-consuming. Lending funds also pay partic-

⁹For example, State Street funds state that “A Fund will call loans to vote proxies if a material issue affecting the investment is to be voted upon. Efforts to recall such securities promptly may be unsuccessful, especially for foreign securities or thinly traded securities, and may involve expenses to a Fund.” See <https://www.sec.gov/Archives/edgar/data/1064642/000119312519233764/d768123d485apos.htm>.

ular attention to firms with weak governance, including those that pay excessive executive compensation, as outlined by Federated Investors above.¹⁰ Finally, lending fees are an important consideration for many lenders as they weigh the benefits of voting a company's shares against the additional revenue generated from lending fees.

It is worth noting that for U.S. stocks, the record date of an annual meeting typically falls before the proxy statement is filed. Therefore, it is not practicable for funds to evaluate a proxy statement (DEF 14A) before recalling any shares on loan prior to the record date. As a result, fund managers must estimate the benefit of recalling shares, based on the factors mentioned above, before the estimated record date, without knowing whether a vote on material matters will occur. In contrast, this challenge is less relevant for merger proxies, other special meetings, and proxy contests (whether held at annual or special meetings), as issuers (and dissidents) typically file preliminary proxy statements before record dates.¹¹ However, this is unlikely the case for some shareholder proposals, since companies generally do not disclose pending proposals publicly during their review or when requesting SEC “no-action” relief to exclude them, unless the proposals are voluntarily disclosed by their sponsors or appear in the SEC’s no-action correspondence database (see [Horne \(2023\)](#) for details).

Classification of fund recall policies We carefully review the textual content of 2,525 paragraphs from N-1A filings, as described in Section II.C, to determine the nature of each fund’s recall policy with respect to voting. We categorize funds’ recall policies into three groups:

- “Case by case” (policy group 1): When a fund states that it needs to evaluate whether a vote is material before recalling loaned shares and to assess whether the benefit of

¹⁰For details, see <https://www.sec.gov/Archives/edgar/data/912577/000162363219000503/form.htm>.

¹¹Regulation 14A of the Securities Exchange Act of 1934 (Rule 14a-6) requires that preliminary copies of a proxy statement be filed with the SEC at least 10 calendar days before definitive copies are first sent to shareholders. In addition, a preliminary merger proxy statement (PREM 14A) is subject to SEC review. If the SEC provides comments on the preliminary proxy statement, the company may need to amend its merger proxy before filing the definitive proxy statement.

voting a particular proxy outweighs the cost of foregoing securities lending income, we classify it as a fund that recalls on a case-by-case basis.

- “Generally recall” (policy group 2): When a fund explains it generally attempts to recall securities on loan before a meeting’s record date for proxy voting purposes, we classify it as a fund that generally recalls.
- “Generally not recall” (policy group 3): When a fund states that it does not, or rarely, recall shares for voting purposes, we classify it as a fund that generally does not recall loans.

Appendix Table A1 shows example statements from funds that we classify as Groups 1, 2, and 3, respectively. We classify 1,615 funds as Group 1, 112 funds as Group 2, and 179 funds as Group 3, which account for 63.0%, 4.4%, and 7.0% of funds that engage in securities lending, respectively. The remaining funds do not disclose a specific recall policy and serve as the baseline group in our regression. We refer to this group as the “no recall policy” group. While these funds do not discuss their recall policies in regulatory filings, the SEC stipulates that “if fund management has knowledge of a material vote with respect to the loaned securities, fund directors should recall the loan in time to vote the proxies.”¹² Therefore, it is an empirical question whether the “no recall policy” funds exhibit different tendencies to recall shares before voting relative to other funds, particularly the “case by case” group.

Of the fund families in our sample, all but one share the same recall policy across their constituent funds. However, this does not necessarily imply that a fund would recall shares in concert with other funds from the same family. In fact, among the 310 fund families in our sample, we find only three small families in which funds from the same family exhibited exactly the same recall pattern.

¹²See <https://www.sec.gov/investment/divisionsinvestmentsecurities-lending-open-closed-end-investment-companieshtm>.

C. Regression analysis

We now formally examine mutual funds' propensity to recall loaned shares before proxy record dates, and how this behavior is influenced by fund policies as well as fund and stock characteristics. To this end, we estimate a linear probability model for all fund–stock–quarters in which fund i holds stock j at the end of both quarters $t - 1$ and t and lends shares as of quarter-end $t - 1$.

$$D(\text{Recall})_{i,j,t} = \alpha + \beta D(\text{Meeting})_{j,t} + \theta D(\text{Meeting})_{j,t} * \text{Policy}_i + \lambda D(\text{Meeting})_{j,t} * Z_{j,t} + \eta Z_{j,t} + \delta_t + \delta_i + \delta_j + \epsilon_{i,t}, \quad (1)$$

in which the outcome variable, $D(\text{Recall})_{i,j,t}$, equals one if fund i lends out stock j at quarter-end $t - 1$ but holds no shares on loan at quarter-end t (while still holding the stock), and zero otherwise. $D(\text{Meeting})_{j,t}$ equals one if the record date for stock j 's shareholder meeting falls between quarter-ends $t - 1$ and t . Policy_i are three indicators for whether fund i belongs to policy group 1 (case by case), policy group 2 (generally recall), or policy group 3 (generally not recall), with the omitted group being funds that do not disclose any recall-related policy. $Z_{j,t}$ is a vector of stock or fund characteristics. We include year–quarter fixed effects (δ_t), fund fixed effects (δ_i), and stock fixed effects (δ_j) in all regressions. Standard errors are clustered at the fund level.¹³

Table II reports our main regression results. Our hypothesis predicts $\beta > 0$, implying that funds are more likely to recall loaned shares as shareholder meeting record dates approach. Column (1) shows that, after controlling for fund and stock characteristics as well as fund, stock, and time fixed effects, the average mutual fund is 1.3 percentage points more likely to recall loaned shares during meeting quarters than in non-meeting quarters. This effect represents a meaningful increase in recall activity. As discussed in Section II.B and shown in

¹³We do not conduct our analysis at the fund family level because, although nearly all fund families apply the same recall policy to their constituent funds, funds typically do not recall shares in concert with other funds from the same family, as reported in Section II.F. However, we obtain consistent results when clustering standard errors at the fund family level.

Figure 1, lender-initiated recalls occur at roughly six percentage points per quarter. The 1.3 percentage point increase during voting quarters therefore represents more than a one-fifth rise relative to this baseline, indicating economically significant strategic behavior around proxy voting events.

[Insert Table II here.]

Our estimate of β also aligns with related evidence. Aggarwal, Saffi, and Sturgess (2015) document a two-percentage-point decline in aggregate lending supply before proxy votes. Given their sample's average lending supply of 24%, this implies an 8.3-percentage-point conditional probability that institutions restrict supply around record dates (2%/24%). Our 1.3-percentage-point estimate is somewhat smaller but of a similar magnitude, reflecting the higher opportunity costs—foregone lending revenues—faced by actual lenders when recalling loaned shares, relative to the opportunity costs faced by potential lenders when simply withholding shares from supply.

Column (2) of Table II examines heterogeneity in recall behavior across funds with varying disclosed policies by interacting the meeting dummy with indicators for the three policy groups. These indicators are absorbed by fund fixed effects. We find a strong effect for the “generally recall” group, which is 10.3 percentage points more likely to recall loaned shares before meeting record dates than benchmark funds with no disclosed policy. This suggests that such funds follow through on their stated commitment to prioritize governance rights over lending revenue. In contrast, case-by-case funds are about two percentage points less likely to recall shares before meetings, consistent with the SEC's materiality requirement being more relevant for funds without an explicit recall policy. Finally, funds that “generally not recall” show the lowest recall propensity, 4.3 percentage points below the baseline, confirming their preference for maintaining lending arrangements over exercising voting rights.

We also examine whether fund and stock characteristics associated with greater monitoring value predict differences in recall behavior around proxy voting periods. Column (3) of Table II shows patterns consistent with theories of institutional monitoring: the positive

coefficient on the interaction between the meeting dummy and fund family ownership indicates that funds with larger stakes are significantly more likely to recall shares during proxy season. This aligns with [Shleifer and Vishny \(1986\)](#)’s theory that sizable stakes can influence voting outcomes and mitigate free-rider problems. In addition to stronger incentives, larger positions also make individual votes more likely to be pivotal in determining outcomes.

Similarly, funds with longer holding horizons show significantly higher recall rates during meeting quarters, consistent with theories that long-term investors have stronger monitoring incentives ([Chen, Harford, and Li, 2007](#)). In contrast, larger funds by total net assets are less likely to recall shares, likely reflecting the higher costs of monitoring numerous loaned positions across broad portfolios, where the benefit of monitoring each position is limited ([Lewellen and Lewellen, 2021](#)). These patterns also align with funds’ disclosures, which often cite ownership concentration and investment horizon as key determinants of recall decisions.

To address concerns that our $D(Recall)$ variable may be affected by measurement error from borrower-initiated loan terminations, we conduct robustness tests on subsamples where such confounding is less likely. Following [Cohen, Diether, and Malloy \(2007\)](#), we identify stock-quarters with rising shorting demand (“DOUT”) by requiring simultaneous increases in both lending fees and short volume relative to the previous quarter. In these cases, the volume of shorts rises for a given stock, indicating that $D(recall)$ is more likely to capture lender-initiated recalls rather than short sellers closing positions. Column (4) of Table II shows that recall rates still increase by 1.1 percentage points during meeting quarters, close to our baseline estimate of 1.3 points in column (1), suggesting that the observed recall effect primarily reflects lender-initiated terminations during voting quarters.

Furthermore, we examine whether mutual funds recall shares before proxy voting when foregone lending revenue is substantial. In column (5), we run the same regression on stocks “on special,” where lending fees are at least 100 basis points. Even in this high-fee subsample, recall likelihood rises by 1.2 percentage points during meeting quarters, close to our baseline estimate of 1.3 points. This suggests that, in some cases, the perceived value of corporate

governance outweighs significant lending income, justifying the costly decision to recall shares for voting.

Finally, we compare our preference-revealed value of shareholder voting with other estimates in the literature. In our framework, the annualized lending fee of recalled shares multiplied by the expected foregone lending period provides a lower bound for mutual funds' perceived value of voting. The average lending fee of recalled shares during voting quarters is 92 basis points per annum.¹⁴ The median lending period in the Markit database is about 48 days. A back-of-the-envelope calculation suggests that, for mutual funds recalling shares for voting, the value they give up amounts to roughly 0.12% ($0.92\% \times \frac{48}{365}$) of the market value of their shares.¹⁵ This is remarkably close to the estimate of Kalay, Karakaş, and Pant (2014), who use the price difference between options and equivalent synthetic nonvoting positions to estimate that the value of voting rights for the average firm in their sample is 0.16% of the stock price.

C.1. Nature of meetings and recall decisions

In their regulatory disclosures, many funds note in their recall policies that they prioritize recalling shares for high-stakes voting events, particularly proxy contests and M&A-related proposals. We formally test whether recall decisions vary across proposal types and meeting characteristics. To do so, we replace our binary meeting dummy with separate indicators for meetings featuring (i) shareholder proposals, (ii) ES-related proposals, (iii) merger proposals, (iv) proxy contests with competing director slates, and (v) ex post close votes—meetings featuring proposals where the winning margin is within five percentage points. These indicators are not mutually exclusive, as a single meeting may include multiple proposal types.

Table III presents the results. Column (1) replicates our baseline finding for all meeting

¹⁴We winsorize the Indicative Lending Fee from the Markit database at the 1% and 99% levels.

¹⁵This is a rough estimate. The expected remaining length of lending for a recalled loan is likely shorter than 48 days, which may overstate 0.12%. Conversely, recalling loaned shares can damage the lender–borrower relationship and reduce future lending revenue, so the estimate may understate the true cost.

quarters, while columns (2)–(6) examine each proposal type individually. Two high-stakes events drive the strongest recall activity. Mutual funds are 3.6 percentage points more likely to recall loaned shares for meetings involving M&A proposals, reflecting their recognition of these transactions’ substantial impact on shareholder value and prioritization of fiduciary voting duties over lending revenue. The effect is even stronger for proxy contests, where recall rates rise 7.1 percentage points above baseline periods, consistent with these contests being pivotal events in which institutional votes are crucial to the outcome ([Brav, Jiang, Li, and Pinnington, 2019, 2024](#); [Fos, 2017](#)).

[Insert Table [III](#) here.]

In addition, proxy contests and merger-related votes are highly anticipated events, typically known before a shareholder meeting’s record date, as discussed in Section [III.B](#). This allows funds to assess whether a vote has a material impact and to recall any shares on loan in advance of the record date.

In contrast, mutual funds do not exhibit increased recall activity for meetings featuring shareholder or ES proposals. The absence of significant effects for these proposal types suggests that funds do not view the average shareholder or ES proposal as sufficiently material to justify forgoing lending revenue. This pattern likely reflects practical realities: most such proposals face implementation challenges and historically receive limited shareholder support ([Gantchev and Giannetti, 2021](#)). Their expected impact on firm value appears limited, making the cost-benefit calculation less favorable for recall decisions.

Mutual funds appear to be sophisticated monitors, anticipating competitive voting outcomes where their participation is most likely pivotal. This is reflected in their significantly higher propensity to recall shares for meetings with proposals that ultimately result in close votes (see column (6)).

C.2. ESG funds and recall decisions

In this subsection, we use fund-level recall data to examine whether ESG funds are more responsive than other mutual funds in recalling shares for voting.¹⁶ ESG funds are of particular interest because public attention to responsible investing highlights the role asset managers play in addressing corporate sustainability (Chen, Dong, and Lin, 2020; Gantchev, Giannetti, and Li, 2022). At the same time, academics and regulators have raised concerns that ESG funds may deviate from their stated mandates, potentially limiting improvements in corporate sustainability (Gibson, Glossner, Krueger, Matos, and Steffen, 2022; Li, Naaraayanan, and Sachdeva, 2021; SEC, 2022). In 2022, the SEC launched a probe examining whether ESG funds trade away their voting rights on ESG issues, including how they lend shares and whether they recall them before corporate elections (Robinson, Voreacos, and Brush, 2022). Thus, whether ESG funds engage in “responsible” securities lending provides important evidence in this debate.

Table IV examines whether ESG funds differ from non-ESG funds in recall behavior around proxy voting events. Column (1) shows that, while non-ESG funds are more likely to recall shares during meeting quarters, ESG funds exhibit an additional 3.4-percentage-point higher likelihood of recalling shares. This is consistent with the notion that ESG funds are particularly sensitive to governance opportunities, reflecting a strong commitment to the “G” (governance) aspect of their ESG mandate.

[Insert Table IV here.]

Across meetings featuring different types of proposals, we find that ESG funds stand out in recalling shares for meetings with contentious proposals that ultimately result in close votes. This targeted response suggests that ESG funds act as sophisticated monitors, anticipating competitive voting outcomes where their participation is most likely pivotal.

¹⁶We use the terms “responsible,” “sustainable,” “sustainability,” and “ESG” interchangeably.

Somewhat surprisingly, ESG funds do not exhibit differential recall behavior for ES proposals specifically, likely due to the low quality of most ES proposals and their lack of materiality (Gantchev and Giannetti, 2021). This finding suggests that ESG funds' higher likelihood of recalling is primarily driven by governance considerations rather than the pursuit of narrow environmental or social agendas through proxy voting.

These findings inform the broader policy debate on the compatibility of securities lending with sustainable investing principles. The Government Pension Investment Fund of Japan (GPIF), the world's largest public pension fund, highlighted these concerns by suspending securities lending across all equity portfolios in December 2019.¹⁷ Our empirical evidence suggests that ESG funds are aware of this potential conflict and actively mitigate it by strategically recalling shares when voting outcomes matter most.

C.3. Firm governance quality and recall decisions

Funds from several families, including Federated Investors and MFS Investment Management, note in their N-1A filings that governance issues, such as excessive CEO compensation, can materially affect shareholder value and may prompt them to recall loaned shares before meeting dates. Building on these insights, we test whether a firm's corporate governance quality systematically predicts mutual funds' recall decisions prior to proxy voting.

Historical governance information is potentially useful for recall decisions because of the timing of securities lending and proxy voting. Record dates for shareholder meetings typically occur before companies release definitive proxy statements, making it impractical to evaluate specific proposals (except for high-profile events like proxy contests or mergers that receive advance publicity). Moreover, proxy advisory firms such as ISS issue voting recommendations several weeks after proxy statement releases, well after most recall decisions must be made. Given these timing constraints, fund managers rely primarily on historical

¹⁷GPIF argues that lending is "inconsistent with the fulfillment of stewardship responsibilities of a long-term investor." They were particularly concerned that borrowed shares might be used to vote according to short-term strategies that contradict ESG investment objectives.

governance data, including past proxy advisor recommendations and vote shares on Say-on-Pay (SOP) proposals and director elections. Histories of poor governance and shareholder discontent can signal potentially contentious proposals for upcoming votes.

Our empirical analysis examines whether historical governance quality predicts recall behavior by studying the relationship between past-year ISS recommendations and aggregate voting outcomes on SOP and director elections and funds' propensity to recall shares before meetings. We focus on these proposals because they comprise about 90% of all proposals and nearly every firm sponsors them annually.¹⁸ Our analysis is restricted to meeting quarters, as shareholder meetings typically occur once a year, making the past governance information identical across the meeting and non-meeting quarters within a proxy year. Including non-meeting quarters would effectively test the effect of a meeting on recall decisions rather than the effect of governance quality.

As shown in column (1) of Table V, when ISS recommended against a SOP proposal in the prior year, the probability of a recall increases by about 1.8 percentage points, controlling for stock and time fixed effects. This result is consistent with ISS targeting SOP proposals at firms with excessive CEO pay (Ertimur, Ferri, and Oesch, 2013; Fisch, Palia, and Solomon, 2018), a “material” governance issue likely to prompt increased recalls. In contrast, ISS's negative recommendation for one or more director nominees in the previous year has a smaller effect on recall likelihood, possibly because management has already addressed shareholder concerns regarding the directors.

[Insert Table V here.]

Because investors do not always follow ISS recommendations (Bolton et al., 2020), we examine whether low support rates for SOP proposals and director nominees affect funds' recall decisions. ISS states that when a SOP proposal receives less than 70% support, it reviews the compensation committee's responsiveness at the next annual meeting, suggesting

¹⁸We do not use classic corporate governance indexes, such as the G-index (Gompers, Ishii, and Metrick, 2003) and E-index (Bebchuk, Cohen, and Ferrell, 2009), because they rely on data from the Investor Responsibility Research Center (IRRC), which covers only S&P 1500 firms.

that stock lenders may be especially attentive to such firms. Consistent with this, column (2) shows that when last year's SOP proposal received under 70% support, recall likelihood rises by 2.2 percentage points. Columns (3) and (4) show qualitatively similar results when fund fixed effects are included.

IV. Recall Decisions and Proxy Voting

In this section, we study how recalled shares are voted. Mutual funds that recall loaned shares make an active choice to forgo lending revenue in order to vote, implying a higher valuation of voting rights and potentially stronger views on the matters at hand. Therefore, to the extent that recalled shares are voted in a particular direction, their voting pattern is informative about the governance preferences of funds engaging in recall activities.

We conduct regression analyses at the fund-proposal level. Our key explanatory variable, $D(Recall)$, indicates that a voting fund recalls a loaned stock during the quarter prior to the record date. As shown in column (1) of Table VI, Panel A, recalled shares are 1.8 percentage points more likely to be voted against management in uncontested management and shareholder proposals (excluding routine ones), controlling for fund and stock characteristics as well as fund-time fixed effects.¹⁹ This effect is economically meaningful given that the average uncontested proposal receives 14.8% opposition from mutual funds. Although few uncontested management proposals are rejected, Cai et al. (2009) and Aggarwal, Dahiya, and Prabhala (2019) show that votes against management can have negative governance consequences for management and incumbent directors even without altering voting outcomes. We find similar patterns for SOP proposals and uncontested director elections (columns (2) and (3)), whereas for merger proxies, the coefficient on $D(Recall)$ is -1.0% , suggesting that recalled shares are slightly more likely to support mergers.

¹⁹Routine proposals are those that do not alter a corporation's structure, bylaws, or operations to the detriment of shareholders, such as auditor ratifications, company name changes, stock splits, or increases in authorized shares.

[Insert Table VI here.]

The effect, however, is much stronger for shareholder proposals, especially ES proposals. Specifically, funds that recall shares for voting are 5.3 and 7.4 percentage points more likely to support the average shareholder and ES proposal, respectively, than funds that do not recall or lend shares.²⁰ Interestingly, mutual funds are *not* more likely to recall shares for ES proposals (Table III) but, conditional on recalling, are more likely to support them. This pattern suggests that mutual funds discern high-quality ES proposals from low-quality ones and recall shares to back those they view as value-relevant. Given that the average ES proposal receives 28.7% support, recalled shares could meaningfully influence voting outcomes.

Finally, in proxy contests, arguably the most contentious form of proxy voting, funds that recall shares are 9.9 percentage points more likely to vote for the slate of candidates supported by dissidents. These votes are potentially influential, as outcomes in proxy contests tend to be relatively close. Given the significant value implications of shareholder activism, mutual funds have been paying increasing attention to proxy contests (Brav et al., 2024).

The analysis above does not account for heterogeneity in unobservable proposal characteristics. Thus, the association between recalled shares and voting direction may reflect (i) a selection effect, where recalls are more likely in meetings with broad discontent against management and most funds—both recalling and non-lending—vote accordingly, and (ii) differences in voting behavior between recalling funds and other funds in the same meeting. To disentangle these effects, we include proposal fixed effects and report the results in Panel B of Table VI. Columns (1)–(3) show that the previously documented negative relation between recall decisions and support for management largely disappears for uncontested proposals, suggesting a strong selection effect: when shareholders are broadly mobilized against management, securities lenders are also more likely to recall shares to join the opposition.

²⁰Since management almost always recommends against shareholder and ES proposals, voting against management is equivalent to voting for these proposals.

The exceptions are shareholder proposals (especially ES proposals) and proxy contests. For shareholder and ES proposals, recalled shares are still 1.1 and 1.5 percentage points more likely to vote against management, thereby supporting the proposals, than shares voted by other funds in the same meeting. For proxy contests, the effect of recalls remains substantial at 8.8 percentage points, similar to Panel A. Because proxy contests are highly visible and contentious, mutual funds tend to recall shares regardless of whether they support management or dissidents. Thus, the selection effect is unlikely to dominate in these high-stakes corporate battles. Instead, recalling funds take a significantly more oppositional stance toward management-nominated directors than other voters.

Our granular fund-level recall data also allow us to examine cross-fund variation in the relationship between recall and voting. Building on our earlier analysis of ESG funds' recall behavior, we now examine their voting behavior. If ESG funds place a high value on exercising governance rights, as indicated in their prospectuses, those that recall shares should be more likely to vote against management than non-ESG funds engaging in recalls. The results in Table VI, Panel C, support this. Column (1) shows that ESG funds are 3.1 percentage points more likely to oppose management when recalling shares than non-ESG funds. Controlling for proposal fixed effects slightly reduces the magnitude, but ESG funds still vote recalled shares against management more than other funds voting on the same proposal. The effect is much larger for proxy contests, ranging from 14.3 to 31.8 percentage points. Overall, Panel C indicates that ESG funds exhibit a distinct voting pattern: conditional on recalling shares, they are significantly more likely to use their votes to pressure management.

A. Fund recalls and voting outcomes

Having shown that recalled shares are more likely to be voted against management by individual funds, we next examine whether the recall of loaned shares affects proposal-level voting outcomes. Specifically, we ask whether funds' tougher stance against management translates into lower support for management proposals and higher support for shareholder

proposals. To address this, we conduct regression analyses for the full sample and counterfactual analyses for the subsample of close votes.

Regression analysis In the full-sample analysis, we calculate the fraction of funds that recall loaned shares relative to all funds holding the stock and test whether this measure is associated with the likelihood of a proposal passing or being rejected, controlling for firm characteristics and time fixed effects.

As shown in column (1) of Table VII, management proposals are more likely to fail when a larger fraction of recall funds vote. A one standard deviation (6.9 percentage points) increase in the fraction of recall funds corresponds to a 0.6-percentage-point increase in the likelihood of rejection. Given the unconditional rejection rate of 1.8%, this effect is sizable. Consistent results emerge for shareholder proposals. As reported in column (3), a one standard deviation (6.2 percentage points) increase in the fraction of recall funds is associated with a 3.3-percentage-point increase in the probability of passage. Aggregate support for shareholder proposals also rises when more recall funds participate in voting.

[Insert Table VII here.]

Next, we examine how fund recalls relate to voting outcomes in proxy contests. The dependent variable, *Dissident win*, equals one if a dissident wins at least one board seat, a successful outcome in a proxy contest (Brav et al., 2019). Column (5) shows that a one standard deviation increase in the fraction of recall funds corresponds to a 7.0-percentage-point increase in the likelihood of a dissident win. Given that proxy contests are tightly contested, with dissidents winning about half the time, recall funds appear pivotal. We observe consistent results at the nominee level, as reported in columns (6) and (7). A one standard deviation increase in the fraction of recall funds is associated with a 10.7-percentage-point rise in votes against management nominees and a 4.9-percentage-point drop in votes against dissident nominees. These findings suggest that management faces strong headwinds when recalled shares are actively voted.

Counterfactual analysis We do not claim causality in the regression analysis above, as firm characteristics such as governance quality may jointly influence both funds' recall decisions and voting outcomes. Instead, the analysis illustrates whether recalled shares are economically meaningful in determining vote results. To further assess this, we conduct a counterfactual analysis using close votes, which are proposals with winning margins between -5 and +5 percentage points.

We assume that if a lending fund did not recall its loaned shares, those shares would have been voted either (1) in favor of management or (2) in the opposite direction of the fund's actual vote. The first scenario reflects that most votes on typical proposals favor management, while the second reflects our finding that recalled shares are more likely to be voted against management than non-recalled shares. For each proposal, we adjust the aggregate votes cast by lending funds, recalculate the total number and percentage of "For" votes, and assess whether the proposal would have passed under each hypothetical scenario.

Table VIII shows the number of proposals that would have flipped under each assumption. Under the first scenario, 22 failed management proposals, or 12.2% of the close-call management proposals in our sample, would have passed if the recalled shares had been voted in favor of management. Similarly, 14.5% of passed close-call shareholder proposals would have been overturned. These results suggest that recalled shares have a meaningful impact against management.

[Insert Table VIII here.]

Under the second scenario, 20 failed management proposals (11.0% of close-call management proposals) would have passed if recalled shares had been voted in the opposite direction, while 10 passed management proposals (3.3%) would have failed. For close-call shareholder proposals, 10.5% of passed proposals would have flipped, and 4.1% of failed proposals would have been overturned. These patterns broadly mirror those in the first scenario. Overall, the evidence suggests that mutual funds recalling loaned shares have a meaningful impact on voting outcomes.

B. Voting behavior of recall-sensitive funds

We also use mutual funds' securities lending data to measure how generally responsive a given fund's recall actions are to voting events. Specifically, for each fund, we construct a variable, *Recall-voting sensitivity*, defined as the difference between the (value-weighted) probability that a fund recalls positions during a stock's record-date quarter and the (value-weighted) probability that the same fund recalls non-voting positions. Formally, we define:

$$\text{Recall-voting sensitivity}_i = \frac{\sum_{j,t} [D(\text{Recall})_{i,j,t} * D(\text{Meeting})_{j,t} * \$\text{LoanedShares}_{i,j,t-1}]}{\sum_{j,t} [D(\text{meeting})_{j,t} * \$\text{LoanedShares}_{i,j,t-1}]} - \frac{\sum_{j,t} [D(\text{Recall})_{i,j,t} * (1 - D(\text{Meeting})_{j,t}) * \$\text{LoanedShares}_{i,j,t-1}]}{\sum_{j,t} [(1 - D(\text{Meeting})_{j,t}) * \$\text{LoanedShares}_{i,j,t-1}]}, \quad (2)$$

in which $D(\text{Recall})_{i,j,t}$, equals one if fund i lends out stock j at quarter-end $t - 1$ but holds no shares on loan at quarter-end t (while still holding the stock), and zero otherwise. $D(\text{Meeting})_{j,t}$ equals one if the record date for stock j 's shareholder meeting falls between $t - 1$ and t . $\$\text{LoanedShares}_{i,j,t-1}$ is the dollar value of stock j 's shares lent by fund i in the previous quarter. This sensitivity measure ranges from -1 to 1 , with higher values indicating a greater likelihood that a fund recalls its position during a quarter containing a shareholder record date, relative to the baseline probability of recalling a loaned position in the absence of a meeting.

We argue that recall-sensitive funds place a high value on corporate governance and are likely well-informed in their voting. Therefore, even for positions not involved in securities lending, they may vote differently from the average mutual fund. To empirically evaluate this hypothesis, we sort funds by their recall-voting sensitivities and define recall-sensitive funds as those in the top tercile, with the remainder classified as recall-insensitive. We then regress fund-proposal level voting patterns on the recall-sensitive indicator, controlling for proposal fixed effects.

As shown in column (1) of Table IX, recall-sensitive funds are 1.2 percentage points less likely to support management in uncontested proposals, controlling for proposal fixed

effects. Adding fund and fund-stock controls does not alter the results. Unsurprisingly, the differential voting behavior between recall-sensitive and recall-insensitive funds is larger in proxy contests, given the high-stakes nature of these corporate events (Brav et al., 2024).

[Insert Table IX here.]

Taken together, our results presented in this section suggest that mutual funds that recall shares to vote are active monitors, who are likely to influence outcomes in proxy contests and shareholder proposals, including ES proposals.

V. Recall Decisions, Fund Flows, and Lending Income

In this section, we examine whether a fund's sensitivity in recalling voting shares is associated with investor flows. Recall-sensitive funds forego lending income, which could trigger outflows, but monitoring through voting may create long-term value. Additionally, some investors may favor funds that vote in line with their governance preferences, including ES concerns (Brav et al., 2025). To investigate which effect dominates, we regress fund i 's monthly flow on *Recall-voting sensitivity*, defined in Equation 2, controlling for fund characteristics, including past performance.

$$Fund\ flow_{i,t} = \alpha + \beta Recall\text{-}voting\ sensitivity_i + \gamma X_{i,t-1} + \delta_t + \delta_s + \epsilon_{i,t}, \quad (3)$$

where $X_{i,t-1}$ is a set of lagged fund characteristics. We also include year-month fixed effects (δ_t) and fund investment style fixed effects (δ_s). Standard errors are double-clustered at the fund and year-month levels.

Table X reports the regression results. Columns (1)–(3) focus on funds that engage in securities lending. In column (3), we control for piecewise linear performance ranks as in Huang, Wei, and Yan (2007).²¹ Across all three specifications, a fund's recall-voting

²¹For each month, we rank mutual funds by their 12-month 3-factor alphas and generate a ranking score,

sensitivity is positively and significantly associated with fund flows. A one standard deviation increase in sensitivity corresponds to a 0.74% increase in annual flows ($0.31 * 0.20 * 12$), an economically meaningful effect given the sample average of 0.6%. These results suggest that investors, on average, reward mutual funds that actively exercise voting rights, either because they value the funds' governance preferences or believe that voting enhances long-term value.

[Insert Table X here.]

Furthermore, we divide funds engaged in securities lending into two groups based on the fraction of fund assets held by institutional share classes. Column (4) of Table X reports results for funds with over 50% institutional ownership (*high inst. share*), while column (5) reports results for retail-oriented funds (*low inst. share*). The positive association between recall-voting sensitivity and fund flows is entirely driven by institutional share classes, consistent with the idea that institutional investors value voting rights and monitor fund stewardship more closely. Flows to retail-oriented funds show no response.

Column (6) repeats the analysis for the full sample of equity funds, setting *Recall-voting sensitivity* to zero for non-lending funds and controlling for lending status with a separate indicator, $D(\text{Lending fund})$. The coefficient on *Recall-voting sensitivity* remains similar to the lending-fund subsample.

Finally, funds that are more responsive in recalling shares for voting indeed sacrifice some securities lending income. Using annual lending data from Form N-CEN, we define *Lending income* as the share of TNA attributable to lending revenue. For lending funds, the average annual lending income is 0.03% of TNA. We also define *Lending yield* as the ratio of annual lending income to the average on-loan position value. On average, each dollar of loaned position generates 137 basis points annually, with a median of 54 basis points.

We regress fund i 's lending income or lending yield in year t on *Recall-voting sensitivity*, controlling for the fraction of fund assets on loan, lagged fund characteristics $X_{i,t-1}$, and

Rank, that ranges from 0 (lowest) to 1 (highest). We then construct three control variables: $Low_{i,t-1} = \text{Min}(\text{Rank}_{i,t-1}, 0.2)$, $Mid_{i,t-1} = \text{Min}(0.6, \text{Rank}_{i,t-1} - Low_{i,t-1})$, and $High_{i,t-1} = \text{Rank}_{i,t-1} - Low_{i,t-1} - Mid_{i,t-1}$.

year fixed effects δ_t .

$$Outcome_{i,t} = \alpha + \beta Recall\text{-}voting\ sensitivity_i + \rho Frac.\ of\ assets\ on\ loan_{i,t} + \gamma X_{i,t-1} + \delta_t + \epsilon_{i,t}, \quad (4)$$

in which $Outcome_{i,t}$ refers to either lending income or lending yield. Columns (1) and (2) of Table XI show that a fund's *Recall-voting sensitivity* is negatively associated with its securities lending income, consistent with the idea that mutual funds trade off exercising voting rights for lending revenue. When *Recall-voting sensitivity* rises from zero (completely unresponsive) to one (fully responsive), lending income relative to fund TNA decreases by 0.66–0.93 basis points. Compared with the average lending income of three basis points, this reduction is modest but meaningful. Columns (3) and (4) further show that *Recall-voting sensitivity* is negatively related to lending yield: a one-unit increase in sensitivity corresponds to a 26.8–31.9 basis point decline per dollar of loaned position. This suggests that more active recall behavior may limit future lending opportunities, as borrowers generally prefer more stable lenders.

[Insert Table XI here.]

Overall, our findings suggest that mutual funds diligent in recalling shares for proxy voting attract more investor capital while sacrificing a modest amount of lending revenue. Institutional investors appear to reward managers for fulfilling their fiduciary duties related to shareholder voting. However, these associations should not be interpreted causally. In unreported tests, we find that larger and older funds tend to have higher recall-voting sensitivity, suggesting that this measure may partly reflect greater resources and information-gathering capacity on governance issues.

VI. Conclusions

Using a unique dataset on mutual funds' loaned stocks and recall decisions, we examine how securities lending affects voting behavior. We find that mutual funds are more likely to recall loaned shares as voting record dates approach, especially ESG funds and those with "generally recall" policies, suggesting differing valuations of voting rights across mandates. Funds with larger ownership stakes and longer holding horizons also recall more often, consistent with stronger monitoring incentives. Recalls are most frequent in high-stakes votes, such as mergers and proxy contests.

Recalled shares are more likely to be voted against management and in favor of shareholder proposals or dissident slates, especially by ESG funds. They also appear to influence voting outcomes, and our counterfactual analysis suggests that a nontrivial share of close-call proposals would have flipped under plausible assumptions.

Lastly, we find that recall-sensitive funds attract greater inflows from institutional investors while foregoing a modest amount of lending revenue. Our study provides the first large-scale evidence for market participants and policymakers seeking transparency into how mutual funds' securities lending affects their proxy voting practices. This information is particularly relevant for investors monitoring funds' stewardship responsibilities.

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Figure 1: Intra-quarter Recall Probability by Days Since Last Quarter-End

This figure shows the probability of termination of loaned positions as a function of the number of days since last quarter-end. We utilize data from the new N-PX filings for the 2023–2024 proxy season. We define a recall indicator that equals one if a fund–stock position is on loan on the last day of quarter $t - 1$, but is reported not on loan on the record date, which falls between quarters $t - 1$ and t . The x-axis shows the number of days between the previous quarter-end and the record date.

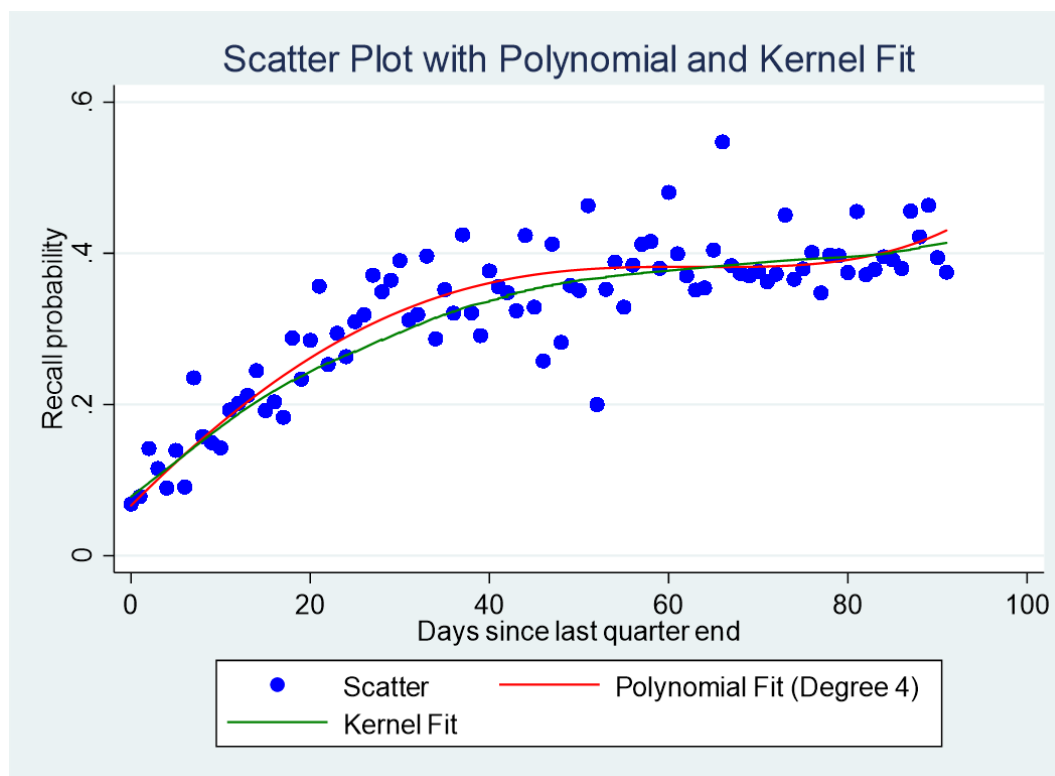


Table I: Descriptive Statistics

This table provides summary statistics for the main dependent and explanatory variables used in this paper. In Panel A, *Market cap* represents market capitalization in billions of dollars. *Past 12-month stock alpha* is the Fama-French 3-factor alpha based on a stock's past 12-month returns. *D(Foreign stock)* equals 1 for a listed firm that is incorporated in a country other than the U.S. and 0 otherwise. *Lending fee* is the annualized borrowing fee. *Fund TNA* represents fund total net assets in billions of dollars. *Expense ratio* is fund expense ratio in percent. *Fund turnover ratio* is funds' reported annual turnover ratio in percent. *Past 12-month fund alpha* is the Fama-French 3-factor alpha based on a fund's past 12-month returns. *Fund family ownership* is the percentage ownership of a given stock and *Holding horizon* is the number of years a fund has held a firm's shares, starting from the position initiation quarter. All of the above variables are measured at the quarter-end immediately before the record-date quarter. *D(ESG fund)* equals 1 for an ESG fund and zero otherwise (see Section II.E for the definition of an ESG fund). *D(Recall policy 1)*, *D(Recall policy 2)*, and *D(Recall policy 3)* are indicators equal to 1 for funds that recall loaned shares case by case, that generally recall shares, and that generally do not recall shares, respectively. *D(Recall)* equals 1 if a fund recalls shares before the record date and 0 otherwise. *D(Meeting quarter)* equals 1 for the meeting record-date quarter and 0 otherwise. *D(Shareholder proposal)*, *D(ES proposal)*, *D(M&A proposal)*, *D(Proxy contest)*, and *D(Close vote)* equal 1 for meetings that feature shareholder proposals, environmental or social proposals, merger proxies, proxy contests, and close-call votes that are within -5% and +5% of the winning margin, respectively. In Panel B, *Recall-voting sensitivity* equals a fund's probability of recalling loaned securities during record-date quarters minus its probability of recalling loaned securities during non-record-date quarters. *D(Lending fund)* equals 1 for funds that engage in securities lending and 0 otherwise. *Monthly fund flow* equals a fund's monthly investor flow divided by its lagged TNA. *Past 12-month style-adj. return* is a fund's past 12-month return in excess of the average 12-month return for funds within the same investment objective category. *Fund age* is the number of years since its inception in the CRSP database. *Institutional share* is the ratio of a fund's TNA associated with institutional shares to its total TNA, and *D(Index fund)* equals 1 for index funds and 0 otherwise. In Panel C, uncontested proposals exclude routine items, namely the ratification of auditors, company name changes, stock splits, and increases in the number of common shares.

Panel A: Fund-stock-quarter-level characteristics

	Mean (1)	25th percentile (2)	Median (3)	75th percentile (4)	Std. Dev. (5)	Obs. (6)
Market cap (\$billion)	7.298	0.519	1.648	4.596	39.132	846,189
Past 12-month stock alpha (%)	-0.082	-3.231	-0.273	2.392	7.895	805,873
D(Foreign stock)	0.024	0	0	0	0.152	877,077
Lending fee	0.016	0.003	0.003	0.011	0.027	869,765
Fund TNA (\$billion)	28.561	0.571	1.903	13.391	141.423	877,077
Expense ratio (%)	0.426	0.084	0.290	0.853	0.375	877,077
Fund turnover ratio (%)	35.600	12.000	25.000	55.868	38.530	877,077
Past 12-month fund alpha (%)	-0.111	-0.292	-0.057	0.077	0.525	814,712
Fund family ownership (%)	1.411	0.042	0.333	1.581	2.700	846,968
Holding horizon (#years)	2.930	1.249	2.753	4.337	1.932	868,468
D(ESG fund)	0.027	0	0	0	0.161	877,077
D(Recall policy 1)	0.820	1	1	1	0.384	877,077
D(Recall policy 2)	0.016	0	0	0	0.125	877,077
D(Recall policy 3)	0.028	0	0	0	0.165	877,077
D(Recall)	0.361	0	0	1	0.480	877,077
D(Meeting quarter)	0.278	0	0	1	0.448	797,431
D(Shareholder proposal)	0.015	0	0	0	0.122	877,077
D(ES proposal)	0.007	0	0	0	0.082	877,077
D(M&A proposal)	0.005	0	0	0	0.072	877,077
D(Proxy contest)	0.001	0	0	0	0.030	877,077
D(Close vote)	0.008	0	0	0	0.087	877,077

Table I: **Descriptive Statistics (continued)**

Panel B: Fund-month-level characteristics

	Mean	25th percentile	Median	75th percentile	Std. Dev.	Obs.
	(1)	(2)	(3)	(4)	(5)	(6)
Recall-meeting sensitivity	0.01	-0.14	0.00	0.16	0.31	95,476
D(Lending fund)	0.39	0.00	0.00	1.00	0.49	247,364
Monthly fund flow (%)	-0.11	-1.32	-0.47	0.56	5.23	247,364
Past 12-month fund alpha (%)	-0.14	-0.33	-0.11	0.08	0.49	247,364
Past 12-month style-adj return (%)	0.10	-4.30	0.26	4.76	9.52	247,364
Fund TNA (\$ million)	3.09	0.08	0.35	1.35	24.65	247,364
Fund age (# month)	17.06	8.00	16.00	24.00	12.15	247,364
Fund turnover ratio (%)	46.11	0.00	23.00	53.00	149.49	247,364
Fund expense ratio (%)	0.53	0.00	0.46	0.91	0.51	247,364
Institutional shares (%)	51.85	0.00	59.77	100.00	44.34	247,364
D(Index fund)	0.23	0.00	0.00	0.00	0.42	247,364

Panel C: Vote against management by proposal type

	Full sample		Funds that recall shares		Diff. with non-recall funds	
	Mean	Obs.	Mean	Obs.	Mean diff.	t-stat.
	(1)	(2)	(3)	(4)	(5)	(6)
Uncontested proposals	0.151	28,453,998	0.167	483,627	0.016	31.32
Say-on-Pay (SOP)	0.127	2,686,738	0.159	50,303	0.033	22.18
Director elections	0.079	22,058,967	0.125	374,619	0.046	103.68
M&A proposals	0.036	60,222	0.024	1,931	-0.012	-2.70
Shareholder proposals	0.333	1,453,251	0.391	9,058	0.058	11.68
ES proposals	0.276	901,718	0.341	4,747	0.065	10.04
Proxy contests	0.369	8,386	0.436	218	0.069	2.01

Table II: Recall of Loaned Securities Before Proxy Voting

This table reports results for the determinants of funds' recall of loaned securities during the quarter immediately preceding the proxy record date. Our sample period runs from 2019Q3 through 2024Q2. Columns (1)–(3) use the full sample, while column (4) focuses on stock-quarters with rising shorting demand (“DOUT”) by requiring simultaneous increases in both lending fees and short volume relative to the previous quarter. Column (5) includes stocks “on special,” for which lending fees are at least 100 basis points. All variables are defined in Table I. Standard errors, reported in parentheses, are clustered at the fund level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dependent variable: $D(\text{Recall})$				
	(1)	Full sample (2)	(3)	DOUT=1 (4)	On special (5)
$D(\text{Meeting quarter})$	0.013*** (0.002)	0.030*** (0.008)	0.050*** (0.009)	0.011*** (0.003)	0.012*** (0.003)
$D(\text{Meeting quarter}) * D(\text{Recall policy 1})$		-0.020** (0.009)	-0.019** (0.008)		
$D(\text{Meeting quarter}) * D(\text{Recall policy 2})$		0.103*** (0.023)	0.105*** (0.023)		
$D(\text{Meeting quarter}) * D(\text{Recall policy 3})$		-0.043*** (0.012)	-0.038*** (0.012)		
$\ln(\text{Market cap})$	0.016*** (0.002)	0.016*** (0.002)	0.015*** (0.002)	-0.006** (0.003)	0.011*** (0.004)
Past 12-month stock alpha	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)	-0.003 (0.011)	0.055*** (0.014)
Lending fee	-1.044*** (0.112)	-1.043*** (0.112)	-1.079*** (0.116)	-0.535*** (0.108)	-0.997*** (0.094)
$\ln(\text{Fund TNA})$	-0.069*** (0.008)	-0.069*** (0.008)	-0.068*** (0.008)	-0.067*** (0.013)	-0.068*** (0.009)
Expense ratio	1.916 (1.475)	1.942 (1.475)	1.978 (1.500)	0.547 (1.144)	-0.202 (1.519)
Fund turnover ratio	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)	-0.011 (0.015)	-0.001 (0.011)
Past 12-month fund alpha	0.797*** (0.257)	0.777*** (0.256)	0.779*** (0.256)	1.031** (0.516)	0.415 (0.323)
Fund family ownership	0.329*** (0.085)	0.329*** (0.085)	0.296*** (0.090)	0.254*** (0.088)	0.177 (0.115)
$\ln(\text{Holding horizon})$	0.003** (0.001)	0.003** (0.001)	0.002 (0.001)	-0.001 (0.002)	0.001 (0.002)
$D(\text{Meeting quarter}) * \ln(\text{Fund TNA})$			-0.002*** (0.000)		
$D(\text{Meeting quarter}) * \text{Fund family ownership}$			0.123** (0.058)		
$D(\text{Meeting quarter}) * \ln(\text{Holding horizon})$			0.004*** (0.001)		
$D(\text{Meeting quarter}) * D(\text{Foreign stock})$			-0.025** (0.010)		
$D(\text{Meeting quarter}) * \text{Lending fee}$			0.125** (0.051)		
Stock FEs	Y	Y	Y	Y	Y
Fund FEs	Y	Y	Y	Y	Y
Year-quarter FEs	Y	Y	Y	Y	Y
Observations	657,977	657,977	657,977	144,299	160,238
R-squared	0.215	0.216	0.216	0.212	0.262

Table III: Recall Decisions by Proposal Type

This table reports results for the determinants of funds' recall of loaned securities immediately before the proxy record date for major proposal types. Column (1) replicates the specification in Table II. Our sample period runs from 2019Q3 through 2024Q2. All variables are defined in Table I. Standard errors, reported in parentheses, are clustered at the fund level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dependent variable: $D(\text{Recall})$					
	(1)	(2)	(3)	(4)	(5)	(6)
$D(\text{Meeting quarter})$	0.013*** (0.002)					
<i>Indicator for meetings that feature</i>						
$D(\text{Shareholder proposal})$		0.003 (0.005)				
$D(\text{ES proposal})$			0.005 (0.008)			
$D(\text{M\&A proposal})$				0.036*** (0.011)		
$D(\text{Proxy contest})$					0.071*** (0.021)	
$D(\text{Close vote})$						0.018*** (0.006)
$\text{Ln}(\text{Market cap})$	0.016*** (0.002)	0.016*** (0.002)	0.016*** (0.002)	0.016*** (0.002)	0.016*** (0.002)	0.016*** (0.002)
Past 12-month stock alpha	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)
Lending fee	-1.044*** (0.112)	-1.040*** (0.112)	-1.040*** (0.112)	-1.040*** (0.112)	-1.041*** (0.112)	-1.041*** (0.112)
$\text{Ln}(\text{Fund TNA})$	-0.069*** (0.008)	-0.069*** (0.008)	-0.069*** (0.008)	-0.069*** (0.008)	-0.069*** (0.008)	-0.069*** (0.008)
Expense ratio	1.916 (1.475)	1.937 (1.452)	1.936 (1.452)	1.939 (1.452)	1.937 (1.451)	1.938 (1.452)
Fund turnover ratio	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)
Past 12-month fund alpha	0.797*** (0.257)	0.794*** (0.257)	0.795*** (0.257)	0.793*** (0.257)	0.795*** (0.257)	0.793*** (0.257)
Fund family ownership	0.329*** (0.085)	0.328*** (0.085)	0.328*** (0.085)	0.328*** (0.085)	0.328*** (0.085)	0.329*** (0.085)
$\text{Ln}(\text{Holding horizon})$	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)
Stock FEs	Y	Y	Y	Y	Y	Y
Fund FEs	Y	Y	Y	Y	Y	Y
Year-quarter FEs	Y	Y	Y	Y	Y	Y
Observations	657,977	657,977	657,977	657,977	657,977	657,977
R-squared	0.215	0.215	0.215	0.215	0.215	0.215

Table IV: ESG Funds and Recall Decisions

This table reports results for the determinants of funds' recall of loaned securities immediately before the proxy record date for ESG funds relative to non-ESG funds. Our sample period runs from 2019Q3 through 2024Q2. All variables are defined in Table I. Standard errors, reported in parentheses, are clustered at the fund level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dependent variable: $D(\text{Recall})$					
	(1)	(2)	(3)	(4)	(5)	(6)
$D(\text{Meeting quarter})$	0.012*** (0.002)					
$D(\text{Meeting quarter}) * D(\text{ESG fund})$	0.034** (0.016)					
$D(\text{Shareholder proposal})$		0.003 (0.005)				
$D(\text{Shareholder proposal}) * D(\text{ESG fund})$		-0.021 (0.023)				
$D(\text{ES proposal})$			0.007 (0.008)			
$D(\text{ES proposal}) * D(\text{ESG fund})$			-0.040 (0.037)			
$D(\text{M\&A proposal})$				0.036*** (0.011)		
$D(\text{M\&A proposal}) * D(\text{ESG fund})$				0.012 (0.050)		
$D(\text{Proxy contest})$					0.071*** (0.021)	
$D(\text{Proxy contest}) * D(\text{ESG fund})$					-0.006 (0.096)	
$D(\text{Close vote})$						0.016*** (0.006)
$D(\text{Close vote}) * D(\text{ESG fund})$						0.052* (0.032)
$\ln(\text{Market cap})$	0.016*** (0.002)	0.016*** (0.002)	0.016*** (0.002)	0.016*** (0.002)	0.016*** (0.002)	0.016*** (0.002)
Past 12-month stock alpha	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)	0.080*** (0.010)
Lending fee	-1.044*** (0.112)	-1.040*** (0.112)	-1.040*** (0.112)	-1.040*** (0.112)	-1.041*** (0.112)	-1.041*** (0.112)
$\ln(\text{Fund TNA})$	-0.069*** (0.008)	-0.069*** (0.008)	-0.069*** (0.008)	-0.069*** (0.008)	-0.069*** (0.008)	-0.069*** (0.008)
Expense ratio	1.905 (1.470)	1.936 (1.452)	1.936 (1.452)	1.939 (1.452)	1.937 (1.451)	1.936 (1.451)
Fund turnover ratio	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)	0.006 (0.011)
Past 12-month fund alpha	0.797*** (0.257)	0.795*** (0.257)	0.795*** (0.257)	0.793*** (0.257)	0.795*** (0.257)	0.793*** (0.257)
Fund family ownership	0.330*** (0.085)	0.328*** (0.085)	0.329*** (0.085)	0.328*** (0.085)	0.328*** (0.085)	0.329*** (0.085)
$\ln(\text{Holding horizon})$	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)	0.003** (0.001)
Stock FEs	Y	Y	Y	Y	Y	Y
Fund FEs	Y	Y	Y	Y	Y	Y
Year-quarter FEs	Y	Y	Y	Y	Y	Y
Observations	657,977	657,977	657,977	657,977	657,977	657,977
R-squared	0.215	0.215	0.215	0.215	0.215	0.215

Table V: **Governance Quality and Recall Decisions**

This table reports results on how a firm's governance quality affects funds' recall of loaned securities immediately before the proxy record date. Our sample covers 2019Q3 through 2024Q2 and includes only meeting quarters. ISS voting recommendations are available through December 2022. *ISS against SOP last year* (*ISS against directors last year*) equals 1 if ISS recommended against the Say-on-Pay proposal (at least one director nominee) during the firm's last proxy season and 0 otherwise. *Low support rate for SOP last year* (*Low support rate for directors last year*) equals 1 if the aggregate support rate for the Say-on-Pay proposal (at least one director nominee) is below 70% (50%) during the firm's last proxy season and 0 otherwise. All other variables are defined in Table I. Standard errors, reported in parentheses, are clustered at the fund level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dependent variable: $D(\text{Recall})$			
	(1)	(2)	(3)	(4)
ISS against SOP last year	0.018*** (0.005)		0.016*** (0.005)	
ISS against directors last year	-0.006 (0.005)		-0.002 (0.005)	
Low support rate for SOP last year		0.022*** (0.006)		0.021*** (0.005)
Low support rate for directors last year		0.011 (0.012)		0.015 (0.011)
$D(\text{Recall policy 1})$	-0.016 (0.016)	-0.022 (0.016)		
$D(\text{Recall policy 2})$	0.105** (0.043)	0.096** (0.042)		
$D(\text{Recall policy 3})$	-0.006 (0.027)	-0.010 (0.026)		
$\text{Ln}(\text{Market cap})$	0.001 (0.004)	0.003 (0.004)	0.011*** (0.004)	0.013*** (0.003)
Past 12-month stock alpha	0.049*** (0.016)	0.077*** (0.016)	0.053*** (0.016)	0.077*** (0.016)
Lending fee	-0.170 (0.131)	-0.253** (0.115)	-0.759*** (0.129)	-0.841*** (0.120)
$\text{Ln}(\text{Fund TNA})$	-0.025*** (0.004)	-0.024*** (0.004)	-0.071*** (0.010)	-0.069*** (0.009)
Expense ratio	1.352 (1.509)	1.144 (1.500)	0.519 (2.025)	0.021 (1.799)
Fund turnover ratio	0.002 (0.011)	-0.004 (0.011)	0.015 (0.016)	0.011 (0.017)
Past 12-month fund alpha	0.970* (0.524)	0.782 (0.503)	0.694 (0.476)	0.599 (0.448)
Fund family ownership	-0.389 (0.255)	-0.368 (0.260)	0.387*** (0.125)	0.394*** (0.114)
$\text{Ln}(\text{Holding horizon})$	0.012*** (0.004)	0.011*** (0.004)	0.001 (0.002)	0.001 (0.002)
Stock FEs	Y	Y	Y	Y
Fund FEs	N	N	Y	Y
Year-quarter FEs	Y	Y	Y	Y
Observations	169,007	190,672	168,802	190,468
R-squared	0.186	0.179	0.260	0.251

Table VI: Recall Decisions and Proxy Voting

This table reports results on how recalled shares are voted at shareholder meetings. *Vote against management* equals 1 if a fund votes against a management proposal or in favor of a shareholder proposal, and 0 otherwise. *Vote for dissident* equals 1 if a fund votes for the dissident slate in a proxy contest, and 0 otherwise. Our sample period runs from 2019Q3 through 2024Q2. All other variables are defined in Table I. Uncontested proposals exclude routine items, namely the ratification of auditors, company name changes, stock splits, and increases in the number of common shares. Standard errors, reported in parentheses, are clustered at the fund level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Without proposal fixed effects

Dependent variable:	Vote against management						Vote for dissident
	Uncontested proposals (1)	SOP (2)	Director elections (3)	M&As (4)	Shareholder proposals (5)	ES proposals (6)	Proxy contests (7)
<i>D</i> (Recall)	0.018*** (0.002)	0.023*** (0.002)	0.019*** (0.002)	-0.010*** (0.004)	0.053*** (0.006)	0.074*** (0.009)	0.099** (0.045)
Ln(Market cap)	0.022*** (0.001)	-0.000 (0.001)	-0.011*** (0.001)	0.004*** (0.001)	-0.025*** (0.001)	-0.015*** (0.001)	0.027*** (0.007)
Past 12-month stock alpha	-0.050*** (0.005)	-0.151*** (0.009)	0.068*** (0.006)	-0.016 (0.013)	0.442*** (0.021)	0.561*** (0.026)	0.555** (0.247)
Lending fee	2.361*** (0.081)	1.610*** (0.116)	1.508*** (0.086)	-0.358*** (0.065)	4.520*** (0.817)	14.942*** (1.210)	-0.024 (0.615)
Fund family ownership	-0.663*** (0.049)	-0.602*** (0.043)	-0.651*** (0.039)	-0.184*** (0.037)	-0.180 (0.118)	-0.208 (0.137)	3.289*** (0.684)
Ln(Holding horizon)	-0.013*** (0.001)	-0.018*** (0.001)	-0.020*** (0.001)	0.003** (0.001)	-0.020*** (0.001)	-0.021*** (0.001)	0.058*** (0.019)
Proposal/meeting FEs	N	N	N	N	N	N	N
Fund-quarter FEs	Y	Y	Y	Y	Y	Y	Y
Observations	25,041,443	2,368,527	19,449,042	43,373	1,240,231	741,326	5,898
R-squared	0.106	0.165	0.192	0.392	0.259	0.310	0.699
%(Dependent variable = 1)	14.8%	12.3%	7.6%	3.2%	33.8%	28.7%	36.7%

Panel B: With proposal fixed effects

Dependent variable:	Vote against management						Vote for dissident
	Uncontested proposals (1)	SOP (2)	Director elections (3)	M&As (4)	Shareholder proposals (5)	ES proposals (6)	Proxy contests (7)
<i>D</i> (Recall)	0.0001 (0.001)	0.002 (0.001)	0.0003 (0.001)	-0.006** (0.003)	0.011*** (0.004)	0.015** (0.006)	0.088*** (0.029)
Fund family ownership	0.101** (0.046)	0.021 (0.035)	0.137*** (0.052)	-0.034 (0.034)	-0.620*** (0.098)	-0.839*** (0.124)	2.258*** (0.561)
Ln(Holding horizon)	-0.002*** (0.000)	-0.002*** (0.000)	-0.002*** (0.000)	0.001 (0.001)	-0.003*** (0.001)	-0.004*** (0.001)	0.006 (0.013)
Proposal/meeting FEs	Y	Y	Y	Y	Y	Y	Y
Fund-quarter FEs	Y	Y	Y	Y	Y	Y	Y
Observations	25,039,869	2,368,465	19,448,171	43,332	1,240,227	741,326	5,898
R-squared	0.693	0.542	0.468	0.696	0.515	0.528	0.850
%(Dependent variable = 1)	14.8%	12.3%	7.6%	3.2%	33.8%	28.7%	36.7%

Table VI: Recall Decisions and Proxy Voting (continued)

Panel C: ESG funds vs. non-ESG funds

Dependent variable:	Vote against management		Vote for dissident	
	Uncontested proposals (1)	(2)	Proxy contests (3)	(4)
$D(\text{Recall})$	0.017*** (0.002)	-0.0004 (0.001)	0.084* (0.046)	0.082*** (0.030)
$D(\text{Recall}) * D(\text{ESG fund})$	0.031** (0.014)	0.018** (0.008)	0.318** (0.138)	0.143* (0.082)
$\text{Ln}(\text{Market cap})$	0.022*** (0.001)		0.027*** (0.007)	
Past 12-month stock alpha	-0.050*** (0.005)		0.553** (0.247)	
Lending fee	2.362*** (0.081)		-0.009 (0.616)	
Fund family ownership	-0.663*** (0.049)	0.101** (0.046)	3.289*** (0.682)	2.257*** (0.561)
$\text{Ln}(\text{Holding horizon})$	-0.013*** (0.001)	-0.002*** (0.000)	0.059*** (0.019)	0.006 (0.013)
Proposal/meeting FEs	N	Y	N	Y
Fund-quarter FEs	Y	Y	Y	Y
Observations	25,041,443	25,039,869	5,898	5,898
R-squared	0.106	0.693	0.700	0.850
%(Dependent variable = 1)	14.8%	14.8%	36.7%	36.7%

Table VII: Fund Recalls and Voting Outcomes

This table reports results on the relation between the fraction of mutual funds that recall shares prior to the voting record date and the outcome of a proposal. *D(Reject proposal)* equals 1 if a proposal fails to pass and 0 otherwise. *Frac. Against votes* is the ratio of “Against” votes to the total number of votes cast. *D(Pass proposal)* equals 1 if a proposal passes and 0 otherwise. *Frac. For votes* is the ratio of “For” votes to the total number of votes cast. *D(Dissident wins)* equals 1 if a dissident wins at least one board seat and 0 otherwise. *Frac. against mgmt nominee (Frac. against dissident nominee)* is the ratio of “Against” votes to the total number of votes cast for a management (dissident) nominee. Our sample period runs from 2019Q3 through 2024Q2. All other variables are defined in Table I. Uncontested proposals exclude routine items, namely the ratification of auditors, company name changes, stock splits, and increases in the number of common shares. Standard errors, reported in parentheses, are clustered at the year-quarter level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	Uncontested proposals				Proxy contests			
	Management sponsored		Shareholder sponsored		Meeting level		Nominee level	
	D(Reject proposal)	Frac. Against votes	D(Pass proposal)	Frac. For votes	D(Dissident wins)	Frac. against mgmt nominee	Frac. against dissident nominee	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	
Fraction of funds recalling shares	0.089*** (0.025)	0.016* (0.009)	0.537*** (0.170)	0.408*** (0.076)	0.495** (0.231)	0.641** (0.228)	-0.165** (0.068)	
Ln(Market cap)	-0.004*** (0.001)	-0.007*** (0.000)	-0.036*** (0.006)	-0.044*** (0.005)	0.024 (0.026)	0.002 (0.005)	0.028*** (0.010)	
Past 12-month stock alpha	-0.018 (0.011)	-0.024* (0.013)	-0.147 (0.263)	-0.374 (0.320)	-0.842 (1.344)	0.259 (0.225)	0.368 (0.443)	
Year-quarter FEs	Y	Y	Y	Y	Y	Y	Y	Y
Observations	128,886	126,830	3,161	2,978	61	413	210	
R-squared	0.013	0.038	0.110	0.274	0.247	0.356	0.059	
Mean(Dependent variable)	1.8%	6.5%	15.9%	33.9%	55.4%	11.5%	27.9%	

Table VIII: Counterfactual Analysis

This table presents a counterfactual analysis using a subsample of close votes, where the winning margin for a proposal falls between -5 and +5 percentage points. We assume that if a lending fund had not recalled its loaned shares, those shares would have been voted (1) always in favor of management or (2) in the opposite direction of the actual vote. For each proposal, we calculate the change in aggregate votes cast by lending funds and recalculate the total number of “For” votes. We then compute the percentage of “For” votes, compare it with the vote requirement, and determine whether the proposal would have passed under each hypothetical scenario.

	Number of close votes within the [-5%, 5%] margin: 710			
	Management proposals: 487		Shareholder proposals: 223	
	# passed proposals	# failed proposals	# passed proposals	# failed proposals
	306	181	76	147
Number of proposals overturned				
If recalled shares were voted for management	0	22	11	0
If recalled shares were voted in the opposite direction	10	20	8	6

Table IX: Voting Patterns of Recall-Voting Sensitive Funds

This table reports the voting patterns of mutual funds with the highest recall-voting sensitivities relative to other funds. The sample period spans 2019Q3 through 2024Q2. *Vote against management* equals 1 if a fund votes against a management proposal or for a shareholder proposal, and 0 otherwise. *Vote for dissident* equals 1 if a fund votes for the dissident slate in a proxy contest, and 0 otherwise. *D(Top tercile of recall-voting sensitivity)* equals 1 if a fund's recall-voting sensitivity is in the top tercile among all funds, and 0 otherwise. All other variables are defined in Table I. Uncontested proposals exclude routine items, namely the ratification of auditors, company name changes, stock splits, and increases in the number of common shares. Standard errors, reported in parentheses, are clustered at the fund level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	Vote against management		Vote for dissident	
	Uncontested proposals (1)	(2)	Proxy contests (3)	(4)
<i>D(Top tercile of recall-voting sensitivity)</i>	0.012** (0.005)	0.010** (0.005)	0.057*** (0.015)	0.044** (0.016)
Ln(Fund TNA)		-0.003*** (0.001)		-0.012*** (0.004)
Expense ratio		0.841** (0.332)		2.934 (2.089)
Fund turnover ratio		-0.007*** (0.001)		-0.013 (0.011)
Past 12-month fund alpha		0.130 (0.148)		1.162 (0.837)
Fund family ownership		-0.311*** (0.043)		0.167 (0.224)
Ln(Holding horizon)		-0.000 (0.001)		-0.007 (0.008)
Proposal FEs	Y	Y	N	N
Meeting FEs	N	N	Y	Y
Observations	19,893,690	18,960,182	6,572	6,300
R-squared	0.643	0.643	0.535	0.521
%(Dependent variable = 1)	14.2%	13.7%	31.5%	32.9%

Table X: Recall-Voting Sensitivity and Fund Flows

This table reports results on the relationship between a mutual fund's recall-voting sensitivity and its fund flows. The sample period runs monthly from July 2019 through June 2024. *High inst. share* refers to funds with more than 50% of assets owned by institutional investors, while *Low inst. share* refers to funds with 50% or less. Each month, mutual funds are ranked by their 12-month 3-factor alphas to generate a ranking score, *Rank*, ranging from 0 (lowest) to 1 (highest), from which three performance-rank variables are constructed. $Low_{i,t-1} = \text{Min}(Rank_{i,t-1}, 0.2)$, $Mid_{i,t-1} = \text{Min}(0.6, Rank_{i,t-1} - Low_{i,t-1})$, and $High_{i,t-1} = Rank_{i,t-1} - Low_{i,t-1} - Mid_{i,t-1}$. All other variables are defined in Table I. Standard errors, reported in parentheses, are double-clustered at the fund and year-month levels. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

	Dependent variable: Monthly fund flow (%)					
	Only lending funds					All funds
				High Inst. share	Low Inst. share	
	(1)	(2)	(3)	(4)	(5)	(6)
Recall-voting sensitivity	0.2063** (0.094)	0.2045** (0.094)	0.1948** (0.093)	0.3531** (0.147)	-0.0121 (0.098)	0.1916** (0.093)
<i>D</i> (Lending fund)						-0.0590 (0.053)
Past 12-month fund alpha	1.0252*** (0.124)					
Past 12-month style-adj. return		0.0506*** (0.006)				
Low performance rank			2.9368*** (0.852)	2.9879*** (1.108)	1.6675 (1.292)	3.9247*** (0.653)
Mid performance rank			1.4170*** (0.161)	2.0988*** (0.232)	0.5356** (0.220)	0.9819*** (0.102)
High performance rank			7.3009*** (1.461)	11.1486*** (1.799)	1.5881 (1.870)	9.2240*** (1.181)
Ln(Fund TNA)	0.0094 (0.023)	0.0168 (0.023)	0.0021 (0.023)	0.0138 (0.033)	-0.0074 (0.035)	-0.0171 (0.015)
Ln(Fund age)	-0.6817*** (0.079)	-0.6691*** (0.079)	-0.6596*** (0.079)	-0.7067*** (0.105)	-0.5425*** (0.106)	-0.8180*** (0.050)
Fund turnover ratio	0.0000 (0.000)	0.0000 (0.000)	0.0000 (0.000)	-0.0006* (0.000)	0.0011* (0.001)	-0.0005*** (0.000)
Expense ratio	-0.0004 (0.079)	-0.0320 (0.078)	-0.0049 (0.080)	-0.3996** (0.182)	0.0902 (0.082)	-0.0501 (0.052)
Fund institutional share	-0.0014 (0.001)	-0.0012 (0.001)	-0.0015 (0.001)	-0.0032 (0.003)	-0.0048* (0.003)	0.0011 (0.001)
<i>D</i> (Index fund)	0.6378*** (0.128)	0.5868*** (0.130)	0.6469*** (0.128)	0.7187*** (0.171)	0.3364** (0.155)	0.4230*** (0.097)
Investment Style by Time FEs	Y	Y	Y	Y	Y	Y
Observations	95,476	93,614	95,476	54,458	41,018	247,364
R-squared	0.084	0.086	0.086	0.116	0.087	0.069

Table XI: Recall-Voting Sensitivity and Funds' Lending Income

This table reports results on the relationship between a mutual fund's recall-voting sensitivity and its lending income. The annual panel covers 2019 through 2024. *Lending income* is the ratio of a fund's dollar lending income to its total net assets (TNA). *Lending yield* is the ratio of lending income to the fund's average dollar amount of positions on loan. *Fraction of assets on loan* is the market value of loaned shares divided by the fund's total portfolio value. All other variables are defined in Table I. Standard errors, reported in parentheses, are clustered at the fund level. *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

Dependent variable:	Lending income (%)		Lending yield (%)	
	(1)	(2)	(3)	(4)
Recall-voting sensitivity	-0.0093*** (0.003)	-0.0066** (0.003)	-0.3187*** (0.119)	-0.2681** (0.117)
Fraction of assets on loan	0.0064*** (0.001)	0.0062*** (0.001)	-0.0566*** (0.005)	-0.0553*** (0.004)
Ln(Fund TNA)		-0.0003 (0.001)		0.0401*** (0.015)
Ln(Fund age)		-0.0060** (0.003)		-0.1032** (0.043)
Fund turnover ratio		0.0009 (0.002)		0.0199 (0.018)
Expense ratio		0.7126** (0.359)		-1.1347 (6.711)
Fund institutional share		0.0011 (0.003)		-0.1675** (0.073)
D(Index fund)		0.0170*** (0.004)		0.5362*** (0.072)
Year FEs	Y	Y	Y	Y
Observations	9,981	9,981	9,981	9,981
R-squared	0.149	0.162	0.037	0.058

Internet Appendix

to “*(Re)call of Duty: Mutual Fund Securities Lending and Proxy Voting*”

by

Tao Li and Qifei Zhu

Table A1: Mutual Fund Recall Policies

Recall policy group	Classification	Number (%) of funds	Example
1	"Case by case"	1,615 (63.0%)	Invesco's funds may occasionally participate in a securities lending program. In circumstances where shares are on loan, the voting rights of those shares are transferred to the borrower. If the security in question is on loan as part of a securities lending program, Invesco may determine that the benefit to the client of voting a particular proxy outweighs the benefits of securities lending. In those instances, Invesco may determine to recall securities that are on loan prior to the meeting record date, so that we will be entitled to vote those shares. There may be instances where Invesco may be unable to recall shares or may choose not to recall shares. The relevant portfolio manager will make these determinations.
2	"Generally recall"	112 (4.4%)	From time to time, certain MFS Funds may participate in a securities lending program. In the event MFS or its agent receives timely notice of a shareholder meeting for a U.S. security, MFS and its agent will attempt to recall any securities on loan before the meeting's record date so that MFS will be entitled to vote these shares.
3	"Generally not recall"	179 (7.0%)	It is McKee's practice to generally not recall securities unless there is a specific issue that we feel warrants forfeiting the securities lending income. It is generally believed that in most cases the certainty of the securities lending income outweighs the potential, but unknown benefit, of the proxy vote.
0 (omitted group)	No mention of recall policy	657 (25.6%)	
Total		2,563	

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