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Shareholder Monitoring Through Voting: New Evidence from Proxy Contests

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This paper subsumes an earlier version of the study, entitled "Picking Friends Before Picking (Proxy) Fights: How Mutual Fund Voting Shapes Proxy Contests," which is available at https://ssrn.com/abstract=3101473. The authors have benefited from discussions with Reena Aggarwal, Patrick Bolton, Vicente Cuñat, Matias Iaryczower, Nick Gantchev, Yaniv Grinstein, Blake Jackson, Dirk Jenter, Ron Kaniel, and Daniel Schmidt. We acknowledge comments from seminar and conference participants at BlackRock, Columbia Business School, Columbia Law School, Cornell University, Duke Law School, Georgia Tech, Harvard Law School, Hong Kong University of Science and Technology, IDC Herzliya, National University of Singapore, New York Fed, Nanyang Business School, NYU Stern, Penn State, Queen's University, Singapore Management University, SUFE, University of Hong Kong, University of Chicago Law School, University of Pennsylvania Law School, Chinese University of Hong Kong, Toulouse School of Economics, Tulane University, University of Arizona, University of Haifa, U.S. Securities and Exchange Commission, Vanderbilt University, AFA, the ICI/Darden Symposium on Mutual Funds and ETFs, the GSU CEAR Finance Conference, FTSE World Investment Forum, the 10th Annual Hedge Fund Research Conference, the 15th Annual Conference on Corporate Finance at Olin Business School, the 2019 Summer Finance and Accounting Conference in Jerusalem, the 2020 ECGI Annual Members' Meeting, the 21st Annual Law and Business Conference at Vanderbilt Law School, NBER, the 14th Annual Paul Woolley Centre Conference, the Conference on Voting and Governance held by the Institution for Social and Policy Studies, Yale University, and the University of Connecticut Risk Conference. Runxin Fan, Juerui Feng, Jonathan Foss, Ellen He, Jin Li, Yicheng Liu, Elif Memet, Tomas Mondino, Brandon J. Park, Chunyu Qu, Yiting Xu, Zhicheng Xu, Yuying Ye, and Zhengting Zhong provided excellent research assistance.

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Abstract

We present the first comprehensive study of mutual fund voting in proxy contests. Among contests where voting takes place, passive funds are 10 percentage points less likely than active funds to vote for dissidents. The gap shrinks significantly when accounting for votes withheld from management nominees, settled contests, and votes by non-"Big-Three" fund families. Passive and active funds are equally informed about firm fundamentals, although passive funds view contest-related SEC filings more often than active funds during contests, in absolute levels and incrementally relative to noncontest periods. We conclude that passive funds are engaged shareholders in high-stakes voting events.

Keywords: Mutual fund voting, proxy contest, passive funds, monitoring

JEL Classifications: G320, G340, G380

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Abstract

We present the first comprehensive study of mutual fund voting in proxy contests. Among contests where voting takes place, passive funds are 10 percentage points less likely than active funds to vote for dissidents. The gap shrinks significantly when accounting for votes withheld from management nominees, settled contests, and votes by non-"Big-Three" fund families. Passive and active funds are equally informed about firm fundamentals, although passive funds view contest-related SEC filings more often than active funds during contests, in absolute levels and incrementally relative to noncontest periods. We conclude that passive funds are engaged shareholders in high-stakes voting events.

Keywords: Mutual fund voting, proxy contest, passive funds, monitoring.

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1. Introduction

Over the past two decades, the importance of proxy contests, or contested elections for board representation, has increased markedly as shareholder activism has become both an established investment strategy and an important form of corporate governance. Institutional investors play a pivotal role in shaping contest outcomes in at least two ways. First, both insiders and dissident shareholders typically own a strict minority of outstanding target firm stock, so the votes cast by remaining shareholders determine which side prevails. In addition, the low and inconsistent rate of participation by retail investors in voting matters implies that the voting decisions made by the firm's institutional shareholders are crucial in determining the outcome of a proxy contest.

The disclosure of mutual fund voting records, mandated by the U.S. Securities and Exchange Commission ("SEC") in 2003, together with the availability of standardized databases such as Institutional Shareholder Services ("ISS") Voting Analytics, have led to a burgeoning literature that analyzes the voting behavior of institutional investors in management and shareholder proposals at

uncontested meetings.[2] Given their irregular disclosure formats, however, contested voting records are either missing or incomplete in standard databases and hence these records have not been explored to date. In this paper, we introduce the first comprehensive database of mutual fund voting in proxy contests, which we collect directly from individual funds' regulatory filings.

A central goal of our research, based on this unique dataset, is to document the extent of monitoring by passively managed funds. Addressing this question is important as capital allocated to passive funds has quadrupled over the past 20 years, surpassing that allocated to actively managed funds in 2019 (McDevitt and Dibenedetto 2019). On the one hand, passive funds are not directly rewarded for "beating the index" but are under competitive pressure to charge low fees. It is therefore possible that passive fund managers have weak incentives and limited resources for conducting firm-specific research or confronting incumbent management (Elton, Gruber, and Busse 2004; Choi, Laibson, and Madrian 2010; Lund 2017; Bebchuk, Cohen, and Hirst 2017; Bebchuk and Hirst 2019; Iliev, Kalodimos, and Lowry 2021). On the other hand, passively managed funds are long-term shareholders who benefit from strong performance of portfolio firms. Because they lack an "exit" option, they are incentivized to cast informed votes in proxy contests to pick the side that can best improve firm value. Moreover, passive investments are scalable; their larger stake size and ability to amortize the cost of monitoring economically suggest that they will be engaged shareholders (e.g., Appel, Gormley, and Keim 2019; Fisch, Hamdani, and Solomon 2019; Kahan and Rock 2020; Lewellen and Lewellen 2021).

The literature based on noncontested voting has uncovered a 10-13 percent passive–active gap in support rate for management (Heath, Macciocchi, Michaely, and Ringgenberg 2022; Bubb and Catan 2022) and this strong promanagement stance has been interpreted as consistent with the view that passively managed funds lack the incentives to properly monitor their portfolio firms. Missing, however, from the debate regarding the stewardship decisions of passively managed funds

[2]The standard voting data provided by ISS Voting Analytics covers votes cast by the top mutual fund families in noncontested meetings for Russell 3000 firms. A growing body of literature has built on this database in studies that include Cai, Garner, and Walkling (2009), Matvos and Ostrovsky (2010), Morgan, Poulsen, Wolf, and Yang (2011), Choi, Fisch, and Kahan (2013), Cuñat, Gine, and Guadalupe (2012), Duan and Jiao (2016), Iliev and Lowry (2015), Malenko and Shen (2016), Kedia, Starks, and Wang (2021), Dimmock, Gerken, Ivkovic, and Weisbener (2018), He, Huang, and Zhao (2019), Bubb and Catan (2022), and Bolton, Li, Ravina, and Rosenthal (2020). These data also have been used to examine incentives that affect mutual fund voting in studies by Davis and Kim (2007), Matvos and Ostrovsky (2008), Harford, Jenter, and Li (2011), Ashraf, Jayaraman, and Ryan (2012), Butler and Gurun (2012), Cvijanovic, Dasgupta, and Zachariadis (2016), Bodnaruk and Rossi (2016), and Kumar, Tang, and Wei (2020).

is whether a similar passive–active gap exists in contested elections in which voting is both more consequential for shareholder welfare and informative about monitoring effort and investor preferences. First, proxy contests are ex ante pivotal voting events where both incumbent management and a challenging dissident should expect to have a meaningful chance of prevailing. Otherwise, incumbent management would offer a settlement or the dissident would withdraw. This holds empirically: dissidents win board representation in roughly half of the contests in our sample. The contentious nature of proxy contests stands in contrast to the often one-sided nature of management and shareholder proposals, where a pivotal event is the exception rather than the norm. Second, while shareholder proposals and some management proposals are only advisory, the voting outcome of a proxy contest determines which side (incumbent or dissident) will prevail in taking their preferred direction for the company. Third, because of the higher stakes in proxy contests, we expect funds to intensify their research on proxy-related material, as seen in viewings of SEC filings. Institutional investors are therefore more likely to express their own independent views in proxy contests, making such contests a useful setting in which to study shareholder governance.

We find that for the sample of proxy contests that have proceeded into the voting state, passive funds are 9.5 percentage points less likely than active funds to support dissidents. While this figure is largely on par with the gap documented in the noncontested setting, our analysis suggests that this "headline" gap significantly underestimates the extent to which passively managed funds are willing to monitor and dissent. First, passive funds are relatively more likely to resort to "dissent by withholding," that is, shareholders withhold support for a partial or even full list of the nominees on the submitted ballot. Such a scheme generates varying levels of voting support that are more granular than those typically found in noncontested proxy voting. Once we take into account this less confrontational approach, which seems to be favored by passively managed funds when expressing dissatisfaction with management, the passive–active gap shrinks by about 1.2 percentage points. More importantly, withheld votes appear to be concentrated on certain director nominees across mutual funds, resulting in, effectively, a coordination mechanism that materially affects election outcomes. While withheld votes are still counted as promanagement, concentrated withholding activities by passive funds enables the replacement of the weakest directors without altering a board's overall composition.

Second, we find that the passive–active gap is driven primarily by funds managed by the "Big Three" fund families, namely, BlackRock, Vanguard, and State Street. Excluding these funds more than halves the difference between active and passive support for dissidents to 4.7 percentage points.[3] This difference suggests that a fund's voting behavior is influenced not only by its investment style but also by additional factors, such as the size of its fund family and therefore its stake size. Large fund families, notably the Big Three, enjoy access to management through their prominent shareholder status and may use direct communication to convey their dissatisfaction with management. Passive funds that are affiliated with smaller families, which lack both the "exit" option and access to management, are more likely to resort to proxy voting to exercise their shareholder rights.

Third, we find that the passive–active gap in *voted* contests is overstated because a lack of support from passive funds prompts management to settle with activists, obviating a vote. This finding is based on an analysis of a subset of settled or withdrawn proxy contests that have substantial shareholder votes recorded, as these contests were resolved close to the scheduled votes.[4] Such votes, which have not been explored in the literature, provide useful information: they show how shareholders would have voted at these firms had the contested elections actually taken place. It is noteworthy that such "accidentally" revealed votes are not available for management or shareholder proposals.[5] The passive–active gap falls to 2.4 percent (1.6 percent) for settled (withdrawn) contests, consistent with the idea that when dissidents are successful in convincing passive fund managers to take their side, management is more likely to offer a settlement to avert failure in broad daylight. When we weight the estimates from voted, settled, and withdrawn contests by their respective representations in the full sample of all proxy contests, the passive–active gap decreases to 4.5 percentage points, less than half of the "headline" figure. The evidence based on the "accidentally revealed" votes points to the importance of the attitude of passive funds towards

[3] Ownership by non-Big-Three passive funds is nontrivial. Averaging across voted contests, aggregate ownership by non-Big-Three passive funds represents 25% of aggregate ownership by those funds. This finding is in line with the estimate of Gormley, Gupta, Matsa, Mortal, and Yang (2021) that the Big Three account for 75% of all indexed mutual fund and ETF assets.

[4] Many mutual funds had already cast their votes with the expectation that the vote would proceed as planned. These funds lack a strong motive to cancel the votes because their votes are voided after the contest is settled or withdrawn. We find that the propensity to submit early votes is uncorrelated with investor stance and firm characteristics.

[5] Couvert (2020) uses stock-price reactions to study the value of shareholder proposals that are excluded or withdrawn before they reach the voting stage.

dissidents in deciding whether a contest proceeds to a vote or a settlement.

Having shown evidence regarding passively managed funds' voting behavior in proxy contests, we next provide direct evidence on funds' efforts to monitor and the quality of their voting decisions. Regarding the former, we follow Iliev, Kalodimos, and Lowry (2021) and use funds' views of proxy statements on EDGAR to proxy for engagement in governance research. We find that, outside of proxy-contest periods, there is no difference in the frequency with which proxy material is viewed by fund families whose assets under management are mostly passively rather than actively managed. During both voted and settled contests, however, the probability that fund families with a majority of passively managed funds view contest-related filings is higher than that of active fund families by more than five percentage points. Moreover, the frequency with which portfolio firms' proxy material is viewed by fund families with a majority of passively managed funds is significantly higher than that of active fund families in the post-contest time period.

To examine the quality of monitoring output, we classify a vote as "correct" if a fund votes for (against) a winning party that brings about improvement (decline) in post-contest operating performance. Such a test is possible due to the high stakes of proxy contests that lead to measurable real consequences in the time period subsequent to the vote. We find that votes by mutual funds are overall informative and, more importantly, the quality of votes cast by passive funds is on par with that of votes cast by active funds. Passive fund families are however more likely to commit Type I errors (rejecting "good" dissidents), which are completely offset by a reduction in Type II errors (supporting "bad" dissidents). This decomposition implies that passive fund families, especially the Big Three, adopt a higher threshold that dissidents must clear to win their support but the information content of their votes remains on par with that of active funds. Interestingly, passive fund families that are not part of the Big Three, which are typically less promanagement, cast slightly more informative votes than either the Big Three or active fund families.

Since this is the first time this dataset has been explored, we also include an analysis of the distribution and commonalities in mutual fund voting in proxy contests. As expected, mutual funds are more likely to support a dissident when the target firm performs poorly, as measured by Tobin's q, return on assets, or stock returns. Presumably, subpar performance enhances the appeal

to shareholders of alternative leadership and strategies. Mutual funds are also more likely to vote for activist hedge funds than other types of dissidents, which is consistent with the belief that hedge funds have clear, value-oriented goals and function as an effective force for governance (Brav, Jiang, Partnoy, and Thomas 2008). While passive funds are conditionally more promanagement, the sensitivity of passive funds' votes to firm performance is similar to that of active funds. In fact, passive funds are significantly more sensitive to operating performance, while they are less sensitive to stock-price performance, suggesting that they emphasize firm fundamentals over stock-market perceptions.

In the final section of this study we address the remaining selection issues associated with dissident targeting and shareholder participation in voting.[6] To address these issues, we present a parsimonious two-step model following Lee (1983), where we first estimate a dissident's decision to initiate a proxy contest using a multinomial regression that predicts three contest outcomes (voted, settled, or withdrawn) relative to the base outcome in which the firm is not targeted. In the second stage, we estimate a linear regression that predicts individual funds' voting choices within the subset of firms experiencing voted contests. When compared with the results obtained with a reduced-form regression, we find that shareholder support for dissidents is more sensitive to operating performance when we include the Lee bias-correction term. Moreover, the sign and statistical significance of the coefficient imply that unobservable variables that drive dissidents' targeting decisions are positively correlated with mutual fund voting support, a result that is consistent with the findings of Kedia, Starks, and Wang (2021). Next, we analyze the potential for selection issues to arise from mutual funds' participation in voting by examining "no show" decisions made by funds even when they hold shares in a firm as well as funds' buying-in and selling-out prior to voting. We find that changes along this dimension do not drive our results.

Shareholder monitoring is an essential element in corporate governance but is also difficult to identify empirically, as each setting is unique and subject to selection effects. The analyses summarized above lead us to conclude that passively managed funds are *not* passive monitors in

[6] It is worth noting that these selection issues affect voting on shareholder proposals as well. Sponsors of proposals do not target firms randomly (Renneboog and Szilagyi 2011; Gantchev and Giannetti 2021) and not all such proposals eventually reach a vote (Matsusaka, Ozbas, and Yi 2021; Couvert 2020). Moreover, because portfolio decisions made by active money managers may be affected by governance matters, this issue applies both in proposal and in contest settings.

proxy contests. They support dissidents who target underperforming firms and prefer expressing dissent through subtle channels rather than directly confronting management. More importantly, passive investors serve as a screening device for attempted and voted proxy contests given the higher threshold they set for turning their backs on management and their critical mass of voting power. In other words, dissident shareholders need to be confident that they can win over a significant mass of passive investors when considering launching a contest. They are able to achieve their goals via settlements with management, thus avoiding costly fights, if passive funds support them to the same extent as active funds do. Finally, passive funds devote their monitoring resources selectively to high-stakes events, such as proxy contests, and cast informed votes despite a relatively stronger promanagement stance. This evidence is important for understanding the efficacy of shareholder governance given the rapid growth of passively managed funds.

2. Institutional Background and Data Collection

2.1. Proxy Contests and Voting

2.1.1. Institutional Setting

At a corporation's annual shareholder meeting, some or all of its directors are up for election. Most of these elections are uncontested, in that shareholders are asked to vote for a slate of nominees proposed by the incumbent board. In the absence of an alternative, candidates routinely receive overwhelming majority support (Ertimur, Ferri, and Oesch 2017). About 1.5 percent of board elections, however, are contested, in that a "dissident" shareholder proposes a rival slate containing at least one alternative nominee. In most cases, the dissident aims at winning a minority subset of the board seats or a "minority slate." Our study encompasses all contested events that require direct shareholder voting from 2007 through 2017, including contested director elections and written consent solicitations to replace directors.

After a dissident announces a proxy contest by filing a preliminary or definitive proxy statement in connection with contested solicitations (PREC14A or DEFC14A), both the dissident and incumbent board forward proxy solicitation materials to shareholders, who then vote for their preferred

group and return the proxy cards, which are essentially ballot cards.[7] If the contest is not settled or withdrawn it proceeds to the voting stage and a third-party agent for each side accumulates votes via returned proxies and casts these votes at the shareholder meeting. As a challenger, a dissident is commonly considered to have won a contest if at least one of its nominees is elected. Most proxy contests entail campaigning by both sides, in which management and dissidents each reach out to investors and related parties, such as proxy advisors, with mailed materials, which are often supplemented by press releases, designated websites, and on-site presentations. These proxy solicitation materials are submitted to the SEC as DEFA 14A filings.[8]

The proxy fight in 2015 between E. I. du Pont de Nemours and Company ("DuPont"), an iconic American company, and Trian Partners, a leading activist investor, best exemplifies the underlying institutional framework and the intricacies of our data-collection process. DuPont claimed victory with a narrow margin by earning 53.5 percent of the votes, making each of the top-five mutual fund families (BlackRock, American Funds [Capital Group], Vanguard, State Street, and Fidelity) pivotal voters.

2.1.2. Proposals vs. Contests: Differences in Institutional Settings and Data Availability

Voting in proxy contests warrants a dedicated study as inferences regarding underlying institutional preferences cannot be extrapolated from voting in noncontested elections. As noted above, votes in proxy contests are arguably more informative about shareholders' preferences and their desire to exercise their governance rights because voting in proxy contests is both ex ante pivotal and ex post binding. Both incumbent management and a challenging dissident should expect to have a close to equal chance of prevailing. Otherwise, incumbent management would offer a settlement or the dissident would withdraw. This holds empirically: dissidents win board representation in

[7] If a shareholder returns proxy cards from both sides, only the more recent submission counts toward the vote tally. In 2022, the SEC instituted a reform to implement a "universal proxy card" system in which competing slates would be presented on a single ballot.

[8] After a proxy contest is announced, management may offer a settlement with concessions that usually include accepting some of the dissident nominees to be included on the management slate in a noncontested election. Or, a dissident may withdraw when likely outcome is failure. Otherwise, the contest proceeds to voting. While this study focuses on voted contests, we refer the reader to Bebchuk, Brav, Jiang, and Keusch (2020) for a detailed analysis of settlements between activist investors and their target companies, and to DeAngelo and DeAngelo (1989) and Fos (2017) for additional institutional details and empirical regularities regarding proxy contests.

roughly half of the contests in our sample. The contentious nature of proxy contests contrasts with the often one-sided nature of management and shareholder proposals, where a close-vote event is the exception.[9] Moreover, while votes on shareholder proposals and some management proposals, such as Say-on-Pay votes, are only advisory, insofar as vote results are not binding on a firm's management team, the outcome of a proxy contest has more tangible consequences for all parties involved as it determines which party wins and the direction the firm will take. Levit and Malenko (2011) argue theoretically that nonbinding votes generally convey shareholder views less effectively than binding votes when manager and shareholder interests are not aligned and the presence of an activist investor may enhance the quality of voting in such a setting.

Second, despite their importance, votes in proxy contests, unlike those in proposals, have not been gathered or disclosed in a standardized format or in standard databases. ISS Voting Analytics, the most authoritative database of proxy votes, does not systematically collect voting records for proxy contests.[10] Individual fund families adopt their own styles to structure the information provided in their N-PX filings and funds within the same family use a variety of formats (e.g., txt, html, or a combination of the two) that can also change over time. Further complicating data retrieval is the fact that the original votes in contests are registered on two sets of ballots. For this reason, we build our sample of votes in proxy contests from original filings with the SEC.

Third, in contrast to the binary choice of voting for either management or a dissident, which has been studied in the empirical and theoretical literature on shareholder voting, voting in proxy contests facilitates a more granular classification of the choice set exercised by shareholders. Mutual funds have five voting options in proxy fights, ordered by increasing (decreasing) support for a dissident (management): (1) the fund turns in the management proxy card with "For" votes for all management nominees, or "full support for management;" (2) the fund turns in the management proxy card with "For" votes for some, but not all, management nominees, or "partial support for management;" (3) the fund turns in either, or both, proxy cards with no positive vote, effectively

[9] During our sample period, 99.6% of uncontested director elections won majority support for management's nominees. Similarly, 98.3% of advisory votes on executive compensation ("Say-on-Pay") won majority support.

[10] ISS Voting Analytics covers voting records primarily for noncontested meetings, that is, management and shareholder proposals, for Russell 3000 firms, and for additional firms that are held by large mutual fund families. For example, Cai, Garner, and Walkling (2009) study director elections relying on data from ISS Voting Analytics, which cover only four contested elections in a sample of 2,488 shareholder elections.

a decision to "abstain;" (4) the fund turns in the dissident proxy card with "For" votes for some, but not all, of the dissident nominees, or "partial support for dissident;" or (5) the fund turns in the dissident proxy card with "For" votes for all dissident nominees, or "full support for dissident." We show in Section 4.2 that partial support or withholding constitutes an effective strategy for expressing investor preferences that also affects election outcomes, especially when passive funds withhold votes.

Finally, given the higher stakes in proxy contests, we expect funds to dedicate greater effort to voting, demonstrating independence instead of following the recommendations of leading proxy advisors, such as ISS. Aggarwal, Saffi, and Sturgess (2015) show that institutions are more likely to recall shares on loan to vote in proxy contests, consistent with a heightened level of diligence. We show in Section 4.5 that funds that routinely follow ISS on advisory Say-on-Pay votes significantly reduce their dependence on ISS recommendations when voting in proxy contests. The models proposed by Malenko and Malenko (2019) and Malenko, Malenko, and Spatt (2022) show how the presence of a proxy advisor improves voting informativeness, but a strong reliance on its recommendation is not informationally efficient given the economics of selling information to voters. That funds become more alert and less reliant on proxy advisors in contests suggests that contests are a critical venue for drawing inferences about whether funds are active monitors.

2.2. Data on Voting in Proxy Contests

2.2.1. Data on Contested Shareholder Interventions

Both management and dissident shareholders are required to file SEC Form DEFC 14A ("definitive contested proxy statement") to allow shareholders to vote on their respective ballots. We manually download all DEFC 14A filings from EDGAR for the period from July 1, 2006, through June 30, 2017. We then search for subsequent proxy filings and 8K/10Q filings to determine whether a shareholder meeting actually took place. This process results in 298 unique contested meetings. Form DEFC 14A contains both management and dissident proxy cards, from which we extract director candidates nominated by management and dissidents, respectively. Since some proxy con-

tests may be missing DEFC 14A filings we supplement the initial sample with a comprehensive review of FactSet's SharkRepellent database. This step yields 49 additional contested meetings, bringing our sample to 347 voted proxy contests.[11] We observe at least one mutual fund vote in 285 of these contests, with the remaining 62 events involving over-the-counter traded stocks or small-capitalization firms that mutual funds do not typically hold.

The procedure described above also reveals an additional 190 announced proxy contests (i.e., when a DEFC 14A filing is submitted) that did not proceed to a vote. Among these events, 155 were settled and 35 were withdrawn before the scheduled meeting took place. We further supplement this sample by searching through PREC 14A filings, Schedule 13D filings, press releases, and SharkRepellent, gathering an additional 295 settled and 204 withdrawn contests. Overall, we observe 450 settled events and 239 withdrawn events.

We restrict the universe of proxy contests using several criteria. First, we require that a firm be included in the CRSP-Compustat merged database with a valid market capitalization as of the month-end immediately prior to a meeting date and a valid book value of assets within two years prior to the meeting date. Next, we drop contests in which a dissident owned fewer than 500 shares and less than 0.01 percent of outstanding shares as of the announcement date of a contest. Economic motives are unlikely the primary driver of these contests. With these filters our final sample consists of 207 voted proxy contests, 324 proxy contests that were settled, and 128 events that were withdrawn. In contests that come to a vote there are on average 4.8 (3.9) candidates up for election on management (dissident) cards whose names are not listed on opponents' cards. Table 1 reports the annual time series of proxy contests. The number of contests reached a high of 79 in 2008, fell by nearly a half by 2010, and most recently averaged 65 events per year over the last three sample years. Over two-thirds (79.5 percent) of the contests are launched by hedge funds. The next major categories include individual investors (13.8 percent) and companies (5.8 percent).

[Insert Table 1 here.]

[11] Most of the additional events are identified through filings of DFAN 14A, "definitive proxy soliciting materials filed by non-management," or DEFN 14A, a "definitive proxy statement filed by non-management."

2.2.2. Mutual Fund Voting Records in Proxy Contests

The key inputs to this study are the voting records of registered investment management companies or U.S. mutual fund companies, which are required to disclose their proxy voting records via annual N-PX filings on the EDGAR website. We use a multistep procedure to extract information from N-PX filings. First, we use several programmed scripts to parse all filings by the top-100 mutual fund families for shareholder meetings between July 1, 2006, and June 30, 2017.[12] We extract the following information from each filing: family name, fund name, company name, CUSIP, meeting date, meeting type (annual or special), proposal number, proposal text, sponsor (management or shareholder), management's recommendation, and vote cast for each item. From this superset, we identify votes that pertain to the 207 proxy contests in our sample, matching on company names, CUSIPs, and meeting dates. We then repeat this procedure for the remaining, smaller, fund families by manually downloading their voting records and filtering to the proxy contests in our sample. After combining the datasets collected in these two steps, our final sample comprises 28,999 votes from 5,058 funds belonging to 536 fund families.

Some fund families outsource portfolio management to subadvisors to expand their product offerings and to capture market share. We retrieve subadvisory information from the CRSP Mutual Fund database and N-CSR filings.[13] In theory, and as a general practice, the authority to vote proxies rests with portfolio managers, though there are exceptions. For example, 25 funds managed by T. Rowe Price voted proxies in the DuPont contest, of which 24 voted in their capacity as subadvisors. More recently, the Vanguard Group, which has historically assigned the responsibility for voting Vanguard's equity funds, including subadvised funds, to its investment stewardship team, has announced in 2019 that by the end of the year its subadvisors would have full voting power over shares in the mutual funds they manage. We deem the votes cast by subadvised funds, with

[12] According to the CRSP Mutual Fund database, as of December 2016, the top-100 families compose 85.2% of AUM of all mutual funds. These families wield a similar proportion of voting power.

[13] A subadvisor's name is usually included in the fund name. For example, "ING T. Rowe Price Equity Income Portfolio" contains "ING," the fund family and investment advisor, and "T. Rowe Price," the subadvisor.

the exception of Vanguard, as having been cast by the subadvising fund family.[14]

3. Mutual Fund Voting in Proxy Contests

3.1. Construction of Variables and Summary Statistics

3.1.1. Event-level Characteristics

Our first set of variables capture event-specific attributes and outcomes. *Dissident win* is an indicator variable coded as 1 if a dissident wins at least one board seat, a winning outcome in a proxy contest. *Support for dissident* is the share of mutual funds voting for the dissident within a given contest. We also record voting recommendations by ISS and Glass Lewis from the filings.[15] *ISS for dissident* is an indicator variable coded as 1 if ISS recommends that investors vote for at least one dissident nominee and 0 otherwise; *Glass Lewis for dissident* is constructed similarly. We gather 104 "For" and 83 "Against" recommendations by ISS, and 70 "For" and 131 "Against" recommendations by Glass Lewis.

The next set of variables characterize the dissident. *Hedge fund dissident* is an indicator variable coded as 1 if a dissident is a hedge fund. We proxy for a dissident's experience with the variable *# past events by dissident*, which records the average annual number of interventions the dissident undertakes in the five years preceding a contest.[16] Number counting aside, we further proxy for

[14] The Internet Appendix provides additional descriptive statistics and institutional details that are relevant to our analyses. Section B.1 summarizes the proxy contest at DuPont and the votes cast by major mutual fund families. Section B.2 presents original voting records by two Vanguard funds and two Northern Lights funds in the DuPont contest, showing the differing formats that funds adopt even within the same family. Vanguard funds file uniformly, while each Northern Lights fund adopts its own unique format. Moreover, Northern Lights's Covered Bridge Fund did not include the dissident proxy card that they did not vote on, while Northern Lights's Persimmon Long/Short Fund included both the management and dissident cards. Section B.3 provides an example of "active abstention" by the asset manager Wisdom Tree in the proxy contest between Darden Restaurants, Inc. and Starboard Value LP. Finally, the Internet Appendix provides a detailed distribution of dissident categories in Table A.1.

[15] Leading proxy advisors, especially ISS and, to some extent, Glass Lewis, have significant sway of up to 30 percent of institutional votes, according to Cai, Garner, and Walkling (2009), Malenko and Shen (2016), and Li (2018). Because each party has an incentive to publicize a favorable recommendation from a proxy advisor, this process should reveal most of the advisors' recommendations. We supplement events that are missing ISS recommendations with information from ISS's Voting Analytics database, SharkRepellent, and news articles in Factiva.

[16] We use a comprehensive database of hedge-fund activism events launched by hedge funds beginning in 2001, five years before the start of our sample period. The dataset covers all hedge-fund activism events in the U.S. and is an extension of the sample used in Brav, Jiang, Partnoy, and Thomas (2008) and Brav, Jiang, and Kim (2015), using the same sample-selection criteria. These events are identified mainly through Schedule 13D filings, but also include activism events below a five percent stake identified using news archive searches.

an activist's commitment in these past engagements with *Past campaign intensity*, a weighted average of three progressive modes of engagement: passive communication (assigned the value of 1), submission of shareholder proposals (assigned the value of 2), and more confrontational actions, including the threat of a proxy contest, initiation of an actual proxy contest, a lawsuit, and a takeover bid (assigned the value of 3). Last, *Announcement return* is the cumulative abnormal return in excess of the CRSP value-weighted market return over a [-10, +10]-day window around the announcement of a proxy contest.

3.1.2. Fund-level Characteristics

This set of variables capture time-invariant as well as time-variant fund-level heterogeneity. The key variable throughout our analysis, *Passive fund*, is an indicator variable coded as 1 if a fund is passively managed.[17] *Fund total assets* is the dollar value of a fund's equity portfolio, in billions of dollars, and appears in regressions as a logarithm. *Investment as % of fund assets* is a fund's dollar ownership of a target stock as a percentage of its total assets.[18] *Investment as % of firm equity* is a fund's stake in a target company's stock as a percentage of the company's outstanding shares. *Holding horizon* is the number of consecutive years in which a mutual fund holds a target stock based on interquarter portfolio changes disclosed in SEC filing. *Basis-adjusted return* measures a fund's capital gain from its investment in a target company relative to its value-weighted cost basis, following the procedure in Frazzini (2006).

[17] In addition to the CRSP Mutual Fund database classification of funds as index funds or ETFs, we conduct a search for indexation-related strings in fund names, such as Index, Idx, Indx, INDEX, Ind_ (where _ indicates a space), ETF, Russell, S&P (and its variants, such as S & P, S and P, SandP, and SP), DOW (and its variants, such as Dow and DJ), MSCI, Bloomberg, KBW, NASDAQ, NYSE, FTSE, Wilshire, Morningstar, 100, 400, 500, 600, 900, 1000, 1500, 2000, 3000, and 5000.

[18] We use the Thomson Reuters S12 Mutual Fund database and supplement with the CRSP Survivor-Bias-Free Mutual Fund database when needed, to construct a superset of mutual fund holdings at the firm-quarter level. Matching funds between our voting dataset and the ownership databases is nontrivial. First, we match by fund ticker from Form N-PX in the voting data with portfolio tickers in the CRSP Mutual Fund database. Second, we use the MFLINKS tables from Wharton Research Data Services ("WRDS") to link each fund in the voting dataset to the Thomson Reuters S12 data, using the provided link between a CRSP portfolio number and an S12 fund number. Third, for funds in the voting dataset without links to an S12 fund number, we conduct manual matching by fund names. To measure each fund's percentage and dollar ownership, we use the shares outstanding and share price fields from the CRSP monthly stock file. Following Frazzini (2006), we code observations as missing values when the number of shares held by a fund exceeds the number of outstanding shares at quarter's end. We measure ownership at the fund-family level by grouping ownership of funds within a fund family.

3.1.3. Firm-level Characteristics

Several common firm-level characteristics serve as control variables in our analyses. Market capitalization, MV, is measured in billions of dollars and appears in the regressions as a logarithm. *Tobin's q* is the sum of the book value of debt and the market value of equity scaled by the sum of the book values of debt and equity.[19] Return on assets, ROA, is earnings before interest, tax, depreciation and amortization, or EBITDA, scaled by book assets. *Industry-adj. stock return* is the industry-adjusted buy-and-hold return during the 12 months prior to an announcement date of a proxy contest. Industry classification is set initially at the SIC three-digit level and we expand it to the two-digit and then the one-digit level, if needed, to ensure that we have a minimum of five firms. *Leverage* is the ratio of debt to assets, all in book values. *Dividend yield* is the sum of common and preferred dividends divided by the market value of common stock plus the book value of preferred equity. *Institutional ownership* and *Mutual fund ownership* are the fractions of shares held by institutional investors and mutual funds at quarter's end before a meeting, respectively, as reported by the Thomson Reuters S12 and 13F databases. Finally, HHI represents industry concentration in terms of the Herfindahl index of sales. We measure *HHI* at the SIC four-digit level, or, when there are fewer than five firms, at the SIC three-digit or two-digit level, as necessary.

To gauge the differences between target and nontarget firms along observable characteristics, Table 2 presents the averages, medians, and standard deviations of target-firm characteristics as of the announcement of each contest (columns (1) through (3)) and we compare them with the average of matched firms (column (4)). We match each target firm with the nontarget firm in the same SIC-4 industry and year that is closest in market capitalization. Target firms have lower Tobin's q and industry-adjusted stock returns on average, consistent with the notion that a key objective of proxy contests is to improve target-firm performance. Moreover, dissidents tend to launch proxy contests at firms with more institutional and mutual fund investors, who are expected to be more diligent and informed voters than retail investors. These patterns are broadly consistent with recent literature (e.g., Fos 2017).

[19] If the denominator is negative, the ratio is reconstructed as (MV equity + BV assets - BV equity)/BV assets, where MV and BV stand for market and book values, respectively.

[Insert Table 2 here.]

3.2. Distribution of Mutual Fund Votes

As noted in Section 2.1.2, mutual funds' support for management or a dissident is not necessarily binary but allows for intermediate choices. Figure 1 displays the distribution of votes across all options. While voting affirmatively for their preferred candidates is the most natural way for shareholders to exercise their voting rights, shareholders are also able to signal their disapproval of some of the candidates by withholding their votes. When withholding is used in uncontested proposals and precatory elections, a large share or majority of such votes can cause reputational damage and may lead to changes that cater to shareholder sentiment (Del Guercio, Seery, and Woidtke 2008). In contested elections, withholding votes, while usually considered inferior to voting affirmatively for a preferred candidate (Hirst 2018), can prevent one side from winning a full slate in a binding voting outcome. Figure 1 shows that close to 6 percent of the voted proxy cards in our sample involve withheld votes on management slates and 18 percent involve partial support for dissident nominees. The 2.3% abstention rate represents an additional way to prevent management candidates from gaining votes. The lack of a universal proxy in proxy contests during our sample period makes it impossible for funds to convey their desired board compositions via "mixing-and-matching" of nominees from both ballots. Instead, shareholders compromise by voting for only a subset of nominees from the ballot for which they have a stronger preference.

[Insert Figure 1 here.]

Table 3 summarizes mutual fund voting patterns for the subset of proxy contests that reach the voting stage. In both panels, in the first three columns we report the averages, medians, and standard deviations. For columns (4) to (13), we partition the sample into high and low levels of each characteristic variable. For continuous variables, we split the sample at the median; for indicator variables, we split the sample into either value of the variable. Within each subsample, we report the percentage of mutual funds choosing each of the five voting options defined in Section 2.1.2. In Panel A, we report summary statistics for event-level variables and their relationship to

voting outcomes. The results shown in first three rows reveal that voted contests are highly pivotal events. Dissidents win 51.7 percent of contests, which is consistent with the hypothesis that both incumbent management and dissidents should expect the probability that they will win not to be significantly below 0.5, persuading management not to settle or the dissident not to withdraw. In the average contest, however, the dissident receives 41.9 percent of mutual funds' votes. The difference between the two estimates reveals that, when a dissident wins (loses), the margin is relatively small (large).

[Insert Table 3 here.]

When a dissident is a hedge fund, mutual funds vote its partial and full slate 20.3 percent and 24.6 percent of the time, compared with support rates of 5.1 percent and 22 percent otherwise. Mutual funds do not appear unambiguously impressed by the sheer quantity of a dissident's past campaigns, as proxied by the number of past activist engagements. Finally, the average price reaction upon the announcement of a campaign is 5.1 percent and, when the announcement return is above its median, mutual funds are eight percentage points more likely to support a dissident's full slate. This correlation between announcement returns and voting support suggests some level of agreement between traders and voters regarding the extent to which activism enhances value.[20]

Panel B summarizes the evidence for our fund-level variables. Passive funds compose 42.1 percent of fund-event observations although they comprise only 18.6 percent of all funds in our sample. The average fund has a portfolio value of $3.9 billion, with 0.4 percent of its assets invested in a target firm, which amounts to 0.2 percent of its outstanding stock. As of a given meeting date, the average (median) fund has held the target stock for 3.3 (2.3) years and has earned a basis-adjusted return of 8.1 percent (1.9 percent). The results reported in columns (4) through (13) imply no association between voting behavior and fund size, investment as a percentage of fund assets, or investment as a percentage of a firm's equity. Moreover, long-term shareholders, as measured by holding horizons, are no more promanagement than short-term shareholders, contradicting a popular narrative according to which activists represent the interests of short-term investors. Funds

[20] See Levit, Malenko, and Maug (2021) for a model that characterizes the relationship between a median voter and a marginal trader.

that have experienced a higher investment return are, however, more likely to support management.

The largest asset managers are potentially pivotal voters, especially in close contests such as the DuPont case. Their voting behavior thus warrants additional discussion. The top-three fund families—in particular BlackRock, Vanguard, and State Street (the "Big Three")—collectively managed about $14 trillion in assets as of December 2017, most of which were passively managed. Tables A.2 and A.3 in the Internet Appendix provide information pertaining to variation in support rates for management/dissidents on the part of the top-10 mutual fund families by AUM and the most (least) management-supportive fund families among frequent voters. Vanguard is the most frequent voter in our sample, participating in 90.8 percent of all proxy contests between 2007 and 2017, followed by BlackRock and Fidelity. Within the Big Three, the rate of full support for management ranges from 52.0 percent (BlackRock) to 78.2 percent (Vanguard), while that of full support for dissidents ranges from 9.1 percent (State Street) to 18.8 percent (BlackRock). Among fund families that vote in at least 20 percent of the proxy contests, Gabelli is the most prodissident family, followed by Mutual of America and Goldman Sachs Asset Management, with support rates for dissidents of approximately 70 percent. On the other end, Guggenheim Investments is the least prodissident family, voting for dissidents in only 13.9 percent of events.[21]

4. Determinants of Support for Dissidents and the Passive–Active Gap

4.1. Determinants of Mutual Funds' Support for Dissidents

In this section, we formally explore the most important variables associated with mutual fund support for dissidents in proxy contests. Special attention is given to the comparison between passively and actively managed funds. The summary statistics presented in Table 3 show that

[21] Additional descriptive information on the data is given in the Internet Appendix. The distribution of events within industries and the concentration of institutional ownership in target firms are further presented in Tables A.4 and A.5. Among the broad Fama-French 12 Industries, "Business Equipment" is the most frequently targeted sector, accounting for 23.8 percent of all events, and is overrepresented relative to the 17.8 percent share among nontarget firms. In terms of ownership concentration, it takes an average (median) of 2.7 (2) funds to reach collective ownership of 5 percent at a target firm. While this figure is comparable between target and nontarget firms, voted firms begin to see more concentrated ownership at the 15 percent level. This difference is consistent with the idea that dissidents select target firms with more concentrated investor bases to facilitate communication with other shareholders. Table A.6 provides details on the measurement and winsorization of the variables used in our analysis. Table A.7 provides the pairwise correlations of all covariates utilized below in our estimations.

passive funds tend to vote more with management than active funds, with a margin of approximately 10 percentage points. Our data allow us to study the passive–active gap in detail. We estimate the following linear regression at the firm-fund-year level:

$$Vote_{i,j,t} = X_{i,t}\gamma + Z_{i,j,t}\lambda + \alpha_{FF48} + \alpha_t + \alpha_j \text{ (or } \alpha_{i,t}) + \epsilon_{i,j,t}. \tag{1}$$

The dependent variable, $Vote_{i,j,t}$, is the vote cast by fund (j) at firm (i) in year (t). As discussed in Sections 2.1.2 and 3.2, five voting possibilities have been coded into ordered levels of support as follows: full support for management = 0; partial support for management = 0.25; abstention = 0.5; partial support for a dissident = 0.75; and full support for a dissident = 1. This classification reflects varying levels of dissension that gives us a more refined classification scheme than is possible with conventional binary coding. Because we normalize the range of variation to one, the fitted values for the dependent variable can be interpreted as the probability that a fund fully supports a dissident. $X_{i,t}$ is a vector of firm-year level variables, such as firm size and operating performance, while $Z_{i,j,t}$ is a vector of firm-fund-year variables, such as basis-adjusted return. α_{FF48}, α_t, $\alpha_{i,t}$ and α_j are fixed effects, representing Fama-French 48 industry group, year, event, and fund, respectively. Firm fixed effects are not included because repeat targets are rare. When we control for both event and fund fixed effects, α_j, represents a fund's inherent pro-activist stance.

We report the regression results in Table 4. The results reported in column (1) include industry and year fixed effects. For column (2) we add fund fixed effects, which subsume time-invariant fund variables, such as the indicator variable for passively managed funds. Finally, for column (3) we incorporate event fixed effects, which subsume both time and industry fixed effects, as well as event-specific variables, such as dissidents' track records. Unless otherwise specified, we use the five percent level as our threshold for statistical significance.

[Insert Table 4 here.]

The results reported in columns (1) and (2) of Table 4 indicate that dissidents are significantly more likely to receive shareholder support when a target firm is underperforming, as measured by

Tobin's q and each fund's basis-adjusted return on the portfolio firm. A one-standard-deviation drop in a fund's basis-adjusted return increases the probability that it will support a dissident by 3.6–3.9 percentage points. Basis-adjusted return does not, however, predict support once event fixed effects are included, indicating that past stock returns explain voting behavior in the cross-section, but not within a given event. In addition, the coefficient for operating performance, or ROA, is significant, but only in the specification that does not include fund fixed effects. The significant positive coefficient for HHI, to the extent that it is a proxy for competition and market power, supports the hypothesis that shareholder governance is more important when product-market competition is weaker (Giroud and Mueller 2010). Furthermore, support is positively correlated with dividend yield and leverage, which tend to be higher for firms operating in mature industries that are late in their life cycle. All these firm- and industry-level conditions render "change" at a target firm more appealing.

Hedge fund dissidents receive support that is 13.7 to 14.1 percentage points higher than that of other dissidents. Investors tend to support more experienced dissidents, captured by the number of campaigns a dissident has previously launched. Neither investment size nor holding horizon is related to shareholder support. The lack of correlation between holding horizon and voting refutes a popular narrative according to which activists favor short-term gains at the expense of long-term shareholders.

By incorporating fund fixed effects in the specification used to generate the results reported in column (2) of Table 4, the estimates are purged of unobserved fund-level heterogeneity that may be correlated with the residuals in the voting regression. In other words, α_j in Equation (1) captures funds' time-invariant attitudes towards shareholder activism, which may be correlated with firm-level characteristics reflecting (actively managed) funds' endogenous selection of portfolio firms. We analyze selection resulting from active funds' portfolio composition in Section 6.3. The high level of consistency we observe in the coefficients reported in columns (1) and (2) suggests that endogeneity arising from unobserved fund heterogeneity does not drive our results. For column (3) we incorporate event fixed effects ($\alpha_{i,t}$), filtering out potentially endogenous matching between voting funds and events. The coefficient of -0.100 on $Passive\ fund$ indicates that, within a given

contest, passive funds are 10 percentage points less likely than active funds to support the dissident.

The active–passive gap documented so far suggests that the two types of funds may vote in systematically different ways. For this reason, we repeat the regression in Equation (1) separately on passively managed and actively managed funds and report the results in Table 5. Several coefficients differ noticeably across the two subsamples. While passive funds are more sensitive to operating performance (*ROA*), active funds respond more strongly to investment returns (*Basis-adjusted return*). Such a difference may reflect the fact that passive funds do not benefit directly from trading gains, instead more sharply focusing on corporate fundamentals. Furthermore, a passive fund is more likely to support management when a firm represents a large share of its portfolio but votes more often for dissidents when their holding horizons are longer. Such relationships are informative because both portfolio weights and investment horizons are determined by factors that are exogenous to passive funds.

[Insert Table 5 here.]

4.2. Heterogeneous Dissension: Voting by Withholding

Figure 1, introduced in Section 3.2, reveals that passive and active funds tend to resort equally to all three intermediate categories of voting. In fact, passive funds are more likely than active funds to withhold votes for managerial board candidates (6.5% vs. 5.1%). Withholding votes on a subset of management nominees, which is unique to the two-ballot setting, enables funds to express dissension without appearing to be antimanagement. Funds are, after all, still submitting management ballots and are counted as voting for management in a binary classification (which is also how their votes are characterized in news media). For this reason withholding can be, on a relative scale, a more practical form of expression for passive funds given their overall more promanagement attitude. For example, State Street, which ranks among the five most promanagement asset managers in our sample, withheld its votes on managerial nominees 12.4 percent of the time, double the average rate for the full sample. If we were to classify withholding on managerial candidates as dissension, then the passive-active gap shrinks from 9.5% to 8.6%.

Withholding in a contest can shape the outcome when votes withheld by multiple funds are concentrated on a given nominee. We refer to such cases loosely as "coordination" although no explicit communication or collusion is required; instead, funds may simply act on common information, such as candidates' track records or proxy advisors' recommendations. We observe 48 events where funds submitted partial support on management proxy cards. In an average contest, 22.2 percent of funds and 8.3 percent of fund families withheld votes from at least one nominee on a management card. We similarly observe 74 events where funds submitted partial support on a dissident's proxy card. On average, 67.3 percent of funds and 23.7 percent of fund families withheld votes from at least one nominee on a dissident card.[22]

Coordinated withholding behavior translates into a material impact on contest outcomes. In 12.5% of contests won by a dissident, if the withheld votes received by losing management nominees were instead cast as affirmative "For" votes, at least one fewer dissident nominee would have been elected. Among contests won by management, the same percentage would see contest outcomes change in favor of dissidents if all withheld votes received by management nominees were instead cast in favor of dissident nominees. While these unconditional averages are already substantial, the magnitude grows once we focus on the management candidates who received the highest number of withheld votes. We find that 44.6 percent of these management candidates were not elected. In 28 percent of these cases, the number of withheld votes exceeds the "winning margin," that is, the candidate would have been elected if the withheld votes were instead cast as affirmative "For" votes.[23] This variation in magnitude suggests that withholding votes is particularly effective in eliminating the weakest managerial candidates as opposed to directly helping dissidents.

Overall, withholding plays a potentially important role in shareholder monitoring in proxy

[22] It is possible that the withholding pattern that we observe might have come about by chance. We therefore present in Table A.8 in the Internet Appendix the results of a statistical test in which we compare actual withholding outcomes with this counterfactual. We find that in 60.4 (71.6) percent of the contests with withheld votes the number of withheld votes received by the weakest management (dissident) candidate exceeds the 10 percent threshold under the null of uncoordinated withholding. The frequency exceeding the 1 percent threshold is 39.6 percent (55.4 percent). The p-values for such deviations under the null are all below 0.1 percent. When ISS explicitly recommends withholding votes from management (dissident) nominees, 80.0 percent (69.8 percent) of events exceed the 1 percent tail under the null, higher than the percentage across all events. While the ISS effect is large, we nevertheless continue to find evidence of coordinated withholding in the absence of candidate-specific recommendations from ISS: the corresponding figures are 29.2 percent (41.7 percent) above the 1 percent significance level under the null.

[23] In Internet Appendix B.4 we summarize the contest by Kerrisdale Capital Management at Morgan Hotel Group in which withheld votes exceeded the losing margin for two managerial nominees.

contests, especially for passive funds that are less likely than active funds to confront management directly. Regarding dissension by withholding, there is no gap between passive and active funds. Withheld votes can be viewed as a more restrained way to express a fund's preferences when "mixing" the two slates is not an option (Hirst 2018). The "universal proxy" system that has been in effect since 2022 is thus likely to weaken the effect of withheld votes, as investors can now resort to "mixing-and-matching" to assemble a preferred slate of candidates from the two ballots. Such a change will likely also affect the passive–active gap.

4.3. Voting Heterogeneity Within Passively Managed Funds

Passively managed funds are a heterogeneous group. While there are 101 passively oriented fund families in our sample, academic analyses and policy discussions are dominated by the Big Three whenever passive funds are discussed. We revisit the voting-determinants analysis associated with column (3) of Table 5 by focusing on the full sample of contests but separate the indicator variable *Passive fund* into two variables, *Passive fund: Big Three* and *Passive fund: Non-Big Three*. The respective coefficients, -0.202 and -0.047, highlight a stark contrast in voting between the two groups of passive funds. Although both coefficients are significant, the Big-Three passive funds are four times more promanagement than other passive funds. Indeed, Figure 1 shows that passive funds managed by the Big-Three fund families support the full management slate in 64.6 percent of contests, a figure that is significantly higher than the 51.7 percent support rate among non-Big-Three passive funds. Similarly, the Big-Three passive funds support the full dissident slate in only 14.0 percent of contests, while non-Big-Three passive funds do so in 22.3 percent of contests.[24]

Our results so far indicate that the active–passive gap is driven by, and is largely a phenomenon of, the largest mutual fund families. We reestimate Equation (1) separately for passive funds offered by the Big-Three and non-Big-Three families. As shown in the last two columns of Table 5, votes

[24]For completeness and as a comparison, we conduct the same analysis within the setting of voting on management proposals, focusing on the subsample of controversial proposals in which ISS recommends against management. These proposals are uncontested director elections and Say-on-Pay votes during our sample period. We find that actively (passively) managed funds support management at a rate of 31.3% (54.7%). When we break down passive funds into the Big Three and the rest we find that the support rates are 68.6% and 47.5%, respectively. This evidence echoes our finding for voting in proxy contests that the overall passive-active gap in support for management overstates the promanagement stance of the non-Big-Three passive funds.

by small passive funds are more sensitive to firms' performance and dissident track records relative to the votes submitted by Big-Three passive funds. Passive funds (especially Non-Big-Three funds) are more promanagement when *Investment as % of fund assets* is high, suggesting that they are beholden to large portfolio firms. Interestingly, small passive funds are the only group whose support for dissidents increases with the holding horizon. These funds cannot take the "Wall Street Walk" like active funds nor do they have access to management that is comparable to that of the Big Three. As a result, voting becomes an important channel for expressing dissatisfaction with their long-term holdings.

4.4. Heterogeneity Across Voted and Settled Contests

Fund votes are commonly observed only if a contest actually proceeds to the voting stage. As such, the voting behavior revealed by observed votes may not accurately represent the funds' attitudes in all contests, including those that have been settled or withdrawn. Fortunately, we have access to voting records in a subset of proxy fights that were eventually settled or withdrawn. The voting records are available because mutual funds can submit votes at any time prior to a vote and some funds end up casting votes in contests that were later settled or withdrawn, usually immediately before the meeting, with the expectation that the vote would proceed as planned. After a settlement, some dissident nominees appear on a revised management-issued proxy card and an election proceeds uncontested. Mutual funds then cast votes on the single set of nominees, and those votes automatically overwrite any votes they might have cast earlier.[25] These "accidental" votes, which are new to the voting literature, provide a unique opportunity to observe how shareholders would have voted at nonevent firms had a contested election actually occurred. We identify 42 (of 324) settled and 26 (of 128) withdrawn proxy contests for which we observe voting records in the top-100 fund families' N-PX filings. We then manually search for these 68 events in the filings of the remaining, smaller, fund families. Our final sample of votes in settled and withdrawn events comprises 7,989 votes from 2,782 unique funds belonging to 361 fund families.

[25] Although these accidental votes become void once a contest is canceled, funds have no particular reason or motive to remove these votes from their N-PX filings. This is likely an unintended and mostly innocuous omission, especially when funds delegate the processing of N-PX filings to a third party.

Since votes in settled and withdrawn proxy contests have not been documented, we provide descriptive statistics on this novel sample. The results reported in the first row of Panel A of Table 6 indicate that, on average, 110 (or 70%) and 130 (or 72%) mutual funds own target firm shares at the time of reported votes on settled and withdrawn contests, respectively. In settled contests, management receives unusually low shareholder support: the probability that a fund votes for the full management slate is 43.8 percent, compared with 50.6 percent in voted contests. Similarly, in withdrawn contests, dissidents receive near-zero shareholder support, compared with a 24.2 percent (18.1 percent) support rate for full (partial) dissident slates in voted contests.[26]

It is important to note that it is dissidents who "pick the fight" and can voluntarily withdraw from a contest. If management expects to lose a vote it can offer a settlement with terms that are acceptable to the dissident. While the accidentally revealed votes may not be directly observable by management, it is reasonable to assume that, with the help of proxy intermediation services, management can observe some informative signals about investor sentiment on the eve of a vote. The disparity in support rates suggests that both sides of a contest closely follow cues from shareholders and take actions to avoid a vote if they expect to be defeated. Finally, while the track records of dissidents in this subsample of settled contests are slightly weaker than those of dissidents in voted contests, the track records of dissidents in withdrawn events are markedly weaker: such dissidents are less likely to be hedge funds and have less experience in launching contests.

[Insert Table 6 here.]

Panel B of Table 6 provides evidence indicating that among the settled (withdrawn) contests the "latent" passive–active gap in voting for management is 2.4 (1.6) percent. This gap is considerably narrower than that in voted contests (9.5 percent). Moreover, the average rate at which non-Big-Three passive funds support dissidents in settled contests is on par with support by actively managed funds (45.8 percent vs. 45.4 percent). Finally, passively managed funds support dissidents

[26] Table A.9 in the Internet Appendix provides summary statistics comparing the subset of settled and withdrawn events in which we observe votes with the broader sample of settled and withdrawn events. The only significant difference is the time between the resolution of a contest and the date of a scheduled vote. On average, settled (withdrawn) events that hold early votes are resolved with 5.5 (4.0) days to spare, compared with 48 (32) for the broader sample of settled (withdrawn) events. The two groups do not differ based on other firm-level characteristics. In terms of fund-level characteristics, the only significant predictors are a fund's passive status and holding horizon.

at a rate that is even lower than that of actively managed funds among the subsample of withdrawn contests with observable votes (1.5 percent vs. 3.2 percent).

A mutual fund's decision to submit an early vote to a contest is likely driven by routine, administrative voting procedures. Thus, the "accidental" revelation of information about votes in settled and withdrawn contests should be informative about the patterns in the broader sample. If we weight estimates from all three outcomes—voted, settled, and withdrawn contests—by their respective representations in the full sample, the passive-active gap is calibrated to 4.5 percent, or less than half of the headline figure of 9.5 percent based on voted contests.[27] There is a further difference within passive funds. In ex post settled contests, active funds exhibit only a slightly lower (by 0.9 percentage points) support rate for dissidents than in voted contests, while the same difference is 6.2 percentage points for all passive funds and 9.9 percentage points for the Big Three. Our results thus reveal that contests are more likely to be settled when management fails to win over passive funds, especially the Big Three—although the latter appear to be promanagement in voted contests.[28]

4.5. Conformity to ISS Recommendations

In our sample, ISS (Glass Lewis) issues recommendations in support of a dissident 55.6 percent (34.8 percent) of the time. The difference in support rates between the two leading proxy advisors

[27] Among the nonvoted contests with early votes, we find that shareholder support for the dissident is positively correlated with duration to the shareholder meeting date. That is, the further away the settlement is from the meeting date the stronger the support for the dissident is. If we extrapolate shareholder latent support based on this information for all nonvoted contests, the passive-active gap is significantly smaller than 4.5 percent.

[28] We report the results of additional analyses in the Internet Appendix. Table A.10 reproduces Table 4 for hedge fund-led contests only. The results are qualitatively similar. For Table A.11 we add a variable, *Past campaign success*, defined as hedge fund activism events following Brav, Jiang, Partnoy, and Thomas (2008), to the specification in Table 4. We find that it is significant at the 1% level. For Table A.12 we reestimate Equation (1) by treating all voting outcomes as unordered instead of ordered levels of support for a dissident by applying a multinomial logit with "full support for management" as the omitted category. With this specification, withholding can be interpreted as an alternative way to express dissension rather than an intermediate level of support. In each column we report the determinants associated with some degree of dissension. We find that the coefficients associated with "partial management support" often differ from those associated with support for a dissident, indicating that withheld votes represent an alternative way to express dissension instead of voting directly in favor of the dissident. For column (1) of Table A.13 we exclude contests that are associated with firms sold between the years t and $t+1$ of a contest given that a substantial number of proxy contests are driven by M&A motives (Boyson, Gantchev, and Shivdasani 2017; Fos 2017). The results are qualitatively similar except that passive funds are even less likely to support M&A motivated contests than active funds, as shown in column (2) of Table A.13. Finally, Figure A.1 provides the full time series of the passive–active gap. It was relatively stable until 2015. The gap has declined considerably since 2016 and reversed in sign in 2017.

echoes the findings of Li (2018) and Bubb and Catan (2022). Results reported in Panel A of Table 3 show in addition that, when ISS changes its recommendation from "For" management to "For" a dissident, mutual funds' support rate for the full management slate drops from 82.3 percent to 31.0 percent. Partial support for management falls from 6.0 percent to 4.5 percent; partial (full) support for the dissident increases from 2.6 percent (7.8 percent) to 28.6 percent (34.4 percent). Recommendations by Glass Lewis are associated with similar differences in voting outcomes. The votes translate into contest outcomes: dissidents win 69.4 percent of the contests supported by ISS and only 25.3 percent otherwise.[29] We find unexpected evidence that conformity with ISS is slightly higher among active than among passive funds: the correlation between passive (active) funds' votes and ISS recommendations is 0.537 (0.545), challenging the common wisdom that passively managed funds may shirk monitoring duties by simply following ISS recommendations.

Within the Say-on-Pay setting, Malenko and Shen (2016) show, using a careful identification design, that ISS influences about 25 percent of the votes. Iliev and Lowry (2015) find that over one-quarter of funds rely almost entirely on ISS recommendations, and Iliev and Vitanova (2022) argue that investors rely on proxy advising firms' recommendations routinely when making informed voting decisions because proxy advisory firms serve as low-cost informational intermediaries. This begs the question as to what extent mutual funds cast independent votes based on their preferences and conduct research in proxy contests when the stakes are higher. To compare voting in proposals with voting in proxy contests, we form a sample of uncontested director elections and Say-on-Pay votes from the ISS Voting Analytics database and match them with our contest voting records by event firm and voting fund. We then estimate each fund's sensitivity to ISS recommendations using a linear regression that projects the probability that a fund votes for management based on an ISS recommendation. We recover two "ISS betas:" one estimated using management proposals and one estimated using proxy contests. We then sort funds' ISS betas for management proposals into deciles, and Figure 2 plots the within-decile average proposal betas on the x-axis against the same group average proxy contest betas on the y-axis, with the 45-degree line in red as a benchmark.

[29] This is consistent with Alexander, Chen, Seppi, and Spatt (2010), who find an ISS certification role using contest-level data. This gap is an upper bound for the actual ISS-related"sway margin," reflecting correlations between the views of ISS and those of institutions that subscribe to ISS services.

[Insert Figure 2 here.]

Several patterns emerge. First, funds with low sensitivity to ISS recommendations when voting on noncontested matters see their ISS betas increase in proxy contests. In the figure these are the observations in the leftmost deciles that are consistently above the 45-degree line. The low ISS beta funds in our sample consist mostly of funds that nearly mechanically support management in uncontested voting. Thus, even the most promanagement funds during "normal times" are willing to dissent more often, leading to higher conformity with ISS recommendations, which favor dissidents in slightly more than half of the contests. Second, funds with high sensitivity to ISS recommendations when voting on proposals see their ISS betas drop when voting on proxy contests. This result suggests that, although some funds (almost) mechanically follow ISS recommendations when voting on proposals (presumably because the returns on gathering independent sources of information on proposals are low), they exhibit disagreement with ISS in proxy contests more frequently when the benefits of casting an independent vote are higher.[30]

5. Monitoring Effort and Performance: Passively Managed versus Actively Managed Funds

5.1. Resources, Preferences, and Monitoring

The evidence presented in the previous two sections indicates that passive funds are overall more promanagement than active funds, especially in voted contests. A typical passive fund holds a significantly larger number of stocks in its portfolio than an average actively managed fund (477 vs. 183). Moreover, the defining feature of a passive fund is that the inclusion of firms in its portfolio does not involve research or analyses associated with stock picking. As a result, passive funds have less prior knowledge of a portfolio firm's underlying fundamentals and, given their low fees, may dedicate fewer resources to research. The promanagement voting pattern, combined with

[30] Since the evidence presented in Figure 2 builds on ex post sorting of proposal betas it may mechanically generate a pattern consistent with mean-reversion. We therefore resort to a bootstrap procedure to uncover the correct counterfactual. We simulate the observed changes in ISS betas under the null hypothesis that each fund's ISS beta is constant across proposals and contests. The procedure is described in the caption to Figure 2. The error bars give the 2.5nd and 97.5th percentiles of the simulated distribution.

the institutional setting, may therefore imply that passive funds generally lack the skill or incentives needed to dedicate resources to monitoring. The literature to date has built on data from voting on management and shareholder proposals to suggest such an inference.

The proxy contest setting is, however, different. Several tests mentioned in the previous section have already pointed to variation in the passive–active gap. The passive–active gap would have been considerably narrower if we had accounted for "latent" voting in settled/withdrawn contests and if we had focused on the set of passive funds that excludes those affiliated with the Big Three. In this section, we present additional evidence that is unique to the proxy contest setting that supports the view that passive funds monitor diligently and cast votes in an informed manner, as much as actively managed funds, despite their general promanagement attitude.

Passively managed funds may engage in monitoring due to a "locked-in" portfolio composition effect (Farizo 2022) and due to the scale of their investments, which increases the dollar benefits derived from monitoring (Kahan and Rock 2020; Lewellen and Lewellen 2021). While the dual value of information from both voting and trading ought to generate stronger incentives for active funds to acquire information, the lack of trading motives incentivizes passive funds to vote sincerely based on research instead of considering casting strategic votes to maximize trading profits (Meirowitz and Pi 2022). Because they cannot exit from a holding if a reform does not work out, passive funds may apply a higher threshold before supporting a dissident's vision of how the firm should be restructured. Such a preference is not inconsistent with the view that the quality of information on which they base their voting decision is comparable to that of the information acquired by active funds. We devote this section to tests that demonstrate how passively managed funds dedicate effort to monitor their portfolio firms and the extent to which they maximize the quality of the votes they cast.

5.2. Monitoring Effort: Evidence from EDGAR

A recent paper by Iliev, Kalodimos, and Lowry (2021) develops a novel measure based on investor views of EDGAR company filings to proxy for engagement in governance research and monitoring. Chen, Cohen, Gurun, Lou, and Malloy (2020) show that investor following of portfolio

firms via the EDGAR server is informative about firm fundamentals. We follow their approach to examine the dynamics of EDGAR views by passive and active funds before, during, and after proxy contests. Since EDGAR download activity is only one aspect of monitoring and the number of downloads might be affected by operational norms within institutions, we do not make inferences based on the number of downloads but instead focus on difference-in-differences estimates with a saturated fixed effects specification.

We begin by searching for the historical IP addresses of all fund families that have ever voted in a proxy contest using the ARIN Whois search engine.[31] This step yields a list of 322 families that have at least one IP address listed. We then download the EDGAR log file for the period from 2004 to 2017. The information includes historical central index key (CIK) of management or a dissident, the accession number of the filing requested, the date and time of the request, and the requestor's IP address. The last of the four octets of any IP address is masked, so we merge the fund family list into the log file using the first three octets of IP addresses. This is a standard practice in the literature, based on the assumption that most institutions purchase entire blocks of IP addresses. We obtain a list of 280 fund families that viewed at least one filing. For each proxy contest, we manually identify the CIKs and accession numbers for management and dissident DEFC 14A filings, respectively. For firms that experience at least one contest, we also download, from EDGAR, their historical CIKs and accession numbers for all *uncontested* annual meetings (DEF 14A filings), resulting in comprehensive records of proxy contests as well as uncontested annual meetings for our sample firms. Our final dataset includes 259 fund families' viewings of proxy statements in DEFC 14A and DEF 14A filings associated with all announced contests whose DEFC 14A forms were filed between July 1, 2006 and June 30, 2017 and of all DEF 14A forms associated with uncontested annual meetings held between July 1, 2004 and June 30, 2017.[32]

Since IP addresses are held at the institutional (fund-family) level, in this section we classify a fund family as *Passive* if 50% or more of the funds are passive funds. Conditional on viewing a

[31] This search engine is provided by the American Registry for Internet Numbers, Ltd., a nonprofit organization that administers IP addresses and Autonomous System Numbers. See Iliev, Kalodimos, and Lowry (2021) and Cao, Jiang, Yang, and Zhang (2020) for additional details.

[32] We follow Chen, Cohen, Gurun, Lou, and Malloy (2020) and do not remove IPs that conduct a large number of searches. It is quite possible to observe large data downloads by large institutions and indeed these constitute 42 percent of all EDGAR viewer observations. We have verified, however, that the results of the analysis that we report below remain unaffected by the removal of these IP addresses.

proxy statement, a fund family views it 4.85 times on average, which is nearly identical to the 4.84 average reported in Iliev, Kalodimos, and Lowry (2021). Interestingly, passive institutions are more likely to view proxy statements than active fund families around proxy contests. Specifically, in the $[t-2, t+2]$ window, where the year $t = 0$ is the contest year, the probability that passive institutions view management DEFC 14A (dissident DEFC 14A) filings is 19.6 percent (17.1 percent). For active fund families, the same estimate is 7.5 percent (6.8 percent). The higher propensity for viewing by passive families also holds for noncontested DEF 14A filings within this event window. Moreover, higher EDGAR surveillance by passive fund families of event firms continues in the post-$(t + 2)$ period, although the post-event passive–active gap is narrower.

We provide more formal tests for the cross-sectional differences in views in Table 7. All specifications but one include meeting-level fixed effects; hence, unobserved heterogeneity across activist events does not affect our inferences. Panel A presents results for proxy views by all fund families at annual frequency. Column (1) provides results for the $[t - 2, t + 2]$ event period, while columns (2)–(4) provide results for search activity during the period that either precedes or follows the event window. We observe that the coefficient associated with passive status is highly significant and economically large (five percentage points in viewing probability) during the event window (column (1)) but is essentially zero in the pre-event period (column (3)), indicating that a "regime" change occurs when a portfolio firm enters the event window. Moreover, as shown in column (4), passive institutions continue to search at significantly higher frequency (by 2.5 percentage points) even in years well after a proxy contest. Next, we pool the sample from all periods with a difference-in-differences specification. As shown in columns (5)–(7), the key coefficient for the interaction term, $Passive\ family \times Around\ contest$, is uniformly and highly significant, indicating that passive families intensify their monitoring during contested situations (relative to "normal" times) to a significantly greater extent than their active counterparts by a margin of over four percentage points.

[Insert Table 7 here.]

For Panel B of Table 7 we repeat the analysis associated with Panel A but we exclude the Big-Three institutions. We find that non-Big-Three passive families also increase their views of

proxy statements during the event window such that their search effort exceeds that exerted by active families (by 1.2 percentage points, as shown in column (1)). As reported in columns (5)–(7), the incremental change from the pre-event time to the event time is over three percentage points higher for passive families. A notable difference from the results reported in Panel A is that here the small passive families view proxy statements at a significantly lower rate than their active peers before dissidents emerge (2.3 percentage points as shown in column (3)) and they do not persist in additional post-event monitoring (shown in column (4)), in both cases reflecting their resource constraints.

In Table 8 we report fund families' views of proxy statements around voted and settled contests. The most important finding is that passive families view proxy statements more often during the event window, in absolute levels and incrementally, for both voted and settled contests, with stronger results for voted contests. For settled contests, however, the effect is driven by the Big Three. Moreover, passive funds' increased viewing activity does not persist into the post-settlement period, in contrast with what happens following voted contests. Finally, in untabulated analysis we find that for the withdrawn subsample there is no difference in viewing between passive and active institutions.

[Insert Table 8 here.]

Taken together, the evidence presented in this section suggests that passive funds do monitor. The non-Big-Three families, which have fewer resources at their disposal, are more selective in their monitoring efforts, confining those efforts to the most contentious and pivotal time periods (around contests) and situations (voted contests). Analyses based on noncontested samples therefore significantly underestimate the intensity of monitoring by passive funds.

5.3. Monitoring Performance: Voting Informativeness

In this section we adopt a simple framework within which to measure the quality of votes cast by mutual funds in proxy contests. If a fund exerts effort to become informed and exercises its voting rights, its votes ought to be "correct" more often, that is, in favor of the side (of incumbent

management or the dissident) that will lead the firm to improve its performance. Let θ_i be a binary quality measure for a dissident. A dissident is "good," or $\theta_i = 1$, if it can improve performance relative to the incumbent. A "bad" dissident, or $\theta_i = 0$, is defined analogously. Let $V_{ij} \in \{0, 1\}$ denote fund j's vote in contest i, where $V_{ij} = 1$ is a vote cast in favor of the dissident. If dissident quality θ_i is revealed ex post, we can classify an informed or correct vote as one that satisfies $V_{ij} = \theta_i$. That is, the fund votes in favor of a good dissident, $V_{ij} = \theta_i = 1$, or votes against a bad one, $V_{ij} = \theta_i = 0$.

When the fund votes incorrectly, the error can be one of the two types. If $\theta_i = 1$ but $V_{ij} = 0$, the fund commits a Type I error by rejecting a good dissident. The fund commits a Type II error if it supports a bad dissident. The probability of committing either type of error is a function of both the quality of the fund's information and its inherent preference. A fund endowed with a promanagement preference can still be persuaded to support a dissident, but such a fund requires a more compelling dissident agenda than a fund with a prodissident preference requires. In other words, a promanagement fund applies a higher threshold before supporting a dissident. If two funds acquire information of comparable quality on which they base their votes, the fund with a stronger promanagement preference is expected to commit a type I (type II) error at a higher (lower) level.

Because the outcome of voting in proxy contests is more consequential than that of voting on proposals, our setting allows us to measure ex post real effects associated with voting outcome. We use operating performance to form an estimate of dissident quality, $\hat{\theta}_i$. For each proxy contest i, we measure the firm's industry-adjusted ROA in years t and $t + 2$, where t is the year of the contest and ROA is adjusted using the Fama-French 48 industry classification. We then measure the change, $\Delta ROA_i = ROA_{i,t+2} - ROA_{i,t}$. We deem the dissident to be of high quality if the dissident wins and ΔROA_i is greater than that of industry peers following the contest; or if the dissident loses and ROA deteriorates more than that of its peers.[33] This step delivers an estimate of dissident quality for each contest in our sample. Next, given estimates for dissident quality $\hat{\theta}_i$

[33] An alternative specification, adopted by Gao and Huang (2021), who analyze noncontested proxy voting, utilizes stock-price reactions to announced voting outcomes and classifies a positive stock return during a short announcement window as an endorsement of the voting outcome by shareholders as a whole. We do not adopt this approach because abnormal stock returns are highly noisy. Stock prices are also forward-looking and presumably have already incorporated the value implications of dissident actions prior to contested meetings. More importantly, Levit, Malenko, and Maug (2021) demonstrate that stock prices and shareholder welfare can move in opposite directions via the difference between the average shareholder and the marginal trader/voter.

and observed votes V_{ij}, we classify each fund's vote as a correct vote, a Type I error, or a Type II error. Committing a low rate of either type of error is a sign of informed voting while a higher incidence of Type I errors over that of Type II errors indicates a promanagement preference. Across all fund-event observations, the percentage of votes that we classify as correct is 55.1%. Given that voted contests represent the most pivotal subsample of all proxy contests where either side expects an outcome in their favor with a reasonable likelihood, such a probability (significantly above the neutral level of 50% at the 1% significance level) suggests that mutual funds are informed voters in aggregate. Mutual funds as a group are also more likely to commit Type I errors by rejecting good dissidents (28.5 percent) than to commit Type II errors by approving bad dissidents (16.3 percent).

To pursue our interest in determining whether there is a passive–active gap in voting informativeness, we regress indicator variables for $Correct\ Vote$, $TypeI\ Error$, and $TypeII\ error$ on the dummy variable for $Passive\ fund$ with firm- and fund-level control variables with a saturated fixed effects specification. Table 9, Panel A reports the results. Consider first the specification with event fixed effects in which the comparison is made within the same contest. We find that the two groups of funds exhibit statistically indistinguishable levels of total error rates—although passive funds as a group enjoy an insignificant 0.9 percentage point advantage over active funds in casting votes in the correct direction. Equally importantly, passive funds are 4.3 percentage points more likely to commit Type I errors but 5.2 percentage points less likely to commit Type II errors.

Finally, for Panel B of Table 9, we separate passive funds into those belonging to the Big-Three fund families and the rest. All funds, whether active, passive and affiliated with the Big Three, or the rest of passive funds, exhibit the same degree of accuracy when voting. The trade-offs between the two types of errors are unique to the Big-Three passive funds: they are slightly over 10 percent more likely than active funds to reject a good dissident, but close the gap completely by being less likely to accept a bad dissident. On the other hand, non-Big-Three passive funds exhibit Type I error rates that are indistinguishable from those of active funds, but at the same time still exhibit significantly lower (by 2.9 percent) rates of Type II errors.

[Insert Table 9 here.]

The combined results of the abovementioned analyses provide two novel insights. First, votes submitted by passive funds, including those affiliated with the Big-Three and non-Big-Three families, are as informed as those submitted by active funds. Second, the promanagement preferences, conditional on the quality of information, of passive funds are unique to the Big Three: these fund families clearly err on the conservative side as it takes more persuasive campaigning by a dissident to win their votes. On the other hand, passive funds from smaller families do not exhibit bias toward management and at the same time are most effective in rejecting bad dissidents. Overall, we conclude that passive funds are as diligent as active funds in monitoring, as they invest resources to cast informed votes in these high-stakes contests.[34]

6. Selection Effects on the Passive–Active Gap

6.1. The Nature of Selection in Proxy Contest Voting

The passive–active voting gap estimated with the reduced-form regression in Equation (1) is subject to the standard critique that the estimates are biased due to the selection process that shapes whether an announced contest proceeds to a vote, the decision some actively managed funds have made to become shareholders when the vote takes place, or because the firm has been targeted by a dissident in the first place. It is worth noting that related selection issues affect voting on shareholder proposals as well. Sponsors of proposals do not target firms randomly (Renneboog and Szilagyi 2011; Gantchev and Giannetti 2021), and not all such proposals are eventually voted on (Matsusaka, Ozbas, and Yi 2021; Couvert 2020). Moreover, allocation decisions by active money managers may be affected by governance matters, which could affect voting on both proposals and proxy contests. In particular, a large body of literature has built on the

[34]The Internet Appendix provides additional information related to the tests presented in this section. Table A.14 provides summary statistics for proxy-contest views via EDGAR. Table A.15 replicates the analysis associated with Table 7, except that the sample includes only the fund families studied in Iliev, Kalodimos, and Lowry (2021). The authors of Iliev, Kalodimos, and Lowry (2021) have kindly shared with us the sample of 87 fund families used in their study. The most important result holds in their sample, namely, that passive families search at a higher frequency than active funds around the event year. The only notable difference is that most of the additional fund families in our sample are relatively small active fund families, which, as a group, tend to conduct little search activity. Table A.16 replicates the analysis associated with Table 9, except that we add back the 40 firms that were delisted within two years after a proxy contest. We deem the dissident to be of high quality if the dissident wins and the firm is acquired; or if the dissident loses and the firm is delisted for reasons other than M&A. The results remain qualitatively similar.

most interesting and informative subsample of "controversial" proposals based on ex post sorting, including proposals with ex post close votes (e.g., Cuñat, Gine, and Guadalupe 2012; Flammer 2015; Iliev and Lowry 2015) and those based on disagreement with ISS (Iliev, Kalodimos, and Lowry 2021; Heath, Macciocchi, Michaely, and Ringgenberg 2022). The goal in this section is to shed light on such selection issues in a general setting. Because we have already examined the decision to proceed to a vote rather than settle or withdraw in Section 4.4, we focus in this section on addressing the remaining two selection issues.

6.2. NonRandom Targeting by Dissidents

Voting outcomes are observed only when a contest does proceed to the voting stage. To incorporate selection based on activist targeting decisions and contest outcomes (i.e., voted, settled, or withdrawn), we analyze a joint system of targeting and voting. We resort to the following parsimonious partial-observability model:

$$Contest^k_{i,t} = W_{i,t}\beta^k + \bar{Z}_{i,t}\eta^k + \bar{\alpha}_j\phi^k + \alpha^k_{FF48} + \alpha^k_t + u^k_{i,t}, \qquad k \in \{0,1,2,3\}, \tag{2a}$$

$$Vote_{i,j,t} = X_{i,t}\gamma + Z_{i,j,t}\lambda + \alpha_j + \alpha_{FF48} + \alpha_t + \epsilon_{i,j,t}, \qquad \text{observed when } k = 1. \tag{2b}$$

Equation (2a) reflects the fact that each firm-year $\{i,t\}$ is a potential target for a proxy contest, with four potential (unordered) outcomes indexed by $k \in \{0,1,2,3\} = \{$not targeted, voted contest, settlement, withdrawal$\}$, when $k = 0$ serves as the base state. Because the second-stage voting regression (2b) incorporates fund fixed effects, the fund-level characteristic variables, including passive status, are subsumed. The two equations are integrated because the residuals $u^1_{i,t}$ and $\epsilon_{i,j,t}$ are potentially correlated. That is, a company is more likely to be targeted when anticipated (unobservable) shareholder support is high.

The estimation follows the method developed in Lee (1983), who extends the Heckman (1979) method, and accommodates multiple, rather than binary, states. We implement it by parameterizing $\epsilon_{i,j,t}$ in Equation (2b) with $\eta L_{i,t} + \epsilon_{i,j,t}{}'$, where $L_{i,t}$ represents the Lee (1983) bias-correction term for all observations that are associated with a voted contest (i.e., $k = 1$). For the bias-correction

term to be well-identified, information that predicts targeting and that predicts investor voting cannot overlap perfectly, which amounts to an "exclusion restriction." We exploit two sources of variations which break down the correlation between the covariates in the two equations. First, given the time lag between the announcement of a proxy contest and shareholder voting (with a median length of 137 days), the firm-level variables $W_{i,t}$ and $X_{i,t}$ are measured at the time of targeting and the time of voting and are therefore not perfectly correlated. Second, the variables that capture investor characteristics are measured at varying levels of aggregation. While the voting equation includes firm-fund-level characteristics in $Z_{i,j,t}$ and fund fixed effects, the targeting equation includes these variables aggregated at the firm-year level using investor share weights: $\bar{Z}_{i,t}$ and $\bar{\alpha}_j$. Both factors mitigate the collinearity between the two equations, allowing the estimation of the bias-correction term. We sign the correction term such that a negative coefficient implies a positive correlation between the residuals, or a positive selection effect. Internet Appendix B.5 provides additional details regarding the procedure adopted in the estimation. We report the results in Table 10.[35]

[Insert Table 10 here.]

Several of the Table 10 results are worth noting. First, the coefficient for the Lee bias-correction term in the second stage is negative and significant, indicating that dissidents are more likely to target firms with unobservable characteristics that predict stronger shareholder support beyond the predictive ability of the variables included in the regression, including shareholders' measured stance. Second, a prodissident stance by a company's shareholder base ($\bar{\alpha}_j$) predicts the occurrence of a proxy contest as well as whether it proceeds to the voting stage or to a settlement. Moreover, the coefficient associated with the voted state is 1.5 times larger than that of the settled state. These estimates suggest that dissidents "pick friends" before picking proxy fights, based both on information that is hard to measure and quantify (which is absorbed by the Lee correction term) and on information about the prodissident stance of the shareholder base. This result supports the

[35] See Karaca-Mandic and Train (2003) for a similar two-stage model at varying levels of aggregation. An implicit assumption is that funds vote based on their own preferences and information, that is, "sincere voting," without considering how fellow shareholders might vote. This is a common assumption made in the recent proxy voting literature (e.g., Levit, Malenko, and Maug 2021; Li, Maug, and Schwartz-Ziv 2022).

hypothesis that dissidents conduct sophisticated research to identify firms whose shareholders favor a change. This finding is consistent with Kedia, Starks, and Wang (2021), who show that firms with strong predicted shareholder support, based on shareholders' voting histories on proposals at the same firm and changes in investment positions around a dissident's prior targeting, are more likely to be targeted by dissidents.[36]

Third, compared with the reduced-form regression that includes fund fixed effects (see column 2 of Table 4), shareholder support for dissidents is now more sensitive to firm-level characteristics with the correction for selection by targeting. The coefficients for Tobin's q and basis-adjusted return are larger and the coefficient for ROA is now significant. This difference can be attributed to attenuation bias in the reduced-form regression resulting from nonrandom selection by dissidents. Suppose, for example, that underperformance contributes to the merits of a dissident's agenda. Then, in a hypothetical world in which shareholders are asked to choose between incumbents and "change" at shareholder meetings in each firm-year, we would observe that shareholders are more likely to vote for change in underperforming firms. When a proxy contest does take place, however, it is either because the target company, other things being equal, has underperformed, or because it is a desirable target for unobservable reasons despite its satisfactory performance. When these two possibilities are pooled, the relationship between support for dissidents and underperformance is attenuated among the materialized contests. The integrated model thus reveals the full impact of operating performance on shareholder voting.

6.3. The Decision to Participate in Voting by Actively Managed Funds

The second potential selection effect results from the possibility that actively managed mutual funds invest in or divest from companies based on their propensity to support dissidents in proxy contests. The direction of selection is, a priori, ambiguous based on the existing literature. An actively managed fund might take a "Wall Street walk" from a firm it perceives to be poorly managed (Admati and Pfleiderer 2009; Edmans 2009), which would also enable the fund to avoid

[36] Because the estimation includes fund fixed effects subsuming a fund's passive status, a direct passive-active gap is not estimated. However, our finding that shareholder stance affects the probability of targeting and proceeding to the voting stage reinforces the point that the observed voting gap at the voting stage may not be representative of unconditional fund preferences.

voting against management. Alternatively, a prodissident fund may accumulate a block in a firm that is vulnerable to, or already experiencing, an activist campaign (Kedia, Starks, and Wang 2021; He and Li 2022). In this section we examine investor participation in voting along three margins: (1) nonparticipation in voting despite holding shares in a target firm, which we term "no-show;" (2) voting by shareholders who accumulate their stakes after the announcement of a proxy fight, which we term "buy-into-voting;" and (3) selling by shareholders prior to a vote, which we term "sell-out-of-voting."

We are able to approximate these three groups of funds based on quarter-end holdings data on actively managed funds, the construction of which follows the procedure outlined in Section 3.1.2. "No-shows" are fund-event observations that satisfy the following criteria: (i) A fund has cast at least one recorded vote during our sample period. (ii) The fund has held shares in a target company from quarter-end $Q-2$ to quarter-end Q, where Q is the quarter of the record date. We set the requirement for holdings status to $Q-2$ to rule out frequent inter-quartile portfolio changes undertaken by some funds; the results are similar if we drop the $Q-2$ filter. (iii) There are no disclosed votes by the fund in the target company. With these criteria, 18.0% of funds on average exercise a no-show in a given contest. This turnout rate is consistent with rates reported in prior studies that estimate the overall rate of participation at about 75 percent, with a much lower participation rate among retail investors, at around 30% (see Zachariadis, Cvijanovic, and Gronen-Xu 2020; Brav, Cain, and Zytnick 2022).

We form two subsamples to proxy for actively managed funds that "buy-into-voting." The first definition requires that a voting fund has disclosed holdings in the quarter of the record date, quarter Q, but not in quarter $Q-1$ or $Q-2$. Because funds routinely rebalance their portfolios for investment considerations, we also adopt a stricter second definition by requiring that funds make purchases out of their usual "investment universes," following Koijen and Yogo (2019) who define a fund's investment universe as the superset of companies ever held during the preceding eleven quarters. The two definitions for "buy-into-voting" classify 4.4%–8.4% of funds as potentially accumulating their stakes after proxy fight announcements. Since "buy-into-voting" funds tend to hold small stakes, they hold in total only 0.46% of shares in target firms, exerting a negligible

impact on the estimated stance of the shareholder base. As a result, excluding "buy-into-voting" funds does not alter the regression results reported in Table 10.

The third category of funds comprises those that "sell-out-of-voting." These funds are identified as having disclosed holdings in quarters $Q-2$ and $Q-1$, but not having disclosed holdings in quarter Q. We require a fund to have disclosed holdings in $Q-2$ to rule out frequent inter-quartile portfolio changes by some funds, but the results are similar if we drop the $Q-2$ filter. We find that 8.8% of funds have potentially sold out of voting.

Table 11 provides results that enable us to address selective participation in voting directly. In column (1) we report the determinants of "no-shows." A "no-show" is more likely when a firm is small or a fund's stake is small relative to its own assets under management. Funds are more likely to skip voting if ISS or Glass Lewis supports a dissident slate, perhaps to avoid confronting management. The fact that passively managed funds, which are significantly more likely to lend out their shares, are no more likely to skip voting indicates that stock lending does not lead to a voting "no-show" in proxy fights. This evidence is consistent with that reported in Aggarwal, Saffi, and Sturgess (2015), who show that institutional shareholders have become aware of the importance of voting and call back shares on loan prior to record dates for high-stakes voting events. These results are also consistent with the model in Zachariadis, Cvijanovic, and Gronen-Xu (2020) and the justification often provided by mutual funds that abstention from voting is favored when the cost of casting an informed vote exceeds the expected benefit.[37] Importantly, the estimate of the fund-level shareholder prodissident-stance measure (defined in Section 4.1) is insignificant, suggesting that inherent attitudes toward activism do not drive selection into a "no-show."

[Insert Table 11 here.]

The results reported in the three rightmost columns of Table 11 show that the average (ex ante) prodissident stance measure of "buy-into-voting" and "selling-out-of-voting" funds are indistinguishable from those of the remaining funds. Ex post, the former group votes in favor of management at a 52.2% rate, a rate that is almost identical to the 52.8% support rate among other

[37] Bar-Isaac and Shapiro (2020) provide a model that also justifies partial no-shows in voting by blockholders to facilitate information aggregation.

shareholders. Moreover, both "buy-into-voting" and "sell-out-of-voting" funds have relatively small stakes in their targets (reflected in the negative coefficients for *Investment as % of fund assets*), suggesting that turnover in these funds exerts only limited influence on voting outcomes. We further confirm that interquarter portfolio turnover rates around record dates are no higher than the unconditional average. The combined evidence suggests that buying or selling that takes place around proxy contests is likely to reflect routine portfolio turnover by actively managed funds and not to be particularly motivated by opting into or out of voting in proxy contests.[38]

7. Conclusion

This paper presents a comprehensive analysis of mutual fund voting in proxy contests. Because relevant data have long been unavailable, voting in this setting has not been studied in the corporate governance literature. Our analyses make three contributions to the literature. First, in addition to providing a detailed analysis of the determinants and distribution of mutual funds' voting decisions, this study sheds light on passively managed funds' monitoring inputs and outputs in the context of proxy contests and points to differences relative to voting in uncontested matters that have been explored in the literature. Second, although passive funds exhibit a higher average support rate for management in voted contests, we show that the passive–active gap is driven mostly by the Big-Three families and that a lack of support by passive funds drives contests toward a settlement. Third, we find that passive funds dedicate greater monitoring effort, proxied by views of contest-related SEC filings, than active funds during and after the contest time period. Such efforts pay off insofar as the information content in voting by passive funds is on par with that in voting by active funds, with passive funds from the non-Big-Three families enjoying slightly higher vote quality than active funds. We conclude that passive funds are diligent and effective monitors in pivotal, high-stakes voting events.

[38]The Internet Appendix provides additional details regarding the analyses presented in this section. Table A.17 provides the results of a placebo test pertaining to funds that buy-in/sell-out in the absence of proxy voting events. We repeat the analysis and report the results in Table 11, but around a "pseudo-event time" that is set to two quarters prior to actual contest announcements. We find "pseudo-buy-in" and "pseudo-sell-out" rates of 11.0% and 13.0%, respectively, which are even higher than the turnover levels observed around proxy contests. Table A.18 replicates the results reported in Tables 4 and 5 by dropping observations in which active funds buy into voting from outside the Koijen and Yogo (2019) mandate. The passive–active voting gap essentially does not change.

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Figure 1: **Passive and Active Fund Support for Dissidents in Proxy Contests**

This figure displays support rates by passive and active mutual funds for management and dissident slates of directors in proxy contests over the period from July 2006 through June 2017. We define a fund as passively managed if its name includes the indexation-related strings as described in Section 3.1.2 or if the fund is categorized as an index fund/ETF in the CRSP Mutual Fund database. We report support rates for (i) full management slates, (ii) partial management slates, (iii) partial dissident slates, and (iv) full dissident slates, separately for passive and active funds. *Passive fund: Big Three* are funds that are passively managed and managed by BlackRock, Vanguard, or State Street and *Passive fund: Non-Big Three* are funds that are passively managed and not managed by BlackRock, Vanguard, or State Street. For each type of fund, we average support, which equals 1 if a fund supports a full management/partial management/partial dissident/full dissident slate and 0 otherwise, across all fund-event observations. We also report rates of abstention by passive and active funds, where a fund abstains if it submits a dissident's and/or management's blank proxy cards.

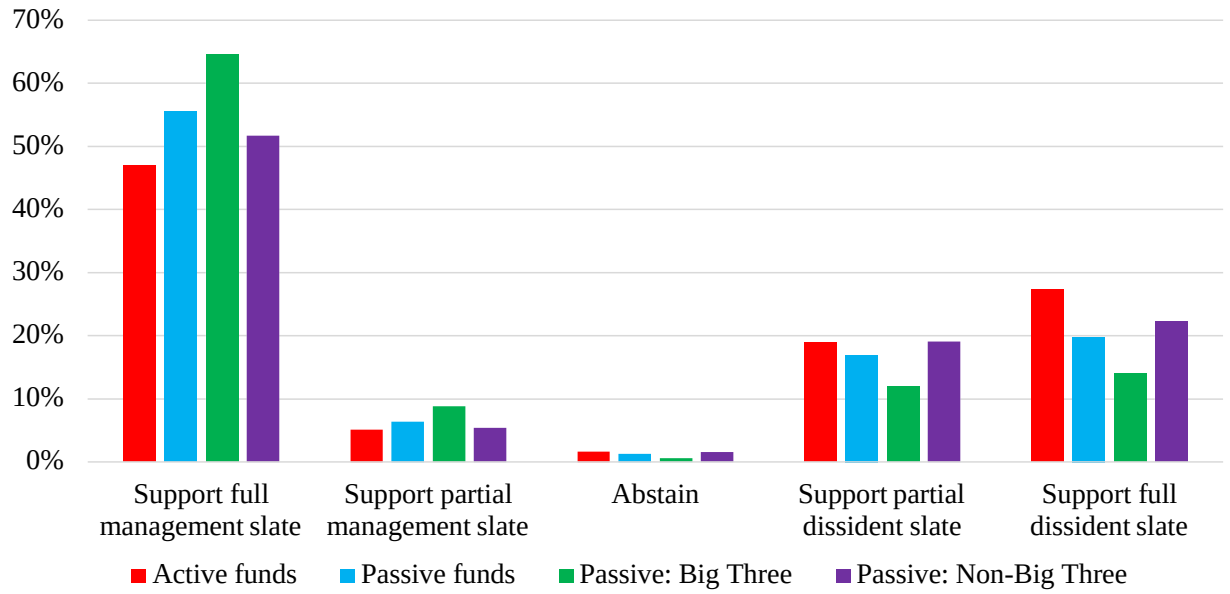

Figure 2: **Sensitivity to ISS Recommendations in Management Proposals and Proxy Contests**

This figure compares mutual funds' voting sensitivities to ISS recommendations in management proposals with their sensitivity in proxy contests. We first form a sample of Say-on-Pay votes and uncontested director elections held over the period from July 2006 through June 2017 using the ISS Voting Analytics database, which we label "management proposals," applying similar filters to those used in our main proxy contest sample. We then match mutual funds in the ISS Voting Analytics database to mutual funds in our proxy contest sample. We restrict the sample to funds where we observe at least five observations for each of the four types of votes defined by proposal type (management proposals or proxy contests) and ISS's recommendations (for or against management). We then estimate each fund's voting sensitivity to ISS's recommendations using the following regression:

$$VoteForMgmt_{i,j} = \beta_{i0} + \beta_{i1} ISSForMgmt_j + \epsilon_{i,j},$$

where i identifies a mutual fund and j identifies a proposal. We run two regressions per fund: 1) using all management proposals voted on by each fund and 2) using all proxy contests voted on by the same fund. For the proxy-contest sample, we deem a fund to have voted for management if it returns the full management card, the partial management card, or abstains. The regressions produce two betas for each fund: 1) its ISS beta for management proposals and 2) its ISS beta for proxy contests. In the plot below, we group funds into bins based on the deciles of their ISS betas for management proposals. Within each bin, we take the average ISS beta for management proposals and the average ISS beta for proxy contests. We then plot the average ISS beta for proxy contests on the y-axis against the average ISS beta for management proposals on the x-axis. The red line is the 45-degree line. We use a bootstrap procedure to construct the error bars. For each fund and for each bootstrap iteration, we sample with replacement from the set of proposals on which the fund votes. The number of proposals we sample is equal to the number of proxy contests in which the fund votes. We then compute the fund's ISS beta using this subsample. For each bootstrap iteration, we compute the average counterfactual ISS beta within each decile bin of the true proposal beta. The error bars connect the 2.5nd and 97.5th percentiles of the bootstrap distribution of this average counterfactual beta.

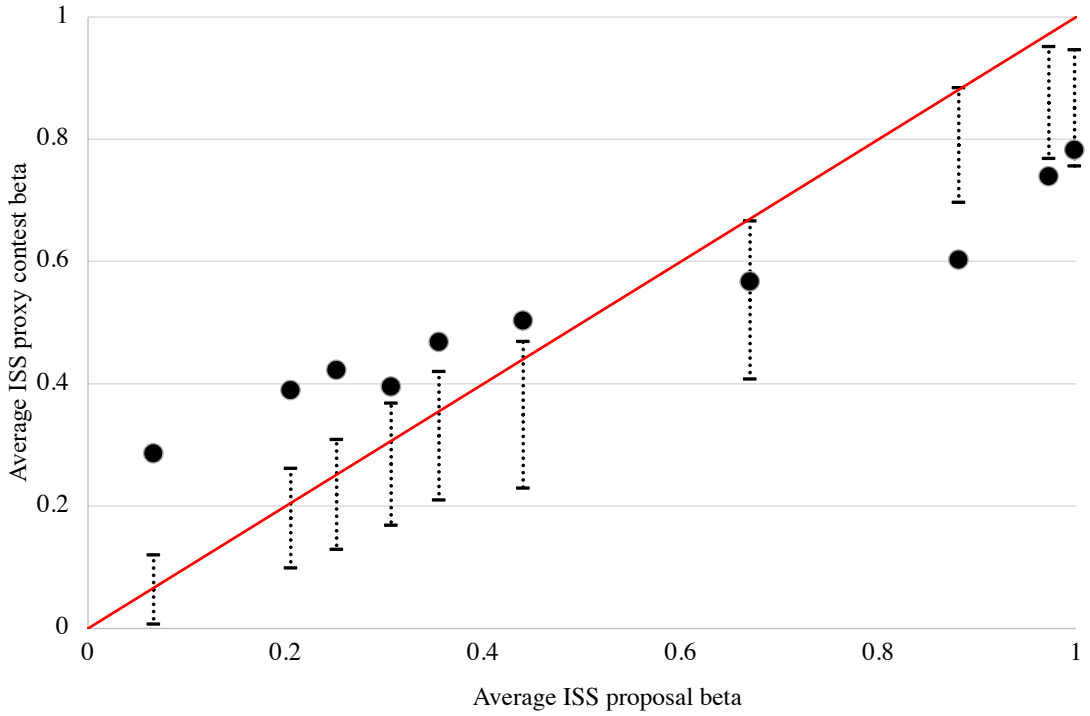

Table 1: **Proxy Contests by Fiscal Year**

In this table, we report the annual numbers of proxy contests that were voted on, settled, or withdrawn. We identify proxy contests through contested proxy statements (PREC14A and DEFC14A), 13D filings, and SharkRepellent over the period from July 2006 through June 2017. We restrict the sample to target firms that are present in the CRSP–Compustat merged database as of the month-end immediately prior to the meeting date with CRSP common share codes 10 or 11. Target firms must have non-zero-dissident ownership as of the announcement date of a contest, valid book value of assets within two years prior to the meeting date, and valid market capitalization as of month-end immediately prior to the meeting date.

Fiscal year	Voted	Settled	Withdrawn	All events
	(1)	(2)	(3)	(4)
2007	13	34	11	58
2008	24	42	13	79
2009	31	29	13	73
2010	13	20	13	46
2011	13	24	11	48
2012	16	19	13	48
2013	18	32	5	55
2014	20	31	7	58
2015	22	38	10	70
2016	19	32	17	68
2017	18	23	15	56
Total	207	324	128	659

Table 2: **Characteristics of Target and nontarget Firms**

This table provides information about the characteristics of target firms involved in voted, settled, or withdrawn proxy fights as well as the characteristics of nontarget firms. In columns (1)–(3), we report the averages, medians, and standard deviations of firm-level characteristics across target firms. The unit of observation is a firm-year. For each target firm we select a nontarget firm in the same SIC-4 industry and same year that is closest in market capitalization. In columns (4)–(5) we report the averages and t-statistics of the differences in characteristics between target firms and matched control firms. MV is market capitalization in billions of dollars. q is defined as (book value of debt + market value of equity)/(book value of debt + book value of equity). *ROA* is return on assets, defined as EBITDA/assets. *Leverage* is defined as the ratio of debt to assets, all in book values. *Industry-adj. stock return* represents SIC 3 industry-adjusted buy-and-hold stock returns during the 12 months prior to announcement dates of proxy contests. *Dividend yield* equals (common dividends + preferred dividends)/(market value of common stock + book value of preferred stock). *Institutional ownership* and *Mutual fund ownership* are the fractions of shares held by institutional investors and mutual funds, respectively, as reported by the Thomson Reuters Ownership Database. *HHI* is the Herfindahl-Hirschman index of sales. All of the above-mentioned variables, except *Industry-adj. stock return*, *Institutional ownership*, and *Mutual fund ownership*, are measured at fiscal year-ends before the announcement dates of the contested meetings.

	Summary statistics			Difference from a control firm in same industry-year closest in MV	
	Average	Median	Std. Dev.	Avg. Diff.	t-stat. of Diff.
	(1)	(2)	(3)	(4)	(5)
Firms reaching a vote:					
MV ($ billion)	2.327	0.265	8.076	—	—
q	2.063	1.375	2.296	-0.264	-1.47
ROA	0.058	0.084	0.188	0.004	0.30
Industry-adj. stock return	-0.100	-0.082	0.318	-0.165	-4.52
Leverage	0.208	0.152	0.224	0.012	0.64
Dividend yield	0.032	0.015	0.050	0.002	0.33
Institutional ownership	0.599	0.686	0.304	0.051	2.25
Mutual fund ownership	0.219	0.213	0.146	0.023	2.15
HHI	0.211	0.153	0.172	—	—
Firms reaching a settlement:					
MV ($ billion)	1.769	0.204	6.742	—	—
q	1.962	1.485	1.873	-0.313	-2.34
ROA	0.045	0.070	0.165	-0.012	-0.91
Industry-adj. stock return	-0.110	-0.103	0.333	-0.141	-4.42
Leverage	0.181	0.102	0.205	-0.021	-1.34
Dividend yield	0.031	0.006	0.055	0.005	1.08
Institutional ownership	0.581	0.622	0.306	0.043	2.25
Mutual fund ownership	0.195	0.188	0.133	0.012	1.38
HHI	0.214	0.165	0.171	—	—

Firms whose proxy fight was withdrawn:					
	Summary statistics			Difference from a control firm in same industry-year closest in MV	
	Average	Median	Std. Dev.	Avg. Diff.	t-stat. of Diff.
	(1)	(2)	(3)	(4)	(5)
MV ($ billion)	2.544	0.218	13.101	—	—
q	1.966	1.387	1.828	-0.734	-2.61
ROA	0.055	0.076	0.184	0.057	2.63
Industry-adj. stock return	-0.083	-0.093	0.354	-0.135	-2.50
Leverage	0.179	0.067	0.233	-0.015	-0.59
Dividend yield	0.033	0.002	0.061	0.010	1.49
Institutional ownership	0.567	0.619	0.300	0.064	2.36
Mutual fund ownership	0.191	0.176	0.136	0.013	0.90
HHI	0.200	0.155	0.161	—	—

Table 3: **Mutual Fund Support by Event- and Fund-level Characteristics**

This table provides information about event- and fund-level characteristics in proxy contests that reached a vote. Columns (1)–(3) in Panels A and B provide the averages, medians, and standard deviations for the variables described below. In Panel A, the averages, medians, and standard deviations are reported at the event level, whereas in Panel B the averages, medians, and standard deviations are reported at the fund-event level. *Dissident win* equals 1 if a dissident wins a voted contest and 0 otherwise. *Event level support for dissident* is the percentage of funds voting for a dissident's full or partial slate in a given event. *ISS for dissident (Glass Lewis for dissident)* is an indicator variable that equals 1 if ISS (Glass Lewis) recommends that investors vote for at least one director nominee from the dissident's slate and 0 otherwise. *Hedge fund dissident* is an indicator that equals 1 if the dissident is a hedge fund and 0 otherwise. *# past events by dissident* equals the average annual number of interventions a dissident undertakes in the five years preceding a contest. *Past campaign intensity* equals (#Communication $\times$ 1 + #Proposal $\times$ 2 + #Confront $\times$ 3) / #All campaigns, where #Communication is the number of events in which a dissident seeks to communicate with a board/management, #Proposal is the number of events in which a dissident submits shareholder proposals, and #Confront is the number of events in which a dissident threatens to sue or launch a proxy contest, initiates a proxy contest, a lawsuit, a takeover bid, or asks for board representation. *Announcement return* is the cumulative abnormal return between -10 days and $+10$ days around the announcement of a proxy contest. *Passive fund* is a dummy variable that equals 1 for a passively managed fund and 0 otherwise. We define a fund as passively managed by confirming whether its name includes the indexation-related strings as described in Section 3.1.2 or if the fund is categorized as an index fund/ETF in the CRSP Mutual Fund database. *Fund assets* and *Investment as % of fund assets* are measured at quarter ends prior to contested meetings. *Holding horizon* is the number of years a fund has held a firm's shares; we deem all consecutive holding quarters up to six months apart as representing the same holding sequence. *Basis-adjusted return* is the percentage deviation of a current stock price from the aggregate cost basis. Columns (4)–(7) and (10)–(13) in Panels A and B provide support rates for (i) full management slates, (ii) partial management slates, (iii) partial dissident slates, and (iv) full dissident slates at low levels and high levels for each of the characteristic variables. In addition, in columns (8) and (9) we report abstention votes at low and high levels for each of the characteristic variables. We report average support rates across all fund-event observations. For *ISS for dissident, Glass Lewis for dissident, Hedge fund dissident,* and *Passive fund*, a low support rate takes the value of 0, while a high support rate takes the value of 1. For all other variables the cutoff for a high or low level is the median across the event-level (fund-event-level) values of the characteristic variables associated with Panel A (Panel B).

Panel A: Event characteristics

				Event-level support rate in % for management or dissident slate									
				Vote for full management slate		Vote for partial management slate		Abstain		Vote for partial dissident slate		Vote for full dissident slate	
	Average	Median	Std. Dev.	Low Level	High Level	Low Level	High Level	Low Level	High Level	Low Level	High Level	Low Level	High Level
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Dissident win (in %)	51.7	100	50.1										
Event-level support for dissident (in %)	41.9	44.3	34.6										
ISS for dissident (in %)	55.6	100	49.8	82.3	31.0	6.0	4.5	1.4	1.5	2.6	28.6	7.8	34.4
Glass Lewis for dissident (in %)	34.8	0	47.8	60.1	27.9	5.9	5.3	1.8	0.8	16.4	22.4	15.9	43.5
Hedge fund dissident (%)	78.3	100	41.3	57.0	49.5	14.2	4.2	1.6	1.4	5.1	20.3	22.0	24.6
# past events by dissident	1.82	0.40	2.85	49.0	51.5	9.2	3.7	2.0	1.2	12.8	21.1	27.1	22.6
Past campaign intensity	2.01	2.00	1.69	52.2	49.4	8.5	3.7	1.5	1.5	14.8	20.4	23.1	25.0
Announcement return (in %)	5.1	4.4	18.6	54.8	46.1	4.6	6.8	1.3	1.6	19.0	17.2	20.3	28.3

Panel B: Fund characteristics

				Event-level support rate in % for management or dissident slate									
				Vote for full management slate		Vote for partial management slate		Abstain		Vote for partial dissident slate		Vote for full dissident slate	
	Average	Median	Std. Dev.	Low Level	High Level	Low Level	High Level	Low Level	High Level	Low Level	High Level	Low Level	High Level
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
Passive fund (in %)	42.1	0	49.4	47.0	55.5	5.1	6.4	1.6	1.3	18.9	17.0	27.4	19.9
Fund assets ($ billion)	3.85	0.34	24.38	50.5	51.2	5.9	6.0	1.3	1.2	18.1	16.7	24.3	24.9
Investment as % of fund assets	0.43	0.10	1.45	51.3	50.3	6.4	5.6	1.1	1.3	15.9	18.9	25.3	23.9
Investment as % of firm equity	0.17	0.02	0.59	50.9	50.7	5.6	6.3	1.1	1.4	19.4	15.4	23.0	26.2
Holding horizon (year)	3.34	2.25	3.26	50.7	50.9	5.6	6.3	1.6	0.9	17.8	17.0	24.3	24.9
Basis-adjusted return (in %)	8.1	1.9	38.7	49.1	52.5	5.3	6.6	1.5	0.9	18.5	16.3	25.6	23.6

Table 4: **Determinants of Mutual Funds' Support for Dissidents**

This table provides evidence pertaining to the relationship between mutual funds' voting choices and observable variables in the sample of proxy contests that reached a vote. We report how firm-level, dissident-level, fund-level, and fund-event characteristics are associated with mutual funds' support for a dissident. The dependent variable, *Mutual fund supports dissident*, equals 0, 0.25, 0.5, 0.75, or 1 if a mutual fund votes for a full management slate, votes for a partial management slate, abstains, votes for a partial dissident slate, or votes for a full dissident slate, respectively. All independent variables are as defined in Tables 2 and 3. Standard errors are clustered at the fund-family level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped from each fixed effects model.

	(1)	(2)	(3)
Log(MV)	-0.002	-0.015**	
	[-0.34]	[-2.46]	
q	-0.037***	-0.032***	
	[-7.68]	[-6.04]	
ROA	-0.174***	-0.125**	
	[-3.97]	[-2.55]	
Leverage	0.186***	0.196***	
	[5.01]	[5.03]	
Dividend yield	0.282***	0.265**	
	[2.61]	[2.18]	
HHI	0.122**	0.173***	
	[2.20]	[2.69]	
Institutional ownership	-0.165***	-0.157***	
	[-4.24]	[-3.39]	
Hedge fund dissident	0.137***	0.141***	
	[5.01]	[4.46]	
# past events by dissident	0.023***	0.020***	
	[7.68]	[6.90]	
Past campaign intensity	-0.001	-0.001	
	[-0.11]	[-0.13]	
Passive fund	-0.095***		-0.100***
	[-3.76]		[-4.24]
Log(fund assets)	-0.006	-0.011	-0.005
	[-0.69]	[-0.71]	[-0.65]
Investment as % of fund assets	0.166	0.013	0.315
	[0.70]	[0.01]	[1.55]
Holding horizon (year)	0.003	0.003*	0.001
	[1.55]	[1.69]	[0.40]
Basis-adjusted return	-0.094***	-0.100***	-0.008
	[-4.04]	[-4.45]	[-0.49]
Fiscal year FEs	Yes	Yes	No
Industry FEs (FF-48)	Yes	Yes	No
Fund FEs	No	Yes	No
Event FEs	No	No	Yes
Observations	20,350	18,790	20,748
Adj. R-squared	0.21	0.28	0.40

Table 5: **Passive and Active Fund Voting in Proxy Contests**

This table provides evidence relating voting outcomes to fund investment styles. We adopt the regression specification of Table 4. The dependent variable, *Mutual fund supports dissident*, equals 0, 0.25, 0.5, 0.75, or 1 if a mutual fund votes for a full management slate, votes for a partial management slate, abstains, votes for a partial dissident slate, or votes for a full dissident slate, respectively. For columns (1) and (2), we restrict the sample to passively managed and actively managed funds, respectively. For column (3), *Passive fund: Big Three* are funds that are passively managed and managed by BlackRock, Vanguard, or State Street and *Passive funds: Non-Big Three* are funds that are passively managed and not managed by BlackRock, Vanguard, or State Street. For columns (4) and (5) we run separate regressions for each category of passive fund. All other independent variables are as defined in Tables 2 and 3. Standard errors are clustered at the fund-family level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped from each fixed effects model.

				Passive funds	
	Passive funds	Active funds	All funds	Big Three	Non-Big Three
	(1)	(2)	(3)	(4)	(5)
Log(MV)	-0.018***	-0.012	-0.002	-0.027*	-0.018**
	[-2.96]	[-1.41]	[-0.38]	[-3.07]	[-2.13]
q	-0.027***	-0.038***	-0.037***	-0.031	-0.027***
	[-3.58]	[-6.96]	[-7.63]	[-1.42]	[-4.36]
ROA	-0.184***	-0.059	-0.172***	-0.075**	-0.229***
	[-3.37]	[-0.92]	[-3.93]	[-4.93]	[-3.03]
Leverage	0.273***	0.104**	0.193***	0.174*	0.326***
	[5.80]	[2.08]	[5.20]	[1.69]	[6.46]
Dividend yield	0.344*	0.214	0.272**	0.065	0.412**
	[1.70]	[1.25]	[2.52]	[0.13]	[2.52]
HHI	0.057	0.290***	0.114**	-0.133	0.135*
	[0.70]	[3.85]	[2.04]	[-0.59]	[1.72]
Institutional ownership	-0.169***	-0.141**	-0.158***	-0.045	-0.219***
	[-2.68]	[-2.32]	[-4.05]	[-0.32]	[-3.11]
Hedge fund dissident	0.079***	0.187***	0.137***	-0.035	0.141***
	[2.67]	[5.11]	[4.98]	[-2.26]	[7.90]
# past events by dissident	0.021***	0.018***	0.023***	0.010	0.026***
	[4.82]	[5.05]	[7.64]	[0.93]	[6.37]
Past campaign intensity	0.010**	-0.008	-0.001	0.017	0.008
	[2.21]	[-0.89]	[-0.27]	[2.52]	[1.36]
Log(fund assets)	-0.001	-0.022	0.000	0.037*	-0.024
	[-0.03]	[-1.40]	[0.04]	[3.04]	[-1.38]
Investment as % of fund assets	-4.393***	1.450	0.283	-3.248*	-4.225***
	[-5.10]	[1.07]	[1.21]	[-3.62]	[-2.83]
Holding horizon (year)	0.007***	-0.000	0.003*	0.007	0.007**
	[3.53]	[-0.01]	[1.66]	[1.79]	[2.44]
Basis-adjusted return	-0.061*	-0.143***	-0.106***	-0.026	-0.069***
	[-1.91]	[-6.42]	[-5.42]	[-0.22]	[-2.98]
Passive fund: Big Three			-0.202***		
			[-4.17]		
Passive fund: Non-Big Three			-0.047**		
			[-2.17]		
Fiscal year FEs	Yes	Yes	Yes	Yes	Yes
Industry FEs (FF-48)	Yes	Yes	Yes	Yes	Yes
Fund FEs	Yes	Yes	No	Yes	Yes
Event FEs	No	No	No	No	No
Observations	8,762	10,007	20,350	2,827	5,935
Adj. R-squared	0.28	0.29	0.22	0.28	0.30

Table 6: **Settled and Withdrawn Events with Observed Votes**

This table presents information pertaining to fund votes for events that were eventually settled or withdrawn. In Panel A, we provide summary statistics for fund support rates and contest characteristics for all contests with observed votes. *Number of fund votes per event* is the average number of funds we observe voting in a given event. *Share of funds casting votes* is the average of the number of voting funds divided by the number of funds holding an event firm as reported by the CRSP Mutual Fund Database and the Thompson Reuters Ownership Database. In *Voting patterns*, to calculate support for the (i) full management, (ii) partial management, (iii) partial dissident, and (iv) full dissident slates, we average support, which equals 1 if a fund supports the full management/partial management/partial dissident/full dissident slates and 0 otherwise, across all fund-event observations within a group of contests. Similarly, we also calculate the percentage of abstentions, where a fund abstains if it submits a blank dissident, a blank management proxy card, or blank proxy cards for both the dissident and management. In *Dissident characteristics*, we report average contest characteristics. To facilitate a comparison, we report the same statistics for the main sample of events that reach the voting stage. In Panel B, we present support rates for dissidents by active funds, passive funds, passive funds offered by the Big-Three fund families, and non-Big-Three passive funds. The sample is restricted to contests that were settled or withdrawn in which we observe at least one vote. All variables are as defined in Tables 2 and 3.

Panel A: Event characteristics of settled and withdrawn events with observed votes			
	Voted	Settled	Withdrawn
	(1)	(2)	(3)
Number of fund votes per event	140	110	130
Number of events	207	42	26
Voting patterns			
Support for full management slate	50.6%	43.8%	82.1%
Support for partial management slate	5.7%	8.9%	7.4%
Abstain	1.5%	3.0%	8.1%
Support for partial dissident slate	18.1%	25.9%	1.1%
Support for full dissident slate	24.2%	18.4%	1.4%
Dissident characteristics			
Hedge fund	0.78	0.79	0.50
# past campaigns	1.82	1.11	0.72
Past campaign intensity	2.01	1.71	1.41

Panel B: Support rates for dissidents			
	Voted	Settled	Withdrawn
	(1)	(2)	(3)
Active funds	46.28%	45.37%	3.16%
Passive funds	36.82%	42.97%	1.52%
Passive funds: Big Three	26.04%	35.98%	2.46%
Passive funds: Non-Big Three	41.38%	45.80%	1.15%

Table 7: **Proxy Research around Proxy Contests**

In this table, we report results pertaining to fund families' views of proxy statements, DEFC 14A and DEF 14A filings, around proxy contests. The sample includes all voted, settled, and withdrawn contests whose DEFC 14A forms were filed between July 1, 2006, and June 30, 2017. The DEF 14A forms associated with uncontested annual meetings were filed between July 1, 2004, and June 30, 2017. In Panel A we report results pertaining to proxy views by all fund families while in Panel B we report results by excluding the Big-Three fund families. *Passive family* equals 1 if no less than 50% of the funds are passive funds and 0 otherwise. *Investment as % of firm equity* is the number of shares owned as a fraction of a firm's outstanding shares. *Around contest* equals 1 for meetings that take place within two years of a proxy contest and 0 otherwise. Standard errors are clustered at the firm level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Panel A: Proxy viewership by all fund families

Dependent variable: Indicator for a fund's view of a proxy statement

	Around contest $[t-2, t+2]$	Pre-$(t-2)$ and Post-$(t+2)$	Pre-(t-2)	Post-(t+2)	Full sample period		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Passive family	0.050***	0.008	-0.000	0.025***		0.008*	
	[8.21]	[1.51]	[-0.11]	[2.79]		[1.65]	
Investment as % of firm equity	4.259***	4.582***	4.587***	4.511***	1.562***	4.414***	1.781***
	[14.74]	[15.80]	[13.13]	[9.36]	[11.22]	[18.68]	[13.72]
Passive family × Around contest					0.043***	0.041***	0.046***
					[5.94]	[5.72]	[6.05]
Around contest					-0.000		
					[-0.02]		
Meeting FEs	Yes	Yes	Yes	Yes	No	Yes	Yes
Fund family FEs	No	No	No	No	Yes	No	Yes
Observations	44,295	45,488	31,569	13,919	89,783	89,783	89,783
Adj. R-squared	0.07	0.06	0.05	0.07	0.39	0.06	0.42
% Dep. variable = 1	9.2%	8.6%	8.6%	8.5%	8.9%	8.9%	8.9%

Panel B: Proxy viewership by non-Big Three fund families

	Around contest $[t-2, t+2]$	Pre-$(t-2)$ and Post-$(t+2)$	Pre-(t-2)	Post-(t+2)	Full sample period		
Passive family	0.012*	-0.017***	-0.023***	-0.006		-0.018***	
	[1.93]	[-3.31]	[-3.84]	[-0.71]		[-3.46]	
Investment as % of firm equity	3.898***	4.450***	4.542***	4.189***	1.266***	4.173***	1.586***
	[10.80]	[13.13]	[11.75]	[6.84]	[8.03]	[14.47]	[10.32]
Passive family × Around contest					0.031***	0.030***	0.031***
					[4.54]	[4.31]	[4.50]
Around contest					-0.000		
					[-0.01]		
Meeting FEs	Yes	Yes	Yes	Yes	No	Yes	Yes
Fund family FEs	No	No	No	No	Yes	No	Yes
Observations	41,079	42,492	29,538	12,954	83,571	83,571	83,571
Adj. R-squared	0.04	0.04	0.04	0.04	0.42	0.04	0.44
% Dep. variable = 1	8.0%	7.9%	8.1%	7.4%	7.9%	7.9%	7.9%

Table 8: **Proxy Research around Voted and Settled Contests**

In this table, we report results pertaining to fund families' views of proxy statements around proxy contests, separately for voted (Panel A) and settled (Panel B) contests. The sample includes proxy contests whose DEFC 14A forms were filed between July 1, 2006 and June 30, 2017. The DEF 14A forms associated with uncontested annual meetings were filed between July 1, 2004 and June 30, 2017. All independent variables are as defined in Tables 2 and 3. Standard errors are clustered at the firm level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Panel A: Voted contests

Dependent variable: Indicator for a fund's view of a proxy statement

	All fund families				Non-Big-Three fund families			
	Around contest $[t-2, t+2]$	Pre-(t-2)	Post-(t+2)	Full sample period	Around contest $[t-2, t+2]$	Pre-(t-2)	Post-(t+2)	Full sample period
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Passive family	0.058***	-0.013*	0.029***		0.018**	-0.037***	0.000	
	[7.28]	[-1.71]	[2.60]		[2.22]	[-6.69]	[0.03]	
Investment as % of firm equity	4.280***	4.391***	4.569***	1.670***	4.079***	4.344***	4.164***	1.533***
	[10.64]	[9.04]	[7.17]	[9.34]	[8.07]	[8.44]	[5.74]	[7.27]
Passive family × Around contest				0.059***				0.042***
				[5.90]				[4.11]
Meeting FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fund family FEs	No	No	No	Yes	No	No	No	Yes
Observations	25,316	15,643	9,331	50,290	23,512	14,616	8,715	46,843
Adj. R-squared	0.07	0.06	0.06	0.41	0.05	0.05	0.04	0.43
% Dep. variable = 1	9.0%	8.0%	8.6%	8.6%	7.7%	7.6%	7.6%	7.6%

Panel B: Settled contests

	All fund families				Non-Big-Three fund families			
	Around contest $[t-2, t+2]$	Pre-(t-2)	Post-(t+2)	Full sample period	Around contest $[t-2, t+2]$	Pre-(t-2)	Post-(t+2)	Full sample period
Passive family	0.053***	0.020*	0.019		0.004	-0.012	-0.021*	
	[4.40]	[1.79]	[1.16]		[0.30]	[-1.09]	[-1.73]	
Investment as % of firm equity	3.711***	3.837***	5.236***	1.907***	2.912***	3.620***	5.047***	1.576***
	[6.44]	[6.84]	[6.37]	[7.87]	[4.54]	[5.63]	[4.87]	[5.66]
Passive family × Around contest				0.033**				0.024**
				[2.22]				[2.04]
Meeting FEs	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fund family FEs	No	No	No	Yes	No	No	No	Yes
Observations	12,296	9,866	2,942	25,104	11,329	9,223	2,698	23,250
Adj. R-squared	0.05	0.04	0.08	0.42	0.03	0.02	0.05	0.45
% Dep. variable = 1	9.8%	9.4%	9.0%	9.6%	8.6%	8.8%	7.4%	8.5%

Table 9: **Informativeness of Mutual Funds' Votes**

The results reported in this table summarize the relationship between a mutual fund's investment style and the probability that it votes informatively in a proxy contest. In each regression, the dependent variable equals 0 or 1. For columns (1) and (4), the dependent variable equals 1 if the mutual fund votes "correctly," defined as voting for the dissident when dissident quality is high or voting against the dissident when dissident quality is low. We measure dissident quality using the procedure outlined in Section 5.3 of the main text. For columns (2) and (5), the dependent variable equals 1 if the mutual fund votes against the dissident when dissident quality is high (a "Type I error"). For columns (3) and (6), the dependent variable equals 1 if the mutual fund votes for the dissident when dissident quality is low (a "Type II error"). We report coefficients only for the dummy variable *Passive fund*. Fund- and firm-level controls are the same as those used in Table 4. Standard errors are clustered at the fund-family level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped from each fixed effects model.

Panel A: Active funds versus passive funds						
Dependent variable: Mutual fund voting outcome{0, 1}						
	Correct	Type I error	Type II error	Correct	Type I error	Type II error
	(1)	(2)	(3)	(4)	(5)	(6)
Passive fund	0.005	0.042***	-0.046***	0.009	0.043***	-0.052***
	[0.40]	[2.74]	[-3.27]	[0.85]	[3.10]	[-3.81]
Fund controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	No	No	No
Year FEs	Yes	Yes	Yes	No	No	No
Industry FEs (FF-48)	Yes	Yes	Yes	No	No	No
Event FEs	No	No	No	Yes	Yes	Yes
Observations	18,135	18,135	18,135	18,459	18,459	18,459
Adj. R-squared	0.17	0.24	0.25	0.39	0.56	0.55

Panel B: Separating passive funds by fund family						
Dependent variable: Mutual fund voting outcome{0, 1}						
	Correct	Type I error	Type II error	Correct	Type I error	Type II error
	(1)	(2)	(3)	(4)	(5)	(6)
Passive fund: Big Three	-0.010	0.104***	-0.094***	-0.002	0.105***	-0.103***
	[-0.59]	[3.48]	[-4.72]	[-0.11]	[3.40]	[-5.81]
Passive fund: non-Big Three	0.011	0.014	-0.025*	0.014	0.015	-0.029**
	[0.90]	[0.95]	[-1.87]	[1.15]	[1.06]	[-2.39]
Fund controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	No	No	No
Year FEs	Yes	Yes	Yes	No	No	No
Industry FEs (FF-48)	Yes	Yes	Yes	No	No	No
Event FEs	No	No	No	Yes	Yes	Yes
Observations	18,135	18,135	18,135	18,459	18,459	18,459
Adj. R-squared	0.17	0.25	0.25	0.39	0.57	0.56

Table 10: **Integrated Analysis of Proxy Contests and Voting**

In this table, we report results obtained by estimating a system of equations for investor voting and dissident targeting. The dependent variable in the voting equation, *Mutual fund supports dissident*, equals 0, 0.25, 0.5, 0.75, or 1 if a mutual fund votes for a full management slate, votes for a partial management slate, abstains, votes for a partial dissident slate, or votes for a full dissident slate, respectively. In the targeting equation, *Voted*, *Settled*, or *Withdrawn* equals 1 if a proxy contest results in a vote, is settled, or withdrawn, and *Log(fund assets), Investment as % of fund assets, Holding horizon (year)*, *Basis-adjusted return*, and *Fund stance measure* are aggregated at the firm level by weighting each fund by its investment as a percentage of firm equity. All other independent variables are as defined in Tables 2 and 3. Second-stage standard errors are clustered at the fund-family level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped from each fixed effects model.

	Targeting equation: Multinomial logit			Voting equation: Linear regression
	Voted	Settled	Withdrawn	Fund supports dissident {0, 0.25, 0.5, 0.75, 1}
	(1)	(2)	(3)	(4)
Log(MV)	-0.121*	-0.225***	-0.134*	-0.032***
	[-1.95]	[-4.16]	[-1.70]	[-4.36]
q	-0.082*	-0.176***	-0.117*	-0.043***
	[-1.88]	[-3.89]	[-1.85]	[-6.59]
ROA	0.226	0.069	1.125*	-0.163***
	[0.44]	[0.16]	[1.66]	[-2.93]
Leverage	-0.077	-0.673**	-0.953*	0.197***
	[-0.21]	[-2.09]	[-1.82]	[4.82]
Dividend yield	-1.090	0.660	1.727	0.367***
	[-0.74]	[0.60]	[1.04]	[2.89]
HHI	-0.312	-0.047	-0.890	0.189***
	[-0.60]	[-0.12]	[-1.31]	[2.95]
Institutional ownership	0.944***	1.304***	0.605	-0.083*
	[2.85]	[4.70]	[1.45]	[-1.79]
Log(fund assets) (firm-level)	0.010	-0.045	-0.042	
	[0.12]	[-0.72]	[-0.44]	
Inv. as % of fund assets (firm-level)	1.698	0.809	-1.125	
	[0.75]	[0.40]	[-0.21]	
Holding horizon (year) (firm-level)	0.005	0.003	0.004	
	[1.46]	[1.36]	[1.02]	
Basis-adjusted return (firm-level)	-0.620***	-0.895***	-1.005***	
	[-2.84]	[-4.77]	[-3.32]	
Fund stance measure (firm-level)	2.474***	1.078*	0.165	
	[3.41]	[1.73]	[0.16]	
Hedge fund dissident				0.144***
				[4.19]
# past events by dissident				0.023***
				[7.32]
Past campaign intensity				0.000
				[0.00]

Table 10 continued:

	Voted	Settled	Withdrawn	Fund supports dissident {0, 0.25, 0.5, 0.75, 1}
	(1)	(2)	(3)	(4)
Log(fund assets)				-0.012
				[-0.81]
Investment as % of fund assets				0.048
				[0.04]
Holding horizon (year)				0.003*
				[1.91]
Basis-adjusted return				-0.101***
				[-4.55]
Lee correction term				-0.253***
				[-4.18]
Fiscal year FEs	Yes	Yes	Yes	Yes
Industry FEs (FF-48)	Yes	Yes	Yes	Yes
Fund FEs	No	No	No	Yes
Observations	37,660	37,660	37,660	18,698
Pseudo R-squared	0.08	0.08	0.08	
Adj. R-squared				0.29

Table 11: **Mutual Fund Trading in Target Firms Prior to a Proxy Contest—Probit Model**

In this table we report results for the determinants of mutual fund trading in event firms prior to a voted proxy contest. *No-show* is coded as 1 if a fund holds the target shares at quarter ends $Q-2$ through Q, where Q is the quarter in which the record date falls and there is no disclosed vote by the fund. The variable is coded as 0 if a fund votes in the proxy contest. *Buy-into-voting* is an indicator variable coded as 1 if a voting fund discloses holdings in quarter Q but not in quarters $Q-1$ or $Q-2$ and 0 otherwise. *Buy-into-voting from outside KY* is an indicator variable coded as 1 if a voting fund makes the purchase out of its "investment universe," following the construction in Koijen and Yogo (2019), who define a fund's "investment universe" as the super set of companies it ever held during the previous eleven quarters. *Sell-out-of-voting* is an indicator variable coded as 1 if a nonvoting fund discloses holdings in quarters $Q-1$ and $Q-2$ but not in quarter Q and 0 for a voting fund. *PA for dissident* is set to *ISS for dissident* or *Glass Lewis for dissident* if only one of the two advisory firms issues a recommendation. It equals [(*ISS for dissident*) + (*Glass Lewis for dissident*)]/2 if both advisors issue a recommendation. All other independent variables are as defined in Table 2 and Table 3. The no-show regression includes both active and passive mutual funds, while the buy-into-voting and sell-out-of-voting regressions include only active mutual funds. Standard errors are clustered at the fund-family level. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Dependent variable	No-show	Buy-into-voting	Buy-into-voting from outside KY	Sell-out-of-voting
	(1)	(2)	(3)	(4)
Log(MV)	-0.066***	0.077**	0.040	-0.022
	[-4.14]	[2.49]	[1.20]	[-1.23]
q	0.000	0.005	0.062**	0.047***
	[0.03]	[0.19]	[2.37]	[3.34]
ROA	0.068	0.548**	0.899***	-0.143
	[0.53]	[2.07]	[2.96]	[-0.74]
Leverage	0.170**	0.086	0.243	0.273*
	[2.52]	[0.48]	[1.23]	[1.87]
Dividend yield	0.509	-1.144*	-0.569	1.225**
	[1.31]	[-1.78]	[-0.73]	[2.28]
HHI	-0.219*	-0.024	-0.080	-1.076***
	[-1.81]	[-0.09]	[-0.25]	[-3.96]
Institutional ownership	0.092	-0.771***	-0.251	-0.020
	[0.97]	[-3.19]	[-1.36]	[-0.12]
Hedge fund dissident	-0.274***	0.179*	0.113	-0.155**
	[-4.12]	[1.71]	[0.90]	[-2.03]
# past events by dissident	0.010	0.025	0.007	0.053***
	[1.07]	[1.62]	[0.35]	[3.57]
Past campaign intensity	-0.003	0.027	0.037	0.008
	[-0.28]	[1.12]	[1.35]	[0.44]
Log(fund assets)	0.015	-0.047	-0.043	-0.012
	[0.56]	[-1.59]	[-1.44]	[-0.47]
Investment as %	-12.457***	-18.241***	-9.860**	-27.045***
of fund assets	[-3.40]	[-3.69]	[-1.97]	[-4.70]

Table 11 continued:

Dependent variable	No-show	Buy-into-voting	Buy-into-voting from outside KY	Sell-out-of-voting
	(1)	(2)	(3)	(4)
Fund stance measure	0.226	-0.135	-0.148	-0.031
	[0.70]	[-0.72]	[-0.76]	[-0.18]
Holding horizon (year)	0.000			-0.004***
	[0.50]			[-3.75]
Basis-adjusted return	0.045			0.006
	[1.46]			[0.26]
Passive fund	-0.129			
	[-1.63]			
PA for dissident	0.099**			
	[2.03]			
Fiscal year FEs	Yes	Yes	Yes	Yes
Industry FEs (FF-48)	Yes	Yes	Yes	Yes
Observations	20,504	8,878	8,822	9,503
Pseudo-R-squared	0.05	0.06	0.07	0.08
% (Dep. Variable =1)	18.0%	8.4%	4.4%	8.8%

Internet Appendix

This Internet Appendix provides supplemental and robustness tests to accompany the results presented in the paper:

Shareholder Monitoring Through Voting: New Evidence from Proxy Contests

This version: August 2023

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A. Additional figures and tables

Figure 1: Yearly support for dissidents by passive and active funds

This figure displays support rates by passive and active mutual funds for management and dissident slates of directors in proxy contests over the period from July 2006 through June 2017. We define a fund as passively managed if its name includes the indexation-related strings as described in Section 2.1.2 or if the fund is categorized as an index fund/ETF in the CRSP Mutual Fund database. We report how support for dissidents' full and partial slates of directors varies over time, separately for passive and active funds. For each type of fund, we average support, which equals 1 if a fund supports a full or partial dissident slate and 0 otherwise, across all fund-event observations in a given year. The dark bars plot the average votes for dissidents cast by passive funds per year. The light bars plot the corresponding average votes in favor of dissidents by active funds.

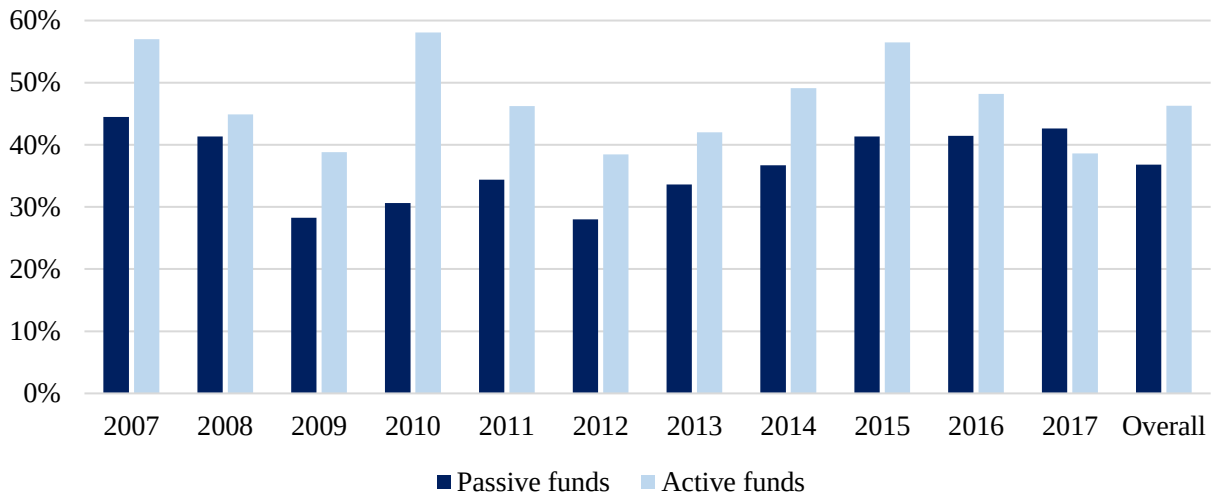

Table 1: Proxy contests by type of dissident

This table provides descriptive statistics for proxy contests by dissident type. We identify proxy contests through contested proxy statements (PREC14A and DEFC14A), 13D filings, and SharkRepellent over the period from July 2006 through June 2017. The sample is restricted to target firms that are present in the CRSP-Compustat merged database as of the month-ends immediately prior to meeting dates at firms with CRSP common share codes 10 or 11. Target firms must have non-zero dissident ownership as of the announcement dates of contests, valid book values of assets within two years prior to meeting dates, and valid market capitalization as of month-ends immediately prior to meeting dates. Columns (1) and (2) provide the number and proportion of proxy contests by dissident type, and columns (3) and (4) show the number and proportion of unique investors by dissident type.

	No. of proxy contests	Percent of total	No. of unique dissidents	Percent of total
	(1)	(2)	(3)	(4)
Hedge fund	524	79.51	268	68.89
Individual investor	91	13.81	81	20.82
Public and private company	38	5.77	34	8.74
Private equity or venture capital firm	5	0.76	5	1.29
Insurance company	1	0.15	1	0.26
Total	659	100	389	100

Table 2: Top 10 mutual fund families' voting behavior

In this table, we report information pertaining to proxy voting by the top-10 mutual fund families by assets under management ("AUM"). We exclude Pacific Investment Management Company from our list as it offers primarily fixed-income funds. To calculate support for (i) full management, (ii) partial management, (iii) partial dissident, and (iv) full dissident slates, we average support, which equals 1 if a fund supports full management/partial management/partial dissident/full dissident slates and 0 otherwise, across all fund-event observations within a given family. We also calculate the percentage of abstentions, where a fund abstains if it submits a blank dissident and/or blank management proxy card. Voting records are obtained from N-PX filings. AUM data are collected from N-CSR, 10-K, 10-Q filings, and fund company websites.

Fund family name	AUM as of 2017 ($ trillion)	Number of voted proxy contests	Support for full mgmt. slate	Support for partial mgmt. slate	Abstain	Support for partial dissident slate	Support for full dissident slate	% passive funds as of 2017
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
BlackRock	6.3	173	52.0%	10.5%	0.2%	18.5%	18.8%	91.9%
Vanguard Group	4.9	188	78.2%	4.3%	1.2%	4.6%	11.7%	76.9%
State Street	2.8	118	60.1%	12.4%	1.4%	17.0%	9.1%	66.7%
Fidelity Investments	2.4	166	50.9%	4.9%	2.0%	13.7%	28.5%	22.1%
Dreyfus Investments (BNY Mellon)	1.9	75	52.7%	3.3%	2.1%	21.8%	20.2%	37.5%
American Funds (Capital Group)	1.8	34	36.6%	6.3%	0%	8.9%	48.2%	0%
J.P. Morgan Asset Management	1.7	82	53.1%	7.7%	0.9%	17.4%	20.9%	14.7%
Goldman Sachs Asset Management	1.5	45	23.8%	7.0%	0%	46.2%	23.1%	11.1%
Prudential Financial	1.4	100	51.0%	5.1%	1.4%	18.4%	24.1%	7.7%
Northern Trust Investments	1.2	134	73.6%	0.6%	0%	8.0%	17.9%	62.5%

Table 3: Most and least pro-dissident fund families among frequent voters

This table provides information pertaining to proxy voting by the most and least pro-dissident fund families among frequent institutional voters. We rank fund families by the sum of their support for full dissident slates and partial dissident slates. Frequent institutional voters are fund companies that voted in at least 20% of the 207 proxy contests held from 2007 to 2017. To calculate support for (i) full management, (ii) partial management, (iii) partial dissident, and (iv) full dissident slates, we average support, which equals 1 if a fund supports full management/partial management/partial dissident/full dissident slates and 0 otherwise, across all fund-event observations within a family. Similarly, we also calculate the percentage of abstentions, where a fund abstains if it submits a blank dissident and/or blank management proxy card. Voting records are obtained from N-PX filings.

Fund family name	AUM as of 2017 ($ billion)	No. of proxy contests voted	Support for full management slate	Support for partial management slate	Abstain	Support for partial dissident slate	Support for full dissident slate	% passive funds as of 2017
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Most pro-dissident families								
Gabelli Asset Management	43.1	70	23.8%	0.4%	1.2%	15.7%	58.9%	0%
Mutual of America	21.2	42	28.0%	0%	0.8%	32.0%	39.2%	33.3%
Goldman Sachs Asset Management	1,490.0	45	23.8%	7.0%	0%	46.2%	23.1%	11.1%
Nuveen Investments	970.5	89	30.4%	7.9%	0.5%	27.6%	33.6%	20.7%
SunAmerica Asset Management	79.2	86	31.8%	6.1%	1.5%	30.8%	29.8%	0%
Least pro-dissident families								
Guggenheim Investments	208.0	115	82.1%	1.1%	2.9%	4.3%	9.6%	58.9%
Vanguard Group	4,940.4	188	78.2%	4.3%	1.2%	4.6%	11.7%	76.9%
Wilmington Trust	89.2	97	73.6%	3.1%	1.9%	6.3%	15.1%	0%
Northern Trust Investments	1,161.0	134	73.6%	0.6%	0%	8.0%	17.9%	62.5%
State Street	2,781.7	118	60.1%	12.4%	1.4%	17.0%	9.1%	66.7%

Table 4: Proxy contests by Fama-French 12 industry classification

This table provides descriptive statistics for proxy contests by industry. We identify proxy contests through contested proxy statements (PREC14A and DEFC14A), 13D filings, and SharkRepellent over the period running from July 2006 through June 2017. We restrict the sample to target firms that are present in the CRSP-Compustat merged database as of month-end immediately prior to the meeting date at firms with CRSP common share codes 10 or 11. Target firms must have non-zero dissident ownership as of the announcement dates of contests, valid book values of assets within two years prior to meeting dates, and valid market capitalization as of the month-ends immediately prior to meeting dates. Columns (1) and (2) provide the number and proportion of contested events within each Fama-French 12 industry classification, column (3) provides the proportion of non-target firm-year pairs within the same Fama-French 12 industries, and column (4) provides t-statistics for the differences between columns (2) and (3).

	No. of events	% in industry	% among non-target firms	t-stat. diff. between columns (2) and (3)
	(1)	(2)	(3)	(4)
Consumer Non-Durables	20	3.03%	2.33%	1.18
Consumer Durables	29	4.40%	4.58%	-0.21
Manufacturing	50	7.59%	9.40%	-1.59
Energy	22	3.34%	4.09%	-0.97
Chemicals and Allied Products	20	3.03%	2.39%	1.07
Business Equipment	157	23.82%	17.84%	3.97
Telecommunications	21	3.19%	2.54%	1.04
Utilities	8	1.21%	2.74%	-2.39
Wholesale and Retail	73	11.08%	8.94%	1.90
Healthcare, Medical Equipment, and Drug	82	12.44%	12.67%	-0.18
Finance	85	12.90%	20.72%	-4.92
Other	92	13.96%	11.74%	1.76
Total	659	100%	100%	

Table 5: Concentration of mutual fund holdings

This table provides information regarding the ownership profiles of target firms holding elections that proceed to a vote, are settled, or withdrawn as well as the ownership profiles of non-target firms. For each firm, we sort mutual funds in descending order by ownership of outstanding shares and count the number of funds required to achieve each ownership threshold. We report the averages and medians of these counts across all firms.

	Number of mutual funds required to reach an ownership threshold							
	Voted firms		Settled firms		Withdrawn firms		Non-target firms	
Ownership threshold	Average	Median	Average	Median	Average	Median	Average	Median
5%	2.7	2	2.7	2	3.1	2	3.1	2
10%	5.1	4	7.2	5	8.3	6	7.5	5
15%	12.0	7	12.5	8	19.9	9	14.6	9
20%	19.9	12	19.0	13	26.8	14	25.5	14

Table 6: Measurement, Censoring, and Winsorization of Regression Variables

This table provides additional details regarding the measurement, censoring, and winsorization of the variables described in Section 2.1 in the text.

Panel A: Measurement

Variable	Source	Measurement date	
		Voting panel	Targeting panel
Market value	CRSP	Month end prior to meeting.	Month end prior to announcement date for targeted firms; March month end of N-PX fiscal year for control firms.
q	Compustat	Nearest fiscal year to meeting date.	Nearest fiscal year to announcement date (to March of N-PX fiscal year) for targeted firms (control firms).
ROA	Compustat	Nearest fiscal year to meeting date.	Nearest fiscal year to announcement date (to March of N-PX fiscal year) for targeted firms (control firms).
Leverage	Compustat	Nearest fiscal year to meeting date.	Nearest fiscal year to announcement date (to March of N-PX fiscal year) for targeted firms (control firms).
Dividend yield	Compustat	Nearest fiscal year to meeting date.	Nearest fiscal year to announcement date (to March of N-PX fiscal year) for targeted firms (control firms).
HHI	Compustat	Calendar year with greatest span over nearest fiscal year to meeting date.	Calendar year prior to N-PX fiscal year.
Institutional ownership	Thomson Reuters 13F	Quarter end prior to meeting.	Quarter end prior to announcement date for targeted firms; March quarter end of N-PX fiscal year for control firms.
Hedge fund dissident	Various	Varies by identity of dissident only.	N/A
# past events by dissident	Various	Meeting date.	N/A
Past campaign intensity	Various	Meeting date.	N/A
Fund assets ($ billion)	Thomson Reuters S12/CRSP	Quarter end prior to meeting.	Quarter end prior to announcement date for targeted firms; March quarter end of N-PX fiscal year for control firms.
Investment as % of fund assets	Thomson Reuters S12/CRSP	Quarter end prior to meeting.	Quarter end prior to announcement date for targeted firms; March quarter end of N-PX fiscal year for control firms.
Holding horizon (year)	Thomson Reuters S12/CRSP	Quarter end prior to meeting.	Quarter end prior to announcement date for targeted firms; March quarter end of N-PX fiscal year for control firms.
Basis-adjusted return	Thomson Reuters S12/CRSP	Quarter end prior to meeting.	Quarter end prior to announcement date for targeted firms; March quarter end of N-PX fiscal year for control firms.

Panel B: Winsorization and Censoring

Variable	Source	Winsorization and Censoring	
		Voting panel	Targeting panel
Market value	CRSP	Logs taken in regressions.	Logs taken in regressions.
q	Compustat	Left-censored at 0. Right-winsorized at 1% across all events.	Left-censored at 0. Right-winsorized at 1% across all events.
ROA	Compustat	Left and right-winsorized at 1% across all events.	Left and right-winsorized at 1% across all firm-years.
Leverage	Compustat	Censored to [0,1].	Censored to [0,1].
Dividend yield	Compustat	Left-censored at 0. Right-winsorized at 1% across all events.	Left-censored at 0. Right-winsorized at 1% across all events.
HHI	Compustat	Not winsorized; bounded between 0 and 1 by construction.	Not winsorized; bounded between 0 and 1 by construction.
Institutional ownership	Thomson Reuters 13F	Right-censored at 1. Left tail bounded at 0 by construction.	Right-censored at 1. Left tail bounded at 0 by construction.
Hedge fund dissident	Various	Not winsorized. Indicator variable.	N/A
# past events by dissident	Various	Right-winsorized at 1% across all events.	N/A
		Left tail bounded at 0 by construction.	
Past campaign intensity	Various	Not winsorized; bounded between 0 and 6 by construction.	N/A
Fund assets ($ billion)	Thomson Reuters S12/CRSP	Logs taken in regressions.	Logs taken in regressions.
Investment as % of fund assets	Thomson Reuters S12/CRSP	Not winsorized; bounded between 0 and 1 by construction.	Not winsorized; bounded between 0 and 1 by construction.
Holding horizon (year)	Thomson Reuters S12/CRSP	Right-winsorized at 1% across all fund-events.	Right-winsorized at 1% across all firm-years.
		Left tail bounded at 0 by construction.	Left tail bounded at 0 by construction.
Basis-adjusted return	Thomson Reuters S12/CRSP	Right-winsorized at 1% across all fund-events.	Right-winsorized at 1% across all firm-years.
		Left tail bounded at -1 by construction.	Left tail bounded at -1 by construction.

Table 7: Correlation matrix for the variables used in the regression in Table 4

This table provides correlations for the variables used to obtain the regression results reported in column (1) of Table 4. *MV* corresponds to *Log(MV)* in Table 4, *Q* to *q*, *ROA* to *ROA*, *LEVERAGE* to *Leverage*, *DIVYLD* to *Dividend yield*, *HHI* to *HHI*, *INST* to *Institutional ownership*, *HF* to *Hedge fund dissident*, *NO CAMP* to *# past events by dissident*, *INTENSITY* to *Past campaign intensity*, *PASSIVE* to *Passive fund*, *FUND SIZE* to *Log(fund assets)*, *PORT SHARE* to *Investment as % of fund assets*, *HORIZON* to *Holding horizon (year)*, and *RETURN* to *Basis-adjusted return*. The *p*-values associated with each correlation estimate are reported in parentheses. ** indicates statistical significance at the 5% level.

	MV	Q	ROA	LEVERAGE	DIVYLD	HHI	INST	HF	NO CAMP	INTENSITY	PASSIVE	FUND SIZE	PORT SHARE	HORIZON	RETURN
MV	1.000														
Q	0.072**	1.000													
	(0.000)														
ROA	0.252**	-0.350**	1.000												
	(0.000)	(0.000)													
LEVERAGE	0.148**	0.090**	0.055**	1.000											
	(0.000)	(0.000)	(0.000)												
DIVYLD	0.355**	-0.118**	0.253**	-0.024**	1.000										
	(0.000)	(0.000)	(0.000)	(0.001)											
HHI	-0.019**	-0.084**	0.012	0.050**	0.017**	1.000									
	(0.007)	(0.000)	(0.100)	(0.000)	(0.013)										
INST	0.313**	-0.120**	0.137**	0.010	0.093**	0.075**	1.000								
	(0.000)	(0.000)	(0.000)	(0.155)	(0.000)	(0.000)									
HF	0.045**	-0.251**	0.035**	0.010	0.089**	0.027**	0.177**	1.000							
	(0.000)	(0.000)	(0.000)	(0.141)	(0.000)	(0.000)	(0.000)								
NO CAMP	-0.065**	-0.219**	0.061**	-0.238**	0.014**	-0.165**	0.130**	0.306**	1.000						
	(0.000)	(0.000)	(0.000)	(0.000)	(0.041)	(0.000)	(0.000)	(0.000)							
INTENSITY	0.102**	-0.059**	0.118**	-0.089**	0.014**	0.038**	0.148**	0.417**	-0.011	1.000					
	(0.000)	(0.000)	(0.000)	(0.000)	(0.048)	(0.000)	(0.000)	(0.000)	(0.131)						
PASSIVE	-0.098**	0.012	-0.030**	0.013	-0.036**	-0.015**	-0.011	-0.005	0.019**	-0.023**	1.000				
	(0.000)	(0.079)	(0.000)	(0.056)	(0.000)	(0.029)	(0.118)	(0.470)	(0.007)	(0.001)					
FUND SIZE	-0.056**	0.027**	-0.064**	0.015**	-0.026**	-0.018**	-0.069**	-0.021**	-0.013	-0.014	0.085**	1.000			
	(0.000)	(0.000)	(0.000)	(0.033)	(0.000)	(0.012)	(0.000)	(0.002)	(0.067)	(0.051)	(0.000)				
PORT SHARE	0.175**	-0.013	0.040**	0.010	0.070**	0.010	0.041**	0.019**	-0.020**	0.025**	-0.143**	-0.134**	1.000		
	(0.000)	(0.064)	(0.000)	(0.155)	(0.000)	(0.163)	(0.000)	(0.008)	(0.005)	(0.000)	(0.000)	(0.000)			
HORIZON	-0.060**	-0.032**	-0.039**	0.003	-0.008	0.029**	0.001	0.061**	0.036**	0.023**	0.255**	0.318**	-0.061**	1.000	
	(0.000)	(0.000)	(0.000)	(0.682)	(0.239)	(0.000)	(0.844)	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)		
RETURN	0.212**	0.052**	0.140**	0.040**	0.036**	-0.017**	0.062**	0.045**	-0.021**	0.018**	0.027**	0.049**	-0.006	0.193**	1.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.013)	(0.000)	(0.000)	(0.003)	(0.009)	(0.000)	(0.000)	(0.419)	(0.000)	

Table 8: Coordinated withholding across funds

This table provides the results of a test designed to measure "coordinated withholding" across funds, adjusting for family-level decision-making. We restrict the sample to voted proxy contests in which at least two funds return the same card (either the management or dissident card) with votes withheld from different director nominees. We exclude contests with multiple dissident slates and keep only contests where each ballot item on either card follows the structure "Elect director [name of nominee]." For each contest, we mark the number of nominees from whom each fund family withheld votes and simulate 10,000 voting choices while assuming that each family randomly selected the identities of nominees from whom to withhold their votes. We restrict the sample to proxy contests in which at least two families submit withheld votes to ensure that our simulations create non-degenerate distributions. For each simulation, we record the maximum number of withheld votes across all candidates to approximate this statistic's distribution under the null hypothesis of non-coordinated voting across fund families. Each contest's simulated distribution allows us to calibrate the α-tails (α = 10%, 5%, and 1%). We then record the percentage of events where the observed maximum withholding statistic exceeds each α-tail. If this percentage exceeds α, the observed votes support the hypothesis that predicts coordinated votes across fund families. Note that we are comparing an extremum statistic against its null distribution, instead of the common mean test.

	% of contests with maximum withholding above null		
	90th percentile	95th percentile	99th percentile
	(1)	(2)	(3)
Withholding on management card:			
All contests	60.42%	56.25%	39.58%
ISS recommends partial management card	90.00%	90.00%	80.00%
ISS recommends dissident card	50.00%	50.00%	29.17%
Withholding on dissident card:			
All contests	71.62%	67.57%	55.41%
ISS recommends partial dissident card	86.05%	83.72%	69.77%
ISS recommends management card	58.33%	50.00%	41.67%

Table 9: Settled and withdrawn events with observed votes

This table presents information pertaining to fund votes for events that were eventually settled or withdrawn. In Panel A, we compare firm characteristics in settled and withdrawn events with observed votes with those without observed votes. For Panel B, we use a linear probability model to assess which factors predict whether a fund votes in settled or withdrawn events. The sample is restricted to contests that were settled or withdrawn in which we observe at least one vote. All variables are as defined in Tables 2 and 3. Standard errors are clustered at the fund-family level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Panel A: Firm characteristics of settled and withdrawn contests with observed votes

	With votes	Without votes	
	Average	Average	t-stat. of Diff.
Settled events	(1)	(2)	(3)
Days between settlement and meeting date	5.52	48.13	-7.75
MV ($ billion)	2.112	1.720	0.35
q	1.849	1.978	-0.41
ROA	0.038	0.046	-0.26
Industry-adj. stock return	-0.133	-0.107	-0.47
Leverage	0.170	0.183	-0.36
Dividend yield	0.020	0.033	-1.46
Institutional ownership	0.618	0.576	0.82
Mutual fund ownership	0.214	0.192	0.96
HHI	0.217	0.214	0.10
Withdrawn events			
Days between settlement and meeting date	4.04	31.76	-3.66
MV ($ billion)	1.100	2.916	-0.63
q	1.791	2.011	-0.55
ROA	0.081	0.049	0.80
Industry-adj. stock return	-0.150	-0.067	-1.07
Leverage	0.240	0.163	1.52
Dividend yield	0.030	0.034	-0.27
Institutional ownership	0.624	0.552	1.09
Mutual fund ownership	0.237	0.180	1.86
HHI	0.163	0.210	-1.31

Panel B: Characteristics of funds voting in settled and withdrawn events		
Dependent variable: Dummy for mutual fund voting		
	Settled events	Withdrawn events
	(1)	(2)
Passive fund	0.100***	0.117***
	[3.40]	[4.53]
Log(fund assets)	-0.010	0.004
	[-1.46]	[0.56]
Investment as % of fund assets	2.368**	1.636
	[2.54]	[1.41]
Holding horizon (year)	0.001**	0.001**
	[1.98]	[2.41]
Basis-adjusted return	-0.014	0.014*
	[-0.44]	[1.69]
Event FEs	Yes	Yes
Observations	4,537	3,299
Adj. R-squared	0.16	0.36

Table 10: Hedge fund dissidents: Impact on Mutual fund support

This table replicates the results of the analysis associated with Table 4 after excluding proxy contests led by dissidents who are not hedge funds. The dependent variable, *Mutual fund supports dissident*, equals 0, 0.25, 0.5, 0.75, or 1 if a mutual fund votes for a full management slate, votes for a partial management slate, abstains, votes for a partial dissident slate, or votes for a full dissident slate, respectively. All other independent variables are as defined in Tables 2 and 3. Standard errors are clustered at the fund-family level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped from each fixed-effects model.

	(1)	(2)	(3)
Log(MV)	0.001	-0.019**	
	[0.14]	[-2.37]	
q	-0.037***	-0.026***	
	[-4.83]	[-3.36]	
ROA	-0.108**	-0.074	
	[-2.18]	[-1.38]	
Leverage	0.293***	0.315***	
	[6.84]	[7.29]	
Dividend yield	-0.245*	-0.278**	
	[-1.94]	[-2.33]	
HHI	-0.137	-0.123	
	[-1.41]	[-1.16]	
Institutional ownership	-0.103*	-0.024	
	[-1.79]	[-0.39]	
# past events by dissident	0.026***	0.022***	
	[7.74]	[6.76]	
Past campaign intensity	0.018***	0.018***	
	[3.97]	[3.17]	
Passive fund	-0.107***		-0.106***
	[-3.85]		[-4.15]
Log(fund assets)	-0.006	-0.014	-0.005
	[-0.62]	[-0.89]	[-0.60]
Investment as % of fund assets	0.224	0.913	0.395*
	[1.11]	[0.71]	[1.94]
Holding horizon (year)	0.004	0.003*	0.001
	[1.62]	[1.87]	[0.29]
Basis-adjusted return	-0.068**	-0.066**	-0.006
	[-2.42]	[-2.38]	[-0.32]
Fiscal year FEs	Yes	Yes	No
Industry FEs (FF-48)	Yes	Yes	No
Fund FEs	No	Yes	No
Event FEs	No	No	Yes
Observations	17,674	16,115	18,059
Adj. R-squared	0.22	0.31	0.39

Table 11: Past campaign success: Impact on mutual fund support

This table replicates the results of the analysis associated with Table 4 after substituting *Past campaign success* for *Past campaign intensity*. The dependent variable, *Mutual fund supports dissident*, equals 0, 0.25, 0.5, 0.75, or 1 if a mutual fund votes for a full management slate, votes for a partial management slate, abstains, votes for a partial dissident slate, or votes for a full dissident slate, respectively. *Past campaign success* is the fraction of successful interventions undertaken by a dissident in the five years preceding a contest and equals zero for dissidents who do not launch any activism campaigns during the period. All other independent variables are as defined in Tables 2 and 3. Standard errors are clustered at the fund-family level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped from each fixed-effects model.

	(1)	(2)
Log(MV)	-0.006	-0.017***
	[-1.11]	[-2.81]
q	-0.035***	-0.031***
	[-7.21]	[-5.81]
ROA	-0.166***	-0.124**
	[-3.92]	[-2.59]
Leverage	0.188***	0.195***
	[5.14]	[5.09]
Dividend yield	0.299***	0.278**
	[2.59]	[2.15]
HHI	0.062	0.124**
	[1.17]	[2.08]
Institutional ownership	-0.172***	-0.168***
	[-4.31]	[-3.46]
Hedge fund dissident	0.113***	0.121***
	[4.42]	[4.17]
# past events by dissident	0.019***	0.017***
	[6.22]	[5.43]
Past campaign success	0.102***	0.088***
	[5.49]	[4.16]
Passive fund	-0.094***	
	[-3.75]	
Log(fund assets)	-0.006	-0.011
	[-0.70]	[-0.70]
Investment as % of fund assets	0.167	-0.135
	[0.69]	[-0.11]
Holding horizon (year)	0.003	0.002
	[1.46]	[1.51]
Basis-adjusted return	-0.090***	-0.096***
	[-3.86]	[-4.29]
Fiscal year FEs	Yes	Yes
Industry FEs (FF-48)	Yes	Yes
Fund FEs	No	Yes
Event FEs	No	No
Observations	20,350	18,790
Adj. R-squared	0.21	0.28

Table 12: Determinants of mutual funds' votes: Unordered outcomes

In this table we adapt the linear regression associated with Table 4 to an unordered outcomes framework. We estimate a multinomial logit regression at the fund-event level with the five voting choices as the outcome variables. We set voting for the full management slate as the base outcome. All independent variables are as defined in Tables 2 and 3. Standard errors are clustered at the fund-family level. In each column we report the estimated coefficients and associated t-statistics corresponding to each voting outcome. *Partial management*, *Abstain*, *Partial dissident*, and *Full dissident* represent the outcomes following a fund's voting for a partial management slate, abstaining, voting for a partial dissident slate, or voting for a full dissident slate, respectively. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped. To facilitate the estimation, we use Fama-French 12 industry classifications rather than 48 industry classifications as industry fixed effects.

	Partial management	Abstain	Partial dissident	Full dissident
	(1)	(2)	(3)	(4)
Log(MV)	-0.367***	-0.423***	-0.071**	-0.071***
	[-5.43]	[-4.93]	[-2.28]	[-2.66]
q	-0.296***	0.086	-0.155**	-0.204***
	[-4.49]	[1.44]	[-2.17]	[-8.22]
ROA	-2.561***	2.116	0.339	-1.110***
	[-3.40]	[1.56]	[1.03]	[-3.42]
Leverage	0.731**	-1.142	0.296	0.717***
	[2.18]	[-1.64]	[1.54]	[3.80]
Dividend yield	-9.785***	-0.682	4.411***	-0.936
	[-5.08]	[-0.28]	[4.90]	[-1.12]
HHI	-1.966**	0.471	1.689***	1.351***
	[-2.53]	[0.45]	[5.30]	[5.72]
Institutional ownership	3.936***	2.736***	0.942*	0.182
	[7.92]	[2.76]	[1.84]	[0.93]
Hedge fund dissident	-0.630***	0.633	2.349***	0.365**
	[-3.70]	[1.49]	[9.79]	[2.41]
# past events by dissident	-0.117***	-0.094*	-0.077***	-0.046***
	[-3.39]	[-1.69]	[-4.16]	[-2.59]
Past campaign intensity	-0.197**	-0.188**	-0.036	0.012
	[-2.36]	[-2.13]	[-1.08]	[0.44]
Passive fund	-0.004	-0.451	-0.310**	-0.596***
	[-0.02]	[-1.59]	[-1.97]	[-4.18]
Log(fund assets)	-0.023	-0.007	-0.055	-0.018
	[-0.38]	[-0.15]	[-0.98]	[-0.36]
Investment as % of fund assets	-0.173	3.425**	-10.155***	2.126
	[-0.05]	[2.08]	[-3.09]	[1.34]
Holding horizon (year)	0.005	-0.036	0.012	0.015
	[0.36]	[-0.86]	[0.77]	[1.27]
Basis-adjusted return	0.234*	-0.129	-0.341**	-0.467***
	[1.75]	[-0.52]	[-2.13]	[-3.99]
Fiscal year FEs	Yes	Yes	Yes	Yes
Industry FEs (FF-12)	Yes	Yes	Yes	Yes
Fund FEs	No	No	No	No
Observations	20,350	20,350	20,350	20,350
Pseudo R-squared	0.15	0.15	0.15	0.15

Table 13: M&A activity: Impact on mutual fund support

This table extends the results of the analysis associated with Table 4 by adding additional controls for merger-related contests. In column (1), we repeat the specification reported in column (1) of Table 4 but exclude contests at firms targeted for M&A transactions during the $[t, t+1]$ period, where t is the year of the proxy contest. In column (2), we repeat the specification in column (1) of Table 4 with two additional variables. *M&A target* is a dummy variable that equals one if a firm is targeted for an M&A transaction during the $[t, t+1]$ period, where t is the year of the proxy contest, and zero otherwise. *Passive fund* × *M&A target* is the interaction between *Passive fund* and *M&A target*. All other aspects of the regressions are identical to those associated with column (1) of Table 4. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped from each fixed-effects model.

	(1)	(2)
Log(MV)	-0.012*	0.003
	[-1.77]	[0.50]
q	-0.049***	-0.038***
	[-8.52]	[-7.68]
ROA	-0.367***	-0.228***
	[-7.42]	[-4.99]
Leverage	0.346***	0.221***
	[7.04]	[5.76]
Dividend yield	0.539***	0.272**
	[4.18]	[2.58]
HHI	-0.323***	0.072
	[-4.67]	[1.32]
Institutional ownership	-0.062	-0.155***
	[-1.09]	[-3.80]
Hedge fund dissident	0.001	0.103***
	[0.03]	[4.09]
# past events by dissident	0.034***	0.027***
	[8.50]	[8.43]
Past campaign intensity	0.023***	0.008*
	[5.22]	[1.79]
Log(fund assets)	-0.005	-0.006
	[-0.68]	[-0.72]
Investment as % of fund assets	0.402*	0.186
	[1.76]	[0.77]
Holding horizon (year)	0.003	0.003
	[1.22]	[1.57]
Basis-adjusted return	-0.057**	-0.094***
	[-2.44]	[-4.08]
Passive fund	-0.074***	-0.074***
	[-3.21]	[-3.23]
M&A target		0.190***
		[9.06]
Passive fund × M&A target		-0.088***
		[-2.75]
Fiscal year FEs	Yes	Yes
Industry FEs (FF-48)	Yes	Yes
Fund FEs	No	No
Event FEs	No	No
Observations	15,712	20,350
Adj. R-squared	0.25	0.22

Table 14: Summary statistics for fund families' views of proxy statements

This table provides information pertaining to fund families' views of definitive proxy statements in DEFC 14A and DEF 14A filings. The sample includes all voted, settled, and withdrawn contests whose DEFC 14A forms were filed between July 1, 2006 and June 30, 2017. The DEF 14A forms associated with uncontested annual meetings were filed between July 1, 2004 and June 30, 2017. In Panel A, we report statistics on the number of proxy views and fund family ownership at the fund family–filing level. In Panel B, we report probabilities that passive and active families, respectively, view proxies. We define a fund family as a passive family if no less than 50% of the funds are passive funds. We first calculate the fraction of fund families viewing a proxy statement before averaging across meetings.

Panel A: Proxy views and ownership at the fund family-filing level

	Full sample			Conditional on viewing a proxy statement		
	Average	Median	Std. Dev.	Average	Median	Std. Dev.
DEFC 14A & DEF 14A viewings						
Number of views	0.43	0	4.09	4.85	3.00	12.93
Fund family ownership						
Investment as % of firm equity	0.54	0.06	1.41	1.49	0.19	2.64
Investment as % of family assets	0.12	0.01	1.07	0.05	0.01	0.15
Fund family assets ($ billion)	107.7	23.0	276.1	374.1	125.4	502.3

Panel B: Probability of viewing proxies for passive and active families

	Passive fund families		Active fund families			
	Pr(views)	No. of filings (families)	Pr(views)	No. of filings (families)	Diff.	t-stat. of diff.
All DEFC 14A & DEF 14A	14.2%	2,585 (15)	9.2%	2,753 (244)	5.0%	10.48
Around contest [t-2, t+2]	16.4%	1,332 (15)	9.2%	1,394 (241)	7.2%	10.01
Management DEFC 14A	19.6%	234 (15)	7.5%	247 (227)	12.1%	7.57
Dissident DEFC 14A	17.1%	258 (15)	6.8%	270 (228)	10.3%	6.92
DEF 14A	15.8%	840 (15)	9.8%	877 (240)	6.0%	7.06
DEF 14A pre-(t-2) and post-(t+2)	12.3%	1,253 (15)	9.1%	1,359 (239)	3.2%	4.92
DEF 14A pre-(t-2)	10.9%	874 (14)	9.4%	969 (237)	1.5%	2.01
DEF 14A post-(t+2)	15.5%	379 (14)	8.4%	390 (214)	7.1%	5.67

Table 15: Proxy research around proxy contests

This table replicates the results of the search regressions except that the sample includes only the fund families studied in Iliev, Kalodimos, and Lowry (2021). The sample includes all voted, settled, and withdrawn contests whose DEFC 14A forms were filed between July 1, 2006 and June 30, 2017. The DEF 14A forms associated with uncontested annual meetings were filed between July 1, 2004 and June 30, 2017. Standard errors are clustered at the firm level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Dependent variable: Indicator for a fund's view of a proxy statement							
	Around contest $[t-2, t+2]$	Pre-$(t-2)$ and Post-$(t+2)$	Pre-(t-2)	Post-(t+2)	Full sample period		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Passive family	0.036***	-0.023***	-0.036***	0.008		-0.021***	
	[4.64]	[-3.41]	[-4.88]	[0.67]		[-3.23]	
Investment as % of firm equity	3.973***	4.433***	4.437***	4.288***	1.444***	4.202***	1.608***
	[13.39]	[13.88]	[11.32]	[8.46]	[9.37]	[16.52]	[10.78]
Passive family × Around contest					0.057***	0.056***	0.062***
					[6.56]	[6.20]	[6.69]
Around contest					-0.006		
					[-1.56]		
Meeting FEs	Yes	Yes	Yes	Yes	No	Yes	Yes
Fund family FEs	No	No	No	No	Yes	No	Yes
Observations	25,168	25,872	17,995	7,877	51,040	51,040	51,040
Adj. R-squared	0.06	0.05	0.05	0.06	0.40	0.06	0.43
% Dep. variable = 1	13.5%	12.9%	13.0%	12.7%	13.2%	13.2%	13.2%

Table 16: Informativeness of mutual funds' votes

This replicates the analysis associated with Table 9 except that we include the 40 firms that were delisted within two years after a proxy contest. We deem the dissident to be of high quality if the dissident wins and the firm is acquired; or if the dissident loses and the firm is delisted for reasons other than M&A. In each regression, the dependent variable equals 0 or 1. For columns (1) and (4), the dependent variable equals 1 if the mutual fund votes "correctly," defined as voting for the dissident when dissident quality is high or voting against the dissident when dissident quality is low. We measure dissident quality using the procedure outlined in Section 4.3 of the main text. For columns (2) and (5), the dependent variable equals 1 if the mutual fund votes against the dissident when dissident quality is high (a "Type I error"). For columns (3) and (6), the dependent variable equals 1 if the mutual fund votes for the dissident when dissident quality is low (a "Type II error"). We report coefficients only for the dummy variable *Passive fund*. Fund- and firm-level controls are the same as those used in Table 4. Standard errors are clustered at the fund-family level. In each column we report estimated coefficients and their associated t-statistics. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. Singleton observations are dropped from each fixed-effects model.

Panel A: Active funds versus passive funds						
Dependent variable: Mutual fund voting outcome{0, 1}						
	Correct	Type I error	Type II error	Correct	Type I error	Type II error
	(1)	(2)	(3)	(4)	(5)	(6)
Passive fund	-0.011	0.051***	-0.040***	-0.006	0.054***	-0.048***
	[-1.05]	[3.89]	[-3.16]	[-0.56]	[4.31]	[-3.97]
Fund controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	No	No	No
Year FEs	Yes	Yes	Yes	No	No	No
Industry FEs (FF-48)	Yes	Yes	Yes	No	No	No
Event FEs	No	No	No	Yes	Yes	Yes
Observations	20,350	20,350	20,350	20,748	20,748	20,748
Adj. R-squared	0.15	0.21	0.23	0.38	0.53	0.56

Panel B: Separating passive funds by fund family						
Dependent variable: Mutual fund voting outcome{0, 1}						
	Correct	Type I error	Type II error	Correct	Type I error	Type II error
	(1)	(2)	(3)	(4)	(5)	(6)
Passive fund: Big Three	-0.042**	0.124***	-0.082***	-0.032	0.126***	-0.094***
	[-2.14]	[4.01]	[-4.43]	[-1.25]	[3.96]	[-5.84]
Passive fund: Non-Big Three	0.002	0.019	-0.022*	0.006	0.023*	-0.028***
	[0.19]	[1.48]	[-1.74]	[0.49]	[1.73]	[-2.59]
Fund controls	Yes	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	No	No	No
Year FEs	Yes	Yes	Yes	No	No	No
Industry FEs (FF-48)	Yes	Yes	Yes	No	No	No
Event FEs	No	No	No	Yes	Yes	Yes
Observations	20,350	20,350	20,350	20,748	20,748	20,748
Adj. R-squared	0.15	0.21	0.23	0.38	0.53	0.57

Table 17: Placebo test for buy-into-voting and sell-out-of-voting

This table replicates the results reported in columns (2) and (4) in Table 11, except that quarter Q is set as two quarters before the quarter when a proxy contest is announced. All variables are identical to those defined in Table 11. Standard errors are clustered at the fund-family level. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

Dependent variable	Buy-into-voting			Sell-out-of-voting		
	Coefficient	t-stat.	Marg. Prob.	Coefficient	t-stat.	Marg. Prob.
	(1)	(2)	(3)	(4)	(5)	(6)
Log(MV)	0.114***	[3.09]	1.9%	-0.011	[-0.47]	-0.2%
q	-0.054**	[-2.37]	-0.9%	0.027	[1.40]	0.5%
ROA	0.110	[0.41]	1.9%	0.079	[0.35]	1.5%
Leverage	0.454***	[2.91]	7.7%	0.465***	[3.04]	8.8%
Dividend yield	-1.898***	[-3.23]	-32.1%	1.052**	[2.03]	19.9%
HHI	-1.270***	[-6.02]	-21.5%	-0.692***	[-3.13]	-13.1%
Institutional ownership	-0.356	[-1.31]	-6.0%	0.027	[0.18]	0.5%
Hedge fund dissident	-0.118	[-1.02]	-2.1%	-0.243***	[-2.84]	-5.1%
# past events by dissident	-0.024*	[-1.77]	-0.4%	0.021	[1.43]	0.4%
Past campaign intensity	0.013	[0.36]	0.2%	0.052***	[3.10]	1.0%
Log(fund assets)	-0.061**	[-2.28]	-1.0%	-0.017	[-0.58]	-0.3%
Investment as % of fund assets	-9.819**	[-2.11]	-166.3%	-20.538***	[-3.82]	-389.0%
Fund stance measure	0.104	[0.65]	1.8%	-0.266	[-1.50]	-5.0%
Holding horizon (year)				-0.005***	[-4.83]	-0.1%
Basis-adjusted return				-0.004	[-0.16]	-0.1%
Fiscal year FEs	Yes			Yes		
Industry FEs (FF-48)	Yes			Yes		
Observations	8,231			8,632		
Pseudo R-squared	0.06			0.07		
% (Dep. Variable =1)	11.0%			13.0%		

Table 18: Determinants of mutual funds' support for dissidents

This table replicates the results reported in Tables 4 and 5 after dropping observations in which active funds buy into voting from outside the Koijen and Yogo (2019) mandate. Columns (1), (3), and (4) correspond to columns (1)—(3) in Table 4, and columns (2) and (5) correspond to columns (3) and (2) of Table 5, respectively. All variables are identical to those defined in Tables 4 and 5. Standard errors are clustered at the fund-family level. *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively.

	All funds				Active funds
	(1)	(2)	(3)	(4)	(5)
Log(MV)	-0.001	-0.001	-0.015**		-0.012
	[-0.21]	[-0.25]	[-2.42]		[-1.30]
q	-0.037***	-0.037***	-0.032***		-0.038***
	[-7.60]	[-7.55]	[-6.00]		[-6.82]
ROA	-0.179***	-0.177***	-0.131***		-0.072
	[-4.11]	[-4.07]	[-2.69]		[-1.13]
Leverage	0.188***	0.195***	0.200***		0.107**
	[5.09]	[5.27]	[5.19]		[2.18]
Dividend yield	0.260**	0.250**	0.260**		0.198
	[2.39]	[2.30]	[2.09]		[1.17]
HHI	0.139**	0.131**	0.179***		0.304***
	[2.44]	[2.28]	[2.73]		[3.89]
Institutional ownership	-0.170***	-0.163***	-0.158***		-0.146**
	[-4.34]	[-4.15]	[-3.36]		[-2.36]
Hedge fund dissident	0.136***	0.135***	0.135***		0.179***
	[4.87]	[4.85]	[4.23]		[4.73]
# past events by dissident	0.023***	0.023***	0.020***		0.019***
	[7.77]	[7.73]	[6.97]		[5.13]
Past campaign intensity	-0.001	-0.002	-0.001		-0.009
	[-0.23]	[-0.38]	[-0.15]		[-0.93]
Passive fund	-0.095***			-0.100***	
	[-3.76]			[-4.24]	
Passive fund: Big Three		-0.202***			
		[-4.16]			
Passive fund: Non-Big Three		-0.047**			
		[-2.17]			
Log(fund assets)	-0.006	0.001	-0.010	-0.006	-0.022
	[-0.70]	[0.02]	[-0.66]	[-0.66]	[-1.37]
Investment as % of fund assets	0.175	0.292	0.287	0.328	1.823
	[0.74]	[1.25]	[0.23]	[1.63]	[1.33]
Holding horizon (year)	0.003	0.003*	0.003*	0.001	0.001
	[1.56]	[1.67]	[1.90]	[0.40]	[0.17]
Basis-adjusted return	-0.092***	-0.103***	-0.099***	-0.006	-0.141***
	[-3.93]	[-5.28]	[-4.38]	[-0.35]	[-6.32]
Fiscal year FEs	Yes	Yes	Yes	No	Yes
Industry FEs (FF-48)	Yes	Yes	Yes	No	Yes
Fund FEs	No	No	Yes	No	Yes
Event FEs	No	No	No	Yes	No
Observations	19,870	19,870	18,390	20,260	9,607
Adjusted R-squared	0.210	0.221	0.284	0.397	0.293

B. Additional information

B.1. Trian Partners' proxy fight at DuPont

Trian Partners first engaged with DuPont's management in mid-2013. The exchange between the parties extended over a two-year period, centering on changing the firm's conglomerate structure and its corporate governance, reducing excess corporate costs, and modifying capital allocation plans. By early 2015, the parties were unable to settle on a board membership composition that satisfied the activist, so the parties were unable to avert a proxy fight, which took place on May 13, 2015 at DuPont's annual shareholder meeting. At the time, Trian Partners owned 2.7% of DuPont shares and DuPont insiders owned 0.3%. DuPont shareholders faced the choice of either supporting Trian Partners by electing its founding partner, Nelson Peltz, and three other dissident nominees, or supporting the incumbent management team led by CEO Ellen Kullman by re-electing all sitting directors. Both sides launched aggressive public campaigns to win over the remaining institutional investors, who were expected to be pivotal voters in a seemingly close contest.[1]

Trian Partners lost the high-profile proxy contest, as shareholders rejected all dissident nominees and re-elected all incumbent directors. DuPont claimed victory, earning 53.5% of the vote, but subsequently implemented cost-cutting measures and asset spin-offs consistent with Trian Partners' goals. The way in which various asset managers voted their shares is relevant to our study. The table below (page 26) provides the actual votes cast by mutual funds affiliated with the top-10 fund families. Several distinct patterns emerge.

First, DuPont's top mutual fund shareholders include the "usual" names of institutional investors with significant ownership in other S&P 500 index member companies. The top-five mutual fund families, BlackRock, American Funds (Capital Group), Vanguard, State Street, and Fidelity, collectively owned 25.4% of DuPont shares. Indeed, Nelson Peltz would have won a board seat had one of the three passive institutions that voted against Trian Partners changed its vote.[2]

Second, there is little disagreement within most fund families, as votes in favor of the dissident are generally clustered at either of the two extremes of 0% or 100%. We do, however, observe some remaining disagreement within certain families, such as T. Rowe Price; 24% of the group's funds voted for management nominees, while 76% voted for dissident nominees. For this reason, we conduct our main analysis at the fund level rather than the family level. While no fund family voted for a partial management slate, some actively managed funds from Fidelity, T. Rowe Price, and Delaware Investments supported a subset of director nominees from the dissident's slate.

Third, and most important, we note the nearly dichotomous difference in attitudes between passive and active funds. The "Big Three" fund families (BlackRock, Vanguard, and State Street), which manage primarily passive funds, voted almost unanimously for management. In contrast, almost all actively managed fund complexes, excluding Franklin Resources, voted for all or a subset of

[1] According to a *USA Today* article, DuPont spent $15 million on the proxy contest, while Trian Partners spent $8 million. See Jeff Mordock,"DuPont spent $15M to keep activist investor off board," May 19, 2015.

[2] See David Benoit and Jacob Bunge, "Peltz One Big Shareholder Vote Away From DuPont Board Seat, Tally Shows," *The Wall Street Journal*, May 19, 2015. In the final vote count, according to DuPont's June 9, 2015 8-K/A filing, DuPont's board nominee, Lois D. Juliber, won the fewest votes, at 53.5% of voted shares, while Nelson Peltz won 45.8% of voted shares. The difference was about 54 million shares.

dissident nominees. This difference is consistent with the evidence reported in the main text of the paper indicating that passive funds are less likely than active funds to vote for dissidents in nine of the 10 years in our sample.

Top-10 fund family votes in DuPont's proxy contest with Trian Partners

This table provides information pertaining to ownership and voting by DuPont's top-10 mutual fund families at the quarter end immediately prior to DuPont's proxy contest that took place on May 13, 2015. Fund family holdings are obtained from the Thomson Reuters 13F database and EDGAR 13F filings. Funds' voting records are obtained from N-PX filings on Edgar. For each fund, we use a computer script to download the fund name as well as each portfolio firm's name, CUSIP, meeting date, meeting type, proposal number, proposal text, sponsor, management recommendation, and votes cast. We then extract the votes cast in the proxy contest. Column (1) provides the number of funds within each family that hold DuPont shares and column (2) reports the number and percentage of passively managed funds that hold the shares. Column (3) provides each fund family's aggregate ownership as a percentage of outstanding shares. Columns (4), (5), (7), and (8) provide the fraction of funds that voted for (i) a full management slate, (ii) a partial management slate, (iii) a partial dissident slate, or (iv) a full dissident slate. In column (6) we report the fraction of funds that cast abstention votes.

Fund family name	No. of funds holding DuPont at quarter end before meeting	No. (%) of passive funds	% of outstanding shares	% of funds voting for full management slate	% of funds voting for partial management slate	% of funds abstaining	% of funds voting for partial dissident slate	% of funds voting for full dissident slate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
BlackRock	47	39 (83%)	6.30%	97.9%	0%	0%	0%	2.1%
American Funds (Capital Group)	11	0 (0%)	6.12%	9.1%	0%	0%	0%	90.9%
Vanguard Group	27	19 (70%)	5.76%	100%	0%	0%	0%	0%
State Street	17	17 (100%)	4.60%	100%	0%	0%	0%	0%
Fidelity Investments	37	0 (0%)	2.66%	2.7%	0%	0%	24.3%	73.0%
Top-5 families	139	75 (54%)	25.44%	66.2%	0%	0%	6.5%	27.3%
T. Rowe Price Group	25	0 (0%)	1.95%	24.0%	0%	0%	24.0%	52.0%
Franklin Resources	6	0 (0%)	1.75%	83.3%	0%	0%	0%	16.7%
Northern Trust Investments	9	7 (78%)	1.42%	0%	0%	0%	100%	0%
Janus Capital Group	6	0 (0%)	1.20%	0%	0%	0%	100%	0%
Delaware Investments	11	0 (0%)	0.87%	0%	0%	0%	90.9%	9.1%
Top-10 families	196	82 (42%)	32.63%	52.6%	0%	0%	20.4%	27.0%

B.2. Sample voting records

This section provides samples obtained from four N-PX files indicating funds' submissions of their voting records in DuPont's May 13, 2015 proxy fight.

Sample N-PX #1: Voting by the Vanguard Institutional Total Stock Market Index Fund submitted in the annual report of proxy voting records by Vanguard Institutional Index Funds. Available here.

ISSUER: E. I. du Pont de Nemours and Company

TICKER: DD **CUSIP:** 263534109

MEETING DATE: 5/13/2015

PROPOSAL:	PROPOSED BY	VOTED?	VOTE CAST	FOR /AGAINST MGMT
PROPOSAL #1.1: ELECT DIRECTOR LAMBERTO ANDREOTTI	ISSUER	YES	FOR	FOR
PROPOSAL #1.2: ELECT DIRECTOR EDWARD D. BREEN	ISSUER	YES	FOR	FOR
PROPOSAL #1.3: ELECT DIRECTOR ROBERT A. BROWN	ISSUER	YES	FOR	FOR
PROPOSAL #1.4: ELECT DIRECTOR ALEXANDER M. CUTLER	ISSUER	YES	FOR	FOR
PROPOSAL #1.5: ELECT DIRECTOR ELEUTHERE I. DU PONT	ISSUER	YES	FOR	FOR
PROPOSAL #1.6: ELECT DIRECTOR JAMES L. GALLOGLY	ISSUER	YES	FOR	FOR
PROPOSAL #1.7: ELECT DIRECTOR MARILLYN A. HEWSON	ISSUER	YES	FOR	FOR
PROPOSAL #1.8: ELECT DIRECTOR LOIS D. JULIBER	ISSUER	YES	FOR	FOR
PROPOSAL #1.9: ELECT DIRECTOR ELLEN J. KULLMAN	ISSUER	YES	FOR	FOR
PROPOSAL #1.10: ELECT DIRECTOR ULF M. SCHNEIDER	ISSUER	YES	FOR	FOR
PROPOSAL #1.11: ELECT DIRECTOR LEE M. THOMAS	ISSUER	YES	FOR	FOR
PROPOSAL #1.12: ELECT DIRECTOR PATRICK J. WARD	ISSUER	YES	FOR	FOR
PROPOSAL #2: RATIFY AUDITORS	ISSUER	YES	FOR	FOR
PROPOSAL #3: ADVISORY VOTE TO RATIFY NAMED EXECUTIVE OFFICERS' COMPENSATION	ISSUER	YES	FOR	FOR
PROPOSAL #4: REPORT ON LOBBYING PAYMENTS AND POLICY	SHAREHOLDER	YES	AGAINST	FOR
PROPOSAL #5: REPORT ON HERBICIDE USE ON GMO CROPS	SHAREHOLDER	YES	AGAINST	FOR
PROPOSAL #6: ESTABLISH COMMITTEE ON PLANT CLOSURES	SHAREHOLDER	YES	AGAINST	FOR
PROPOSAL #7: REPEAL AMENDMENTS TO THE COMPANY'S BYLAWS ADOPTED WITHOUT STOCKHOLDER APPROVAL AFTER AUGUST 12, 2013	SHAREHOLDER	YES	AGAINST	FOR
PROPOSAL #1.1: ELECT DIRECTOR NELSON PELTZ	ISSUER	NO	N/A	N/A
PROPOSAL #1.2: ELECT DIRECTOR JOHN H. MYERS	ISSUER	NO	N/A	N/A
PROPOSAL #1.3: ELECT DIRECTOR ARTHUR B. WINKLEBLACK	ISSUER	NO	N/A	N/A
PROPOSAL #1.4: ELECT DIRECTOR ROBERT J. ZATTA	ISSUER	NO	N/A	N/A
PROPOSAL #1.5: MANAGEMENT NOMINEE – LAMBERTO ANDREOTTI	ISSUER	NO	N/A	N/A
PROPOSAL #1.6: MANAGEMENT NOMINEE - EDWARD D. BREEN	ISSUER	NO	N/A	N/A
PROPOSAL #1.7: MANAGEMENT NOMINEE - ELEUTHERE I. DU PONT	ISSUER	NO	N/A	N/A

PROPOSAL #1.8: MANAGEMENT NOMINEE - JAMES L. GALLOGLY	ISSUER	NO	N/A	N/A
PROPOSAL #1.9: MANAGEMENT NOMINEE - MARILLYN A. HEWSON	ISSUER	NO	N/A	N/A
PROPOSAL #1.10: MANAGEMENT NOMINEE - ELLEN J. KULLMAN	ISSUER	NO	N/A	N/A
PROPOSAL #1.11: MANAGEMENT NOMINEE - ULF M. SCHNEIDER	ISSUER	NO	N/A	N/A
PROPOSAL #1.12: MANAGEMENT NOMINEE - PATRICK J. WARD	ISSUER	NO	N/A	N/A
PROPOSAL #2: RATIFY AUDITORS	ISSUER	NO	N/A	N/A
PROPOSAL #3: ADVISORY VOTE TO RATIFY NAMED EXECUTIVE OFFICERS' COMPENSATION	ISSUER	NO	N/A	N/A
PROPOSAL #4: REPORT ON LOBBYING PAYMENTS AND POLICY	SHAREHOLDER	NO	N/A	N/A
PROPOSAL #5: REPORT ON HERBICIDE USE ON GMO CROPS	SHAREHOLDER	NO	N/A	N/A
PROPOSAL #6: ESTABLISH COMMITTEE ON PLANT CLOSURES	SHAREHOLDER	NO	N/A	N/A
PROPOSAL #7: REPEAL AMENDMENTS TO THE COMPANY'S BYLAWS ADOPTED WITHOUT STOCKHOLDER APPROVAL AFTER AUGUST 12, 2013	SHAREHOLDER	NO	N/A	N/A

Sample N-PX #2: Voting by the Vanguard S&P 500 Growth Index Fund submitted in the annual report of proxy voting records by Vanguard Admiral Funds. Available here.

ISSUER: E. I. du Pont de Nemours and Company

TICKER: DD **CUSIP:** 263534109

MEETING DATE: 5/13/2015

PROPOSAL:	PROPOSED BY	VOTED?	VOTE CAST	FOR /AGAINST MGMT
PROPOSAL #1.1: ELECT DIRECTOR LAMBERTO ANDREOTTI	ISSUER	YES	FOR	FOR
PROPOSAL #1.2: ELECT DIRECTOR EDWARD D. BREEN	ISSUER	YES	FOR	FOR
PROPOSAL #1.3: ELECT DIRECTOR ROBERT A. BROWN	ISSUER	YES	FOR	FOR
PROPOSAL #1.4: ELECT DIRECTOR ALEXANDER M. CUTLER	ISSUER	YES	FOR	FOR
PROPOSAL #1.5: ELECT DIRECTOR ELEUTHERE I. DU PONT	ISSUER	YES	FOR	FOR
PROPOSAL #1.6: ELECT DIRECTOR JAMES L. GALLOGLY	ISSUER	YES	FOR	FOR
PROPOSAL #1.7: ELECT DIRECTOR MARILLYN A. HEWSON	ISSUER	YES	FOR	FOR
PROPOSAL #1.8: ELECT DIRECTOR LOIS D. JULIBER	ISSUER	YES	FOR	FOR
PROPOSAL #1.9: ELECT DIRECTOR ELLEN J. KULLMAN	ISSUER	YES	FOR	FOR
PROPOSAL #1.10: ELECT DIRECTOR ULF M. SCHNEIDER	ISSUER	YES	FOR	FOR
PROPOSAL #1.11: ELECT DIRECTOR LEE M. THOMAS	ISSUER	YES	FOR	FOR
PROPOSAL #1.12: ELECT DIRECTOR PATRICK J. WARD	ISSUER	YES	FOR	FOR
PROPOSAL #2: RATIFY AUDITORS	ISSUER	YES	FOR	FOR
PROPOSAL #3: ADVISORY VOTE TO RATIFY NAMED EXECUTIVE OFFICERS' COMPENSATION	ISSUER	YES	FOR	FOR
PROPOSAL #4: REPORT ON LOBBYING PAYMENTS AND POLICY	SHAREHOLDER	YES	AGAINST	FOR
PROPOSAL #5: REPORT ON HERBICIDE USE ON GMO CROPS	SHAREHOLDER	YES	AGAINST	FOR
PROPOSAL #6: ESTABLISH COMMITTEE ON PLANT CLOSURES	SHAREHOLDER	YES	AGAINST	FOR
PROPOSAL #7: REPEAL AMENDMENTS TO THE COMPANY'S BYLAWS ADOPTED WITHOUT STOCKHOLDER APPROVAL AFTER AUGUST 12, 2013	SHAREHOLDER	YES	AGAINST	FOR
PROPOSAL #1.1: ELECT DIRECTOR NELSON PELTZ	ISSUER	NO	N/A	N/A
PROPOSAL #1.2: ELECT DIRECTOR JOHN H. MYERS	ISSUER	NO	N/A	N/A
PROPOSAL #1.3: ELECT DIRECTOR ARTHUR B. WINKLEBLACK	ISSUER	NO	N/A	N/A
PROPOSAL #1.4: ELECT DIRECTOR ROBERT J. ZATTA	ISSUER	NO	N/A	N/A
PROPOSAL #1.5: MANAGEMENT NOMINEE – LAMBERTO ANDREOTTI	ISSUER	NO	N/A	N/A
PROPOSAL #1.6: MANAGEMENT NOMINEE - EDWARD D. BREEN	ISSUER	NO	N/A	N/A
PROPOSAL #1.7: MANAGEMENT NOMINEE - ELEUTHERE I. DU PONT	ISSUER	NO	N/A	N/A

PROPOSAL #1.8: MANAGEMENT NOMINEE - JAMES L. GALLOGLY	ISSUER	NO	N/A	N/A
PROPOSAL #1.9: MANAGEMENT NOMINEE - MARILLYN A. HEWSON	ISSUER	NO	N/A	N/A
PROPOSAL #1.10: MANAGEMENT NOMINEE - ELLEN J. KULLMAN	ISSUER	NO	N/A	N/A
PROPOSAL #1.11: MANAGEMENT NOMINEE - ULF M. SCHNEIDER	ISSUER	NO	N/A	N/A
PROPOSAL #1.12: MANAGEMENT NOMINEE - PATRICK J. WARD	ISSUER	NO	N/A	N/A
PROPOSAL #2: RATIFY AUDITORS	ISSUER	NO	N/A	N/A
PROPOSAL #3: ADVISORY VOTE TO RATIFY NAMED EXECUTIVE OFFICERS' COMPENSATION	ISSUER	NO	N/A	N/A
PROPOSAL #4: REPORT ON LOBBYING PAYMENTS AND POLICY	SHAREHOLDER	NO	N/A	N/A
PROPOSAL #5: REPORT ON HERBICIDE USE ON GMO CROPS	SHAREHOLDER	NO	N/A	N/A
PROPOSAL #6: ESTABLISH COMMITTEE ON PLANT CLOSURES	SHAREHOLDER	NO	N/A	N/A
PROPOSAL #7: REPEAL AMENDMENTS TO THE COMPANY'S BYLAWS ADOPTED WITHOUT STOCKHOLDER APPROVAL AFTER AUGUST 12, 2013	SHAREHOLDER	NO	N/A	N/A

Sample N-PX #3: Voting by Northern Lights Fund Trust III - Persimmon Long/Short Fund submitted in the annual report of proxy voting records by Northern Lights Fund Trust III. Available here.

Registrant: NORTHERN LIGHTS FUND TRUST III - Persimmon Long/Short Fund Item 1, Exhibit 7
Investment Company Act file number: 811-22655
Reporting Period: July 1, 2014 through June 30, 2015

E. I. DU PONT DE NEMOURS AND COMPANY

Security	263534109	**Meeting Type**	Contested-Annual
Ticker Symbol	DD	**Meeting Date**	13-May-2015
ISIN	US2635341090	**Agenda**	934154092 - Management
Record Date	17-Mar-2015	**Holding Recon Date**	17-Mar-2015
City / Country	/ United States	**Vote Deadline Date**	12-May-2015
SEDOL(s)		**Quick Code**	

Item	Proposal	Proposed by	Vote	For/Against Management
1.	DIRECTOR	Management		
	1 LAMBERTO ANDREOTTI			
	2 EDWARD D. BREEN			
	3 ROBERT A. BROWN			
	4 ALEXANDER M. CUTLER			
	5 ELEUTHERE I. DU PONT			
	6 JAMES L. GALLOGLY			
	7 MARILLYN A. HEWSON			
	8 LOIS D. JULIBER			
	9 ELLEN J. KULLMAN			
	10 ULF M. SCHNEIDER			
	11 LEE M. THOMAS			
	12 PATRICK J. WARD			
2.	ON RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	Management		
3.	TO APPROVE, BY ADVISORY VOTE, EXECUTIVE COMPENSATION	Management		
4.	ON LOBBYING	Shareholder		
5.	ON GROWER COMPLIANCE	Shareholder		
6.	ON PLANT CLOSURES	Shareholder		
7.	ON REPEALING CERTAIN AMENDMENTS TO THE BYLAWS ADOPTED BY THE BOARD WITHOUT STOCKHOLDER APPROVAL	Shareholder		

E. I. DU PONT DE NEMOURS AND COMPANY

Security	263534109	**Meeting Type**	Contested-Annual
Ticker Symbol	DD	**Meeting Date**	13-May-2015
ISIN	US2635341090	**Agenda**	934155955 - Opposition
Record Date	17-Mar-2015	**Holding Recon Date**	17-Mar-2015
City / Country	/ United States	**Vote Deadline Date**	12-May-2015
SEDOL(s)		**Quick Code**	

Item	Proposal	Proposed by	Vote	For/Against Management
1	DIRECTOR	Management		
	1 NELSON PELTZ		For	For
	2 JOHN H. MYERS		Withheld	Against
	3 ARTHUR B. WINKLEBLACK		Withheld	Against
	4 ROBERT J. ZATTA		Withheld	Against
	5 MGT NOM: L. ANDREOTTI		For	For
	6 MGT NOM: E.D. BREEN		For	For
	7 MGT NOM: E.I. DU PONT		For	For
	8 MGT NOM: J.L. GALLOGLY		For	For
	9 MGT NOM: M.A. HEWSON		For	For
	10 MGT NOM: E.J. KULLMAN		For	For
	11 MGT NOM: U.M. SCHNEIDER		For	For
	12 MGT NOM: P.J. WARD		For	For
2	ON RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	Management	For	
3	TO APPROVE, BY ADVISORY VOTE, EXECUTIVE COMPENSATION	Management	For	
4	ON LOBBYING	Management	Against	
5	ON GROWER COMPLIANCE	Management	Against	
6	ON PLANT CLOSURE	Management	Against	
7	TO REPEAL EACH PROVISION OR AMENDMENT OF THE BYLAWS OF THE COMPANY ADOPTED BY THE BOARD OF DIRECTORS OF THE COMPANY (AND NOT BY THE COMPANY'S STOCKHOLDERS) SUBSEQUENT TO AUGUST 12, 2013 AND PRIOR TO THE APPROVAL OF THIS RESOLUTION.	Management	For	For

Sample N-PX #4: Voting by Northern Lights Fund Trust III - The Covered Bridge Fund submitted in the annual report of proxy voting records by Northern Lights Fund Trust III. Available here.

Registrant: **NORTHERN LIGHTS FUND TRUST III - The Covered Bridge Fund**
Investment Company Act file number: 811-22655
Reporting Period: July 1, 2014 through June 30, 2015

Item 1, Exhibit 12

FORM N-PX - PROXY VOTING RECORD REQUIREMENTS

	(a) Issuer's Name	(b) Exchange Ticker Symbol	(c)"CUSIP" #	(d) Shareholder Meeting Date	(e) Matter Identification		(f) Proposal Type	(g) Voted	(h) Vote Cast	(i) For/Against Management
21	E. I. Dupont de Nemours & Co	DD	263534109	Annual; 5/13/2015	1	Election of Directors	Management	Y	FOR	FOR
					1.1	Lamberto Andreotti	Management	Y	FOR	FOR
					1.2	Edward D. Breen	Management	Y	FOR	FOR
					1.3	Robert A. Brown	Management	Y	FOR	FOR
					1.4	Alexander M. Cutler	Management	Y	FOR	FOR
					1.5	Eleuthere I. du Pont	Management	Y	FOR	FOR
					1.6	James L. Gallogly	Management	Y	FOR	FOR
					1.7	Marillyn A. Hewson	Management	Y	FOR	FOR
					1.8	Lois D. Juliber	Management	Y	FOR	FOR
					1.9	Ellen J. Kullman	Management	Y	FOR	FOR
					1.10	Ulf M. Schneider	Management	Y	FOR	FOR
					1.11	Lee M. Thomas	Management	Y	FOR	FOR
					1.12	Patrick J. Ward	Management	Y	FOR	FOR
					2	On ratification of independent registered public accounting fimr	Management	Y	FOR	FOR
					3	To approve, by advisory vote, executive compensation	Management	Y	FOR	FOR
					4	On lobbying	Shareholder	Y	AGAINST	FOR
					5	On grower compliance	Shareholder	Y	AGAINST	FOR
					6	On plant closures	Shareholder	Y	AGAINST	FOR
					7	On repealing certain amendments to the bylaws adopted by the board without stockholder approval	Shareholder	Y	AGAINST	FOR

B.3. Example of a fund abstention

This section provides an example in which a voting fund did not support either management or the dissident. The proxy contest involved Darden Restaurant, Inc. and Starboard Value LP, an activist hedge fund. The vote took place at Darden's 2014 annual meeting on October 10, 2014. The record shows voting by the WisdomTree Earnings 500 Fund submitted in the N-PX annual report of proxy voting records by the WisdomTree Trust. Available here.

DARDEN RESTAURANTS, INC.

Ticker: DRI Security ID: 237194105
Meeting Date: OCT 10, 2014 Meeting Type: Proxy Contest
Record Date: AUG 11, 2014

#	Proposal	Mgt Rec	Vote Cast	Sponsor
	Management Proxy (Blue Card)	None		
1.1	Elect Director Michael W. Barnes	For	Did Not Vote	Management
1.2	Elect Director Gregory L. Burns	For	Did Not Vote	Management
1.3	Elect Director Jeffrey H. Fox	For	Did Not Vote	Management
1.4	Elect Director Christopher J. (CJ) Fraleigh	For	Did Not Vote	Management
1.5	Elect Director Steven Odland	For	Did Not Vote	Management
1.6	Elect Director Michael D. Rose	For	Did Not Vote	Management
1.7	Elect Director Maria A. Sastre	For	Did Not Vote	Management
1.8	Elect Director Enrique Silva	For	Did Not Vote	Management
2	Advisory Vote to Ratify Named Executive Officers' Compensation	For	Did Not Vote	Management
3	Ratify Auditors	For	Did Not Vote	Management
4	Provide Proxy Access Right	For	Did Not Vote	Management
5	Report on Political Contributions	Against	Did Not Vote	Shareholder
6	Report on Lobbying Payments and Policy	Against	Did Not Vote	Shareholder
	Opposition Proxy (White Card)	None		
1.1	Elect Directors Betsy S. Atkins	For	Did Not Vote	Shareholder
1.2	Elect Directors Margaret Shan Atkins	For	Did Not Vote	Shareholder
1.3	Elect Directors Jean M. Birch	For	Did Not Vote	Shareholder
1.4	Elect Directors Bradley D. Blum	For	Did Not Vote	Shareholder
1.5	Elect Directors Peter A. Feld	For	Did Not Vote	Shareholder
1.6	Elect Directors James P. Fogarty	For	Did Not Vote	Shareholder
1.7	Elect Directors Cynthia T. Jamison	For	Did Not Vote	Shareholder
1.8	Elect Directors William H. Lenehan	For	Did Not Vote	Shareholder
1.9	Elect Directors Lionel L. Nowell, III	For	Did Not Vote	Shareholder
1.10	Elect Directors Jeffrey C. Smith	For	Did Not Vote	Shareholder
1.11	Elect Directors Charles M. Sonsteby	For	Did Not Vote	Shareholder
1.12	Elect Directors Alan N. Stillman	For	Did Not Vote	Shareholder
2	Advisory Vote to Ratify Named Executive Officers' Compensation	None	Did Not Vote	Management
3	Ratify Auditors	None	Did Not Vote	Management
4	Provide Proxy Access Right	For	Did Not Vote	Management
5	Report on Political Contributions	For	Did Not Vote	Shareholder
6	Report on Lobbying Payments and Policy	For	Did Not Vote	Shareholder

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B.4. Kerrisdale Capital Management's proxy fight at Morgans Hotel Group

Kerrisdale Capital Management, an activist hedge fund holding more than 3% of Morgans Hotel Group's shares, nominated a slate of seven director candidates for election at Morgans' 2014 Annual Meeting. Kerrisdale's goal was the immediate sale of Morgans. Its slate of directors competed with Morgans' own slate of nine nominees for nine board seats.

At the May 14, 2014 meeting, two Kerrisdale nominees, Andrew Broad and John Brecker, defeated management nominees Andrea Olshan and Michael Olshan. Andrea Olshan received 13,608,562 For votes and 1,494,380 Withhold votes while Michael Olshan received 13,608,562 For votes and 1,494,530 Withhold votes. Andrew Broad and John Brecker each received 14,186,986 For votes, so the number of withheld votes exceeded the winning margin. In other words, Andrea Olshan and Michael Olshan (and management) would have won had their withheld votes instead been cast as For votes.

B.5. Additional analysis of dissident targeting

The two-stage multinomial model with partial observability

Section 5.2 describes the two-stage multinomial model with partial observability (equations (2a) and (2b)). We assume extreme-value, rather than normal, distributions for the errors in the selection equation. In the first step, we estimate the probability associated with each proxy contest outcome using a standard multinomial logit model. We then construct the Lee (1983) bias-correction term for all observations that are associated with a voted contest (i.e., $k = 1$). The term $J = \Phi^{-1}(P_{i,t}^{k=1})$ transforms the probability of a voted contest, $P_{i,t}^{k=1}$, into a standard normal distribution, and $\phi(\Phi^{-1}(P_{i,t}^{k=1})]$ into the corresponding density of a standard normal distribution. Finally, the Lee bias correction term for all contests that reach a vote is calculated as:

$$L_{i,t} = -\frac{\phi[J(P_{i,t}^{k=1})]}{\Phi[J(P_{i,t}^{k=1})]}$$

which is analogous to the inverse Mills ratio in the Heckman (1979) two-step model. The negative sign in front of this equation is discretionary but we follow the procedure in Lee (1983). Note that it negates the sign of the correlation, as noted below.

In the second step, we add $L_{i,t}$ to the linear regression in equation (2b). This regression is run at the fund-firm-year level and is estimated for the sample of observations with observed votes (i.e., selection state $k = 1$):

$$Vote_{i,j,t} = X_{i,t}\gamma + Z_{i,j,t}\lambda + \eta L_{i,t} + \alpha_{FF48} + \alpha_t + \alpha_j + \epsilon_{i,j,t}{}'$$

Analogous to the second-step regression in the standard Heckman two-step model, here the presence of the correction term $\eta L_{i,t}$ renders the remaining error term $\epsilon_{i,j,t}^{'}$ orthogonal to the covariates in the regression. The estimate of the coefficient η is informative about the nature of the selection bias because it is negatively proportional to the correlation, $corr(\epsilon_{i,j,t}, u_{i,t}^{1})$. Therefore, a negative coefficient on the Lee correction term suggests a positive correlation between a contest's unobserved propensity to proceed to voting and shareholders' unobserved propensity to support the dissident.

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