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# Picking Friends Before Picking (Proxy) Fights: How Mutual Fund Voting Shapes Proxy Contests

Finance Working Paper N° 601/2019
June 2021

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## Abstract

This paper provides the first comprehensive study of mutual fund voting in proxy contests. Funds tend to vote against incumbent management at firms with weak operating and financial performance, and in favor of dissidents with credible track records. Passive funds are active monitors although they are more supportive of incumbent management than active funds. We document a positive selection effect: dissidents are more likely to initiate contests and proceed to voting when shareholders are expected to be more supportive based on observable and unobservable event characteristics as well as inherent pro-activist investor stance. Overall, institutional investors play a pivotal role in shaping the initiation and outcomes of proxy contests.


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JEL Classifications: G320, G340, G380.



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**Abstract**

This paper provides the first comprehensive study of mutual fund voting in proxy contests. Funds tend to vote against incumbent management at firms with weak operating and financial performance, and in favor of dissidents with credible track records. Passive funds are active monitors although they are more supportive of incumbent management than active funds. We document a positive selection effect: dissidents are more likely to initiate contests and proceed to voting when shareholders are expected to be more supportive based on observable and unobservable event characteristics as well as inherent pro-activist investor stance. Overall, institutional investors play a pivotal role in shaping the initiation and outcomes of proxy contests.

**Keywords:** Mutual fund voting, proxy contest, selective targeting, investor stance.
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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 for at least two reasons. First, both insiders and dissident shareholders typically own a strict minority of the outstanding target stock, so the votes of the firm's remaining shareholders determine which side prevails. In addition, the low and inconsistent rate of participation by retail investors in voting matters implies that the support of a majority of targeted firms' institutional shareholders is crucial for dissidents' success. "Picking friends," that is, selecting target firms with pro-activist shareholders, is therefore a first-order factor in an activist's decision whether to initiate a proxy contest.[1]

Disclosure of mutual fund voting records mandated by the U.S. Securities and Exchange Commission ("SEC") in 2003 and the availability of standardized databases such as

[1]Damien Park, the co-chairman of the Conference Board's Expert Committee on Shareholder Activism, summarized the importance of a target shareholder base as follows: "Obtaining a clear understanding of how company shareholders will vote in a contested election is one of the most important components of any activist campaign." (Park, (2016)).

Institutional Shareholder Services's ("ISS") Voting Analytics, have led to a burgeoning literature analyzing the voting behavior of institutional investors in management and shareholder proposals.[2] As a result of their irregular disclosure format, however, voting records of contested meetings are excluded by standard databases and hence 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 fund regulatory filings.

Compared with routine proxy voting on management and shareholder proposals, such as votes on compensation or governance proposals, voting records in contested elections are arguably more informative about shareholders' underlying preferences. First, proxy contests are ex-ante pivotal voting events where both incumbent management and a challenging dissident ought to expect to have an equal chance of prevailing. Otherwise, incumbent management would offer a settlement or the dissident would withdraw. This holds empirically: dissidents win board representation in almost exactly one 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.[3] Second, funds are less likely to mechanically follow proxy advisors' voting recommendations when voting in proxy contests. We show that funds whose votes on management proposals correlate strongly with ISS's recommendations exhibit significantly lower sensitivity when voting in proxy contests. Third, while shareholder proposals and many management proposals are only advisory, as vote outcomes do not bind a firm's management, the outcome of a proxy contest has more tangible consequences for all parties involved as it determines which party wins control of the firm. Indeed, institutions are more likely to recall shares on loan to vote in proxy contests (Aggarwal, Saffi, and Sturgess (2015)). As a result, institutional investors are more likely to express their own independent views in proxy contests and we expect the

[2]The standard voting data provided by ISS Voting Analytics covers votes cast by the top mutual fund families in non-contested meetings for Russell 3000 firms. A growing literature has built on this database including 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 (2020), and Bolton, Li, Ravina, and Rosenthal (2020). Data have also 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), and Bodnaruk and Rossi (2016).

[3]During our sample period, 99.7% 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.

votes they cast to more accurately reveal their underlying preferences.

We begin with a detailed analysis of the voting options that are available to investors in proxy contests, which are more granular than votes on management and shareholder proposals. Rather than having to provide a binary choice between voting for the dissident or management, shareholders vote for individual candidates from either party's slate of director nominees. As shareholders can withhold support from a subset of nominees from either slate, this option allows them to temper their support for either side. Exploiting this institutional feature, we find a novel "voting by withholding" strategy: withheld votes appear concentrated on certain director nominees across mutual funds. Such voting behavior, effectively a coordination mechanism across withholding funds, materially affects election outcomes in our sample and offers mutual funds a means of expressing dissent without appearing to directly antagonize management.

Next, we analyze the relationship between funds' voting choices and observable characteristics related to specific contests. As expected, mutual funds' support for a dissident is higher when a target firm's performance and valuation are lower, as measured by Tobin's $q$, return on assets, or stock returns. Presumably, subpar performance makes alternative leadership and strategies more appealing to shareholders. Mutual funds are also more likely to vote for activist hedge funds than other types of dissidents, consistent with the belief that they have clear, value-oriented goals and are an effective force of governance (Brav, Jiang, Partnoy, and Thomas (2008)).

We then take advantage of our setting to provide unique insights into the emerging debate over whether the growth in capital allocated to passively managed funds strengthens shareholder governance (e.g., Appel, Gormley, and Keim (2019), Kahan and Rock (2020), Lewellen and Lewellen (2021)) or weakens it (e.g., Bebchuk, Cohen, and Hirst (2017), Heath et al. (2021)). We find that passive funds are 9-10 percentage points less likely than active funds to support dissidents in proxy contests. In comparison, Heath et al. (2021) and Bubb and Catan (2020) show that passive investors are overall more pro-management in that they lag in vetoing management proposals or supporting shareholder proposals by a margin of 10-13% vis-a-vis actively managed funds. We document that a similar pattern holds at the family level: the most pro-dissident fund families typically include low fractions of passive funds. A potential explanation for this fact is that passive funds are not rewarded for "beating the index" and thus have weaker incentives to confront incumbent management (Elton, Gruber, and Busse (2004), Choi, Laibson, and Madrian (2010), Lund (2017), Bebchuk and Hirst (2019)).

This apparent active-passive gap requires a more nuanced interpretation. First, the

gap is driven by funds managed by the "Big Three" families (BlackRock, Vanguard, and State Street). Excluding these funds shrinks the difference between active and passive support for dissidents to 4.4 percentage points. This evidence suggests that it is not solely a fund's investment style that drives its voting behavior, but rather that it is influenced by additional factors such as the size of the fund complex to which it belongs. Second, while passive funds are unconditionally more likely to support incumbent management, that does not imply that they are weak monitors and do not judge individual contests on their merits. In fact, the sensitivity of passive funds' votes to firm performance and dissident track records is similar to that of active funds. Moreover, compared with active funds, passive funds are significantly more sensitive to operating performance while being less sensitive to stock-price performance, suggesting that they place more emphasis on firm fundamentals than on the perceptions of the stock market.

Third, passive funds utilize the option to withhold votes for selected nominees from either party to express a more granular form of dissent. The ability to selectively withhold votes is absent for management and shareholder proposals where the voting choice is binary, enabling us to more accurately describe the preferences of passive funds and their ways to express dissension. While passive funds are more likely to support an entire slate of management nominees and less likely to support the entire slate of dissident nominees, they are as likely as active funds to make use of the intermediate options of withholding support from a subset of management nominees, abstaining, or withholding support from certain dissident nominees. In other words, passive funds are more likely to express dissent in a milder form instead of explicitly voting against incumbent management. Importantly, we show that partial withholding is implicitly coordinated between such investors and it can therefore have a material impact on voting outcomes.

Finally, we exploit a unique feature of voting disclosure to further investigate the apparent gap between active and passive funds. Our sample includes mutual fund votes for a subset of proxy contests that were settled or withdrawn before contested elections took place. These settlements and withdrawals are typically events where a contest is resolved only a few days prior to a scheduled vote, leading to many mutual funds having already cast their votes with the expectation that the vote would proceed as planned. Such votes, which have not been explored in the literature, provide a useful counterfactual: they show how shareholders would have voted at these firms had the contested elections actually taken place. Importantly, such "accidentally" revealed votes are not available for management or shareholder proposals, where the calculus of settlements or withdrawals does not apply.

When we consider mutual fund votes in contests that were settled or withdrawn before

the scheduled votes took place, we find a considerably smaller gap between active and passive funds. Compared with the 9.5% gap estimated using materialized, voted contests, the gap falls to an insignificant 2.4% (1.6%) for settled (withdrawn) contests. As a result, the voting gap observed in proposals may over-estimate the difference in voting preferences between the two groups of mutual funds if extrapolated to more contentious, high-stake settings. This is because when dissidents manage to get passive investors on their side, managers are often forced into a settlement to avert failure in broad daylight. Compared with management and shareholder proposals, these "last-minute" votes, which are unique to our setting, offer a more subtle interpretation of differences in support rates.

Overall, we confirm that passive funds are more likely than active funds to side with incumbent management, as documented in the prior literature based on management and shareholder proposals. Nevertheless, this result does not imply that passively managed funds are passive monitors. They will support a dissident when the latter has a strong case (e.g., poor firm performance and a strong track record) and prefer using dissension that entails moderate confrontation with management. More importantly, passive investors serve as a screening device for attempted and voted proxy contests given the higher threshold they set to turn 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 more likely to achieve their goals via settlement (and thus avoid costly fights) if passive funds support them just as much as active funds do. This evidence is important for understanding the efficacy of corporate governance given the rapid growth of passively managed funds.

Our analyses are based on a selection-correction model to account for the fact that mutual funds' voting choices are observed only for the subset of firms that hold proxy contests. Because this does not constitute a random sample, the reduced-form relationship between voting outcomes and observable characteristics may be subject to sample selection bias. For example, conditional on the occurrence of a proxy contest, a target company may have underperformed, or, alternatively, it may have been a desirable target for unobservable reasons despite its satisfactory performance. When these two possibilities are pooled together, the relationship between support for a dissident and underperformance is potentially attenuated among the materialized contests. We adopt a parsimonious two-step model developed by Lee (1983) to address this concern. In our model, every firm is a potential target for a proxy contest. In the first stage, we estimate a dissident's decision to initiate a proxy contest using a multinomial regression predicting three contest outcomes (voted, settled, or withdrawn) relative to the base outcome of the firm's not being targeted by a dissident shareholder. In the second stage, we estimate a linear regression predicting

individual funds' voting choices among the subset of firms who are targeted for a proxy contest and the contest reaches the voting stage. We include a Lee bias-correction term, constructed using the first-stage estimates, to purge the voting regression of selection bias.

Our analysis reveals that dissidents "pick friends" before picking proxy fights, along both observable and unobservable dimensions. In the first stage, we include a variable that captures the average pro-dissident "stance" or "friendliness" of a potential target's shareholders, which we estimate using individual funds' votes in proxy contests.[4] A one-standard-deviation increase in this measure increases the odds that a firm is targeted and proceeds into a voted contest (settlement) by 28% (10%). These magnitudes are economically large relative to the unconditional probabilities of 0.51% (0.80%). Therefore, a dissident-friendly shareholder base, holding all else equal, not only attracts dissidents but also encourages them to persist to the voting stage. We also find that our two-step model indeed corrects for sample selection. Compared with a reduced-form regression, shareholder support for dissidents is more sensitive to firm performance when we include the Lee bias-correction term. Further, the sign of the coefficient, which is statistically significant, implies that unobservable variables that drive dissidents' targeting decisions are positively correlated with mutual fund voting support.

The sample of votes in contests that were ultimately settled or withdrawn at the last minute provides further evidence in support of dissidents' "picking friends" before picking proxy fights. In contests that were settled (withdrawn), 43.8% (82.1%) of mutual funds submitted early votes in favor of an entire management slate. This compares to a support rate of 50.6% for the full sample of voted contests, suggesting that strong support for a dissident induces management to offer a settlement. Conversely, a dissident is likely to withdraw its campaign when it expects weak support from shareholders. In addition, we incorporate these early votes into our pro-dissident stance measures and re-estimate our two-step model. Our conclusions are unchanged: dissidents are more likely to target firms with friendly shareholder bases, and unobservable factors that affect targeting are associated with strong support from mutual funds.

For the rest of the paper, Section 2 introduces the institutional background in proxy contests, using contested director elections at DuPont in 2015 as an example. In Section 3 we describe our sample and provide descriptive statistics. Section 4 presents our main empirical analysis of mutual funds' voting decisions. Finally, Section 5 concludes.

[4]Our methodology aims to capture an investor's inherent stance that is unrelated to an event's specific circumstances, such as firm performance or an activist's track record. This contrasts with studies that measure investor support for incumbent management as in Kedia, Starks, and Wang (2021).

## 2. Institutional Background

### *2.1. Voting in Proxy Contests*

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% of board elections, however, are contested, wherein 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 to 2017, including contested director elections and written consent solicitations to replace directors.

After a dissident announces a proxy contest, usually 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 and return the proxy cards, which are essentially ballot cards, for their preferred group.[5] 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.[6] As a challenger, a dissident is considered to have won a contest if at least one of its nominees is elected.[7]

### *2.2. Trian Partners' Intervention at DuPont*

The proxy fight 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. Trian Partners first engaged with DuPont's management in mid-2013. The exchange

[5] If a shareholder returns proxy cards from both sides, only the latest submission counts toward the vote tally. In 2016, the SEC proposed a reform to institute a "universal proxy card" system in which competing slates would be presented on a single ballot. The reform has yet to be finalized.

[6] 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 non-contested election. Or, a dissident may withdraw when the outcome is a likely 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 on the drivers, nature, and consequences of settlements between activist investors and their target companies.

[7] DeAngelo and DeAngelo (1989) and, more recently, Fos (2017) provide additional information about the institutional details and empirical regularities regarding proxy contests.

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 board membership that satisfied the activist 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 the pivotal voters in a seemingly close contest.[8]

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. Relevant to this study is the way in which various asset managers voted their shares. Table 1 provides the actual votes cast by mutual funds affiliated with the top ten fund families. Several distinct patterns emerge.

[Insert Table 1 here.]

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.[9]

Second, there is little disagreement within most fund families, as votes in favor of the dissident are generally clustered at either 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

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

[9] See "Peltz One Big Shareholder Vote Away From DuPont Board Seat, Tally Shows," *The Wall Street Journal*, by David Benoit and Jacob Bunge, 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. For this reason, we conduct our main analysis at the fund-level rather than the family-level. While no fund family voted for the 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, is the near dichotomous stance between passive and active funds. The "Big Three" fund families (BlackRock, Vanguard, and State Street), which manage primarily passive funds, voted almost unanimously for the incumbent management. In contrast, almost all actively managed fund complexes, excluding Franklin Resources, voted for all or a subset of the dissident nominees. This difference is consistent with the evidence reported later in the paper that passive funds are less likely than active funds to vote for dissidents in nine of the ten years in our sample.

## 3. Data and Sample Overview

### *3.1. Data Sources and Variables*

#### *3.1.1. 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 of July 1, 2006 through June 30, 2017. This step results in 410 unique proxy contests. For each contest, we search for the date on which the dissident announced a proxy fight, which is typically accompanied by the filing of SEC Form PREC 14A (the "preliminary contested proxy statement") or, in some cases, initiated by a schedule 13D filing (a public disclosure of a beneficial ownership of 5% or more) or a press release. We then search for subsequent proxy filings and 8K/10Q filings to determine whether the shareholder meeting actually took place. If a shareholder meeting did indeed take place, we record the firm name, its CIK and CUSIP numbers, the dissident's name, and the meeting date. This process results in 298 unique contested meetings.

Next, we extract the following information from Form DEFC 14A for both management and dissident proxy cards: the proposal number, the sponsor (management or shareholder), and the text of the proposal. The management proxy card lists director candidates nominated by the incumbent board and management, while the dissident proxy card contains director candidates nominated by the dissident. Each proxy card also includes other management- or shareholder-sponsored proposals, if any.

Because some proxy contests may be missing SEC filings, such as Form 14A or Schedule

13D, we supplement with a comprehensive review of FactSet's SharkRepellent database. This step yields 49 additional contested meetings, bringing our sample to 347 voted proxy contests.[10] We observe at least one mutual fund vote in 285 of these contests. The remaining 62 events involve over-the-counter traded stocks or small capitalization firms that mutual funds do not hold.

The procedure described above results in an additional 190 proxy contests for which a DEFC 14A filing or a Schedule 13D was submitted but the contest was either settled (155 events) or withdrawn (35 events) before the scheduled meeting took place. We further supplement the sample by searching through PREC 14A filings, Schedule 13D filings, press releases, and SharkRepellent, and find another 295 settled and 204 withdrawn contests. Overall, we find 450 settled events and 239 withdrawn events.

We restrict our 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 the meeting date and a valid book value of assets within two years prior to the meeting date. We also drop CRSP share codes that are not 10 or 11. Next, we drop contests in which a dissident owned almost no shares in a target firm as of the announcement date of a contest, which we define as fewer than 500 shares and less than 0.01% of outstanding shares. For these contests, economic motives may not be the first order concern for initiating the contest. Our final sample consists of 207 voted proxy contests, 324 proxy contests that were settled and 128 events that were withdrawn before the scheduled contested election.

### *3.1.2. Mutual Fund Voting Records*

The key input to this study is 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 SEC EDGAR website. Because mutual funds do not report their votes in a standardized format, databases such as ISS Voting Analytics do not systematically collect voting records for proxy contests.[11] Individual fund families adopt their own styles to structure the information provided in their N-PX filings, and, at times, funds within the same family use a variety of formats, complicating the gathering of

[10] Most of the additional events are identified through DFAN 14A (the "proxy soliciting materials") or DEFN 14A (the "definitive proxy statement filed by non management") filings.

[11] Instead, the ISS database covers voting records mostly for non-contested meetings (i.e., management and shareholder proposals) for Russell 3000 firms and additional firms that are held by large mutual fund families. According to ISS, between fiscal years 2004 and 2006, ISS collected voting records on the top 100 families. From 2007 onward, ISS has collected routine voting records on the top 300 families.

the voting data.[12] This heterogeneity in reporting styles can be seen in Internet Appendix Table IA1, where we include a sample of original voting records by two Vanguard funds and two Northern Lights funds relating to the DuPont proxy contest described in Section 2.2. Vanguard funds file uniformly, while each Northern Lights fund adopts its own unique format. For example, 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.

We use a multi-step procedure to extract information from N-PX filings. First, we use several computer scripts to parse all filings by the top 100 mutual fund families for shareholder meetings between July 1, 2006 and June 30, 2017.[13] 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 proposal. From this superset, we identify the votes pertaining 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 sub-advisors to expand their product offerings and to gain market share. In theory, and as a general practice, the authority to vote proxies rests with portfolio managers, but 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 a sub-advisors.[14] Following convention, we deem the votes cast by sub-advised funds, with the exception of Vanguard, as having been cast by the sub-advising fund family.[15] We retrieve sub-advisory information from the CRSP Mutual

[12] For example, some families upload htm filings, other families use the txt format, and some families embed txt documents in htm templates. A number of other families have switched from txt format to htm over our sample period.

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

[14] A sub-advisor'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 sub-advisor.

[15] The Vanguard Group has historically assigned the responsibility of voting Vanguard's equity funds, including sub-advised funds, to its investment stewardship team. However, Vanguard announced in 2019 that by the end of the year its sub-advisors would have full voting power over shares in the mutual funds they manage. See The Vanguard Group's April 2019 *Vanguard Investment Stewardship Commentary*

Fund database and N-CSR filings.

To date, the theoretical and empirical literature on shareholder voting has treated shareholders as actors who face a binary choice of voting for either management or a dissident. Because the procedures outlined above result in a more comprehensive dataset than is typically available, however, our sample allows for a more granular classification of the choice set available to shareholders. Mutual funds have five voting options, 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 without any positive vote, effectively a decision to "abstain";[16] (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"; and (5) the fund turns in the dissident proxy card with "For" votes for all dissident nominees, or "full support for dissident." Not only do our regression analyses benefit from the refined variation in voting outcomes, in Section 3.3.4 we further show that withholding votes in the "partial support" cases constitute an effective strategy for expressing investor preferences that also impacts election outcomes.

Naturally, one can observe voting outcomes only for contests that actually proceed to the voting stage. We are, however, able to match a number of voting records to proxy fights that were eventually settled or withdrawn. These events are "eleventh-hour" cases where the settlement or withdrawal occurs close to the scheduled vote. Because mutual funds may submit votes at any time prior to a vote, some funds end up casting votes in these contests under the assumption that the vote will proceed as planned. These votes are voided once a contest is canceled, but the funds did not seek to remove those 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. After settlement, some dissident nominees appear on revised management-issued proxy cards and an election proceeds as one that is uncontested. Mutual funds then cast votes on the single set of nominees, whose vote automatically overwrites any votes they might have cast earlier. If the contest is withdrawn, these votes become irrelevant.

These "accidental" votes, which are new to the voting literature, provide a unique,

[16]Such "active abstention" has not been discussed in the existent law or finance literature. Internet Appendix Table IA2 provides an example of votes cast by the asset manager Wisdom Tree in the proxy contest between Darden Restaurants, Inc. and Starboard Value LP.

counterfactual opportunity to observe how shareholders would have voted at non-event firms had a contested election actually occurred. We identify 42 settled and 26 withdrawn proxy contests for which we see 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. We analyze these early votes in detail in Section 4.4.

### *3.1.3. Institutional and Mutual Fund Holdings*

We use two mutual fund ownership databases: the Thomson Reuters S12 Mutual Fund database and the CRSP Survivor-Bias-Free Mutual Fund database. Both databases cover a broad universe of mutual funds and contain holdings at the security CUSIP level. We download the CUSIP, fund identifier, and number of shares held from each database. While the Thomson Reuters S12 database is at the quarterly frequency, the CRSP Mutual Fund database is at the monthly frequency. We therefore download only March, June, September and December holdings from the CRSP Mutual Fund database to form a superset of mutual fund holdings at the quarterly frequency.

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 (see Section 3.1.2) to 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. The matching procedure results in 26,392 (18,495) fund-event observations based on CRSP portfolios (S12 funds).

For each matched fund-event observation, we find the number of shares held as of the quarter prior to the meeting date. We use Thomson Reuters S12 data when they are available and supplement with CRSP data when Thomson Reuters data are missing. To measure each fund's percentage and dollar ownership, we use the shares outstanding and share price fields from the CRSP monthly stock file.[17] We measure ownership analogously at the institution/fund-sponsor/fund-family level using the Thomson Reuters 13F database.[18]

[17] 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 end.

[18] The SEC requires all institutions exercising investment discretion for at least $100 million U.S. publicly traded securities to disclose holdings information in Form 13F within 45 calendar days of quarter end.

### *3.2. Event-, Fund-, and Firm-Level Variables*

#### *3.2.1. Event Characteristics*

Our first set of variables captures event-specific attributes and outcomes. *Dissident win* is an indicator variable coded as 1 if the 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, which we describe in detail later in Section 3.3.2. Given the significant impact of leading proxy advisors, especially ISS, in swaying institutional investor opinion, we record their voting recommendations for each contest.[19] We search for each proxy advisor's voting recommendations in filings submitted by each company and dissident between the announcement of a contest and the meeting date. Since each party has an incentive to publicize a favorable recommendation from a proxy advisor, this process should reveal most of the recommendations made by ISS and Glass Lewis. For events that are missing ISS recommendations, we supplement with information from ISS's Voting Analytics database, SharkRepellent, and news articles in Factiva. For each proxy advisor, we collect voting recommendations at the nominee level and create an additional event-level recommendation. *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 find 104 "For" and 83 "Against" recommendations by ISS, and 70 "For" and 131 "Against" recommendations by Glass Lewis.

The next set of variables characterizes dissidents. *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.[20] Number counting aside, we further proxy for an activist's commitment in these past engagements with *Past campaign intensity*, a weighted average of three progressive modes of engagement: passive communication (given a value of 1), submission of shareholder proposals (given a value of 2), and more confrontational actions, including the threat of a proxy contest,

[19] Leading proxy advisors, especially ISS and to some extent Glass Lewis, have significant sway of up to 30% of institutional votes, according to Cai, Garner, and Walkling (2009), Malenko and Shen (2016) and Li (2018))

[20] 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 to the SEC, but also includes activism events below a 5% stake identified using news archive searches.

initiation of an actual proxy contest, a lawsuit, and a takeover bid (given a value of 3). The resulting measure is calculated as follows:

$$Past\ campaign\ intensity = \frac{(\#\ Communication) \times 1 + (\#\ Proposal) \times 2 + (\#\ Confront) \times 3}{\#All\ campaigns}.$$

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.

### *3.2.2. Fund Characteristics*

This set of variables captures time-invariant as well as time-variant fund heterogeneity. *Passive fund* is an indicator variable coded as 1 if the fund is passively managed.[21] *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 the target stock as a percentage of its total assets. *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, assuming changes in portfolio composition occur at the end of the reporting quarter. *Basis-adjusted return* measures a fund's capital gain from its investment in a target company relative to its value-weighted cost basis. Following Frazzini (2006), the cost basis for any fund at quarter end $t$ is:

$$Basis_t = \sum_{n=0}^{t} Shares_{t,t-n} Price_{t-n} / \sum_{n=0}^{t} Shares_{t,t-n},$$

where $Shares_{t,t-n}$ is the number of shares the fund acquired during quarter $t-n$ that remains on the book on date $t$. The beginning quarter is censored at 2001Q1.

### *3.2.3. Firm Characteristics*

Several common firm characteristics serve as control variables in our analyses. Market capitalization, $MV$, is measured in billions of dollars and appears in the regressions as a

[21] In addition to the CRSP Mutual Fund database classification of funds as an index fund or ETF, we conduct an additional 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.

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.[22] 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 one-digit level, if needed, to ensure a minimum of five firms. *Leverage* is the ratio of debt to assets, all in book values. *Dividend yield* is common and preferred dividends divided by the market value of common stock plus the book value of preferred dividends. *Institutional ownership* and *Mutual fund ownership* are the fractions of shares held by institutional investors and mutual funds at the quarter 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 if there are at least five firms in an industry; if not, we measure HHI at the SIC three-digit level.

### *3.2.4. Construction of Panels*

One of our goals with this paper is to estimate the joint determinants of targeting and voting in proxy contests, which necessitates building two panels at different levels of analysis. The first panel is the *voting* dataset, which includes all events for which we observe mutual fund votes. The unit of observation is the vote cast by each mutual fund $(j)$ in target firm $(i)$ at time $(t)$; the triplet $(j, i, t)$ uniquely identifies a vote, while the pair $(i, t)$ uniquely identifies an event. All time-varying event-level, firm-level, and fund-level variables are measured at the disclosure date closest to a contested meeting. For example, return on assets is measured at the closest fiscal year end, basis-adjusted return is measured at the closest quarter end, and market capitalization is measured at the closest month end.

The second panel is the *targeting* dataset, covering the universe of publicly traded firms that are potential targets of proxy contests. The unit of observation is a firm-year $(i, t)$, where fiscal year $t$ runs from July in year $t-1$ to June in year $t$, following the N-PX reporting convention. The outcome variable, $Targeted$, is an indicator variable coded as one if a dissident initiates a proxy contest during year $t$.[23] We further decompose the variable $Targeted$ into three unordered outcomes depending on whether the contest is

[22] 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.

[23] We exclude firm-years where a dissident has initiated a proxy contest in a preceding year but the contest has not yet been resolved, and we create distinct firm-year observations for cases where firms undergo more than one proxy contest in a given year.

eventually voted, settled, or withdrawn. The majority of the dataset consists of non-target observations.

We merge all firm-level variables, such as market capitalization and Tobin's $q$, into the targeting dataset. To incorporate the characteristics of each firm's shareholder base, we also aggregate fund-level variables to the firm-year level using each mutual fund's ownership weights. However, because variables related to dissidents, such as number of past campaigns, are undefined for non-targets, we omit them from the targeting dataset. For target firms, we measure all variables at the closest disclosure date prior to the announcement date of a proxy contest; for control firms, we measure all variables as of March of the fiscal year, reflecting the typical time between the announcement of a proxy contest and the corresponding shareholder meeting. It is important to note that the variables in the targeting dataset are measured at the announcement date, while the variables in the voting dataset are measured at the meeting date. All potentially unbounded variables in both panels are winsorized at the 1% level. Internet Appendix Table IA3 provides additional details on the measurement and winsorization of the variables used in our analysis.

### *3.3. Sample Overview*

Because this is the first study to comprehensively explore mutual fund voting in proxy contests, we begin with a detailed descriptive analysis.

#### *3.3.1. Proxy Contests and Targeted Companies*

Table 2 provides a broad overview of the 659 proxy contests in our sample. In Panel A, we report the yearly frequency of proxy contests that reached a vote, a settlement, or were withdrawn. The number of proxy contests reached a high of 79 in 2008, fell by nearly half by 2010, and most recently averaged 65 events per year over the last three sample years. About 31.4% of all proxy contests in our sample resulted in a vote, while 49.2% were settled prior to the shareholder meeting. The remaining 19.4% were withdrawn by dissidents.

[Insert Table 2 here.]

Panel B shows the distribution of events by the Fama-French 12 industry classification groups. The most common industry, Business Equipment, comprises 23.8% of all events, and is over-represented relative to the 17.8% share among non-target firms. Panel C shows that hedge funds are the most common type of dissident, with 268 hedge funds initiating

524 contests (79.5% of all contests). Individual investors launch 91 contests (13.8% of all contests), while companies initiate 38 contests (5.8% of all contests).

Table 3 presents statistics on target companies. In columns (1) to (3) of Panel A, we show the averages, medians, and standard deviations of target firm characteristics as of the announcement of each contest. Column (4) shows the average differences between target firms and matched control firms, where we match each target firm to the non-target firm in the same SIC-4 industry and year that is closest in market capitalization. On average, target firms have lower Tobin's $q$ and industry-adjusted stock returns, consistent with the notion that a key objective of proxy contests is to improve target 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).

[Insert Table 3 here.]

In addition, Internet Appendix Table IA4 shows the concentration of ownership by mutual funds within target and non-target firms. For each firm, we sort mutual funds in descending order by ownership of outstanding shares, and count the number of mutual funds required to reach a given percentage ownership threshold. It takes an average (median) of 2.7 (2) funds to reach a collective ownership of 5% at a target firm. While this figure is comparable between target and non-target firms, voted firms start to see more concentrated ownership at the 15% level. This difference is consistent with the idea that dissidents select target firms with more concentrated investor base to facilitate communication with shareholders.

### *3.3.2. Mutual Fund Votes Sorted by Target Firm and Event Characteristics*

Table 4 summarizes mutual fund voting patterns for the subset of proxy contests that reach the voting stage. In Panel A, we report summary statistics for event-level variables and their relationship to voting outcomes. The first three rows reveal that voted contests are highly pivotal events. Dissidents win 51.7% of contests, supporting the hypothesis that both incumbent management and dissident ought to expect that the probability that they will win is not significantly below 0.5. Should this not be the case, management would choose to settle or the dissident shareholders would withdraw (Bebchuk, Brav, Jiang, and Keusch (2020)). In comparison, in the average contest, 41.9% of mutual funds vote in favor of a dissident, revealing that when a dissident wins (loses), the margin is relatively small (large). Finally, ISS (Glass Lewis) issues recommendations in support of a dissident 55.6%

(34.8%) of the time. The difference in support rates of the two leading proxy advisors echoes the findings of Li (2018) and Bubb and Catan (2020).

[Insert Table 4 here.]

For columns (4) to (13), we partition the sample into high and low levels of each characteristic variable. Within each subsample, we report the percentage of mutual funds choosing each of the five voting options defined in Section 3.1.2. We therefore weigh fund-event observations equally. Internet Appendix Table IA5 repeats the analysis weighing events equally. For continuous variables, we split the sample at the median; for indicator variables, we split the sample into either value of the variable.

The results reported in Panel A reveal that, when ISS changes its recommendation from "For" management to "For" dissident, mutual funds' support rate for a full management slate decreases from 82.3% to 31.0%. Partial support for management falls from 6.0% to 4.5%; partial (full) support for dissident increases from 2.6% (7.8%) to 28.6% (34.4%). Recommendations by Glass Lewis are associated with similar differences in voting outcomes. It is thus expected that leading proxy advisors' recommendations are correlated with contest outcomes. Indeed, dissidents win 69.4% of the contests supported by ISS and only 25.3% otherwise. This evidence is consistent with Alexander, Chen, Seppi, and Spatt (2010), who find that ISS certification is associated with more successful proxy fights by dissidents. Such a difference is comparable to that seen in voting on uncontested proposals.[24]

We further explore the effect of proxy advisor recommendations and report the results in Figure 1. We first form a comparable sample of uncontested director elections and Say-on-Pay votes using the ISS Voting Analytics database. We match mutual funds in our dataset and the ISS Voting Analytics such that we observe votes in management proposals and proxy contests for a common sample of mutual funds. We then estimate each fund's sensitivity to ISS recommendations using a linear regression predicting the probability the fund votes for management. For each fund, we recover two "ISS betas": one estimated using management proposals and one estimated using proxy contests. We sort funds' ISS betas for management proposals into deciles, and then in Figure 1 we plot the within-decile average proposal betas on the x-axis against within-decile average proxy contest betas on the y-axis, with the 45-degree line in red.

[24]The difference is an upper-bound for the actual "sway margin" by ISS, reflecting correlations between the views of ISS and those of institutions that subscribe to ISS services. Malenko and Shen (2016) show that ISS influences about 25% of the votes in say-on-pay voting using a careful identification design.

[Insert Figure 1 here.]

Several patterns emerge. First, the average change in ISS betas is close to zero, consistent with the result reported in Table 4, Panel A. This result, however, masks considerable heterogeneity among funds. Funds with low sensitivity to ISS recommendations when voting on proposals see their ISS betas increase when voting on proxy contests, revealed by the positioning of the left-most deciles above the 45-degree line. These are the funds that are most supportive of management when voting on management proposals, suggesting that it is only in proxy contests where they see outcomes as consequential enough to warrant dissent; for these contests, an ISS recommendation provides a valuable source of information. In contrast, funds with high sensitivity to ISS recommendations when voting on proposals see their ISS beta *decrease* when voting on proxy contests, revealed by the positioning of the right-most deciles below the 45-degree line. This result is consistent with these funds' mechanically following ISS recommendations when voting on proposals because the returns on gathering independent sources of information are low. For proxy contests, however, this tradeoff favors more frequent disagreement with ISS, because the benefits of voting "correctly" in proxy contests are higher.

The results we report in Table 4, Panel A suggest that, when a dissident is a hedge fund, mutual funds vote its full and partial slate 20.3% and 24.6% of the time, compared with support rates of 5.1% and 22.0% 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%, 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 that there is some degree of agreement between traders and voters about the extent to which activism enhances value.[25]

Panel B summarizes the results we find for our fund-level variables. Passive funds, although they comprise only 18.6% of all funds in our sample, comprise 42.1% of fund-event observations. The average fund has a portfolio value of $3.9 billion, with 0.4% of its assets invested in a target firm, which amounts to 0.2% of its outstanding stock. As of the 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% (1.9%). The results reported in columns (4) through (13) imply that there is no association between voting behavior and fund size, investment as a

[25] See Levit, Malenko, and Maug (2021) for a model that characterizes the relation between median voters and marginal traders.

percentage of fund assets, or investment as a percentage of firm equity. Moreover, long-term shareholders, as measured by holding horizons, are no more pro-management than short-term shareholders, contradicting a popular narrative according to which activists represent the interests of short-term investors. Funds that have experienced a higher basis-adjusted return are, unsurprisingly however, more likely to support management.

The average support rates reported in columns (4) through (13) of Panel B suggest that passive funds are more likely to vote for management in proxy contests. Relative to active funds, passive funds are 7.5% less (8.5% more) likely to support the dissident's (management's) full slate. On the other hand, the partial support rates are comparable, suggesting that passive funds are more likely to resort to moderate forms of dissent. Panel A of Figure 2 plots the differences in support rates between active and passive funds for each year in our sample. It is clear that active funds are consistently more likely to support dissidents, but this gap largely narrows in the last two years of our sample. Further, Panel B of Figure 2 provides a visual representation of the active-passive gap reported in Table 4, Panel B for each of the five voting choices. It is evident from their support rates for the full and partial management slates that passive funds are more pro-management than active funds.

[Insert Figure 2 here.]

### *3.3.3. Voting Patterns by Top Mutual Fund Families in Proxy Contests*

As illustrated in the DuPont case discussed in Section 2.2, the largest asset managers are likely to be pivotal voters, especially in close contests. Their voting behavior thus warrants additional discussion. In Table 5, Panel A we report voting patterns for the top ten families by assets under management.[26] The top three fund families—BlackRock, Vanguard, and State Street (the "Big Three")—collectively managed about $14 trillion in assets as of December 2017, most of which are passively managed. Vanguard is the most frequent voter in our sample, participating in 90.8% of all proxy contests between 2007 and 2017, followed by BlackRock and Fidelity. The smallest institution among the top ten asset managers, Northern Trust, voted in 134 proxy contests.

[Insert Table 5 here.]

[26] As in Table 4, here we compute average support rates by weighing fund-event observations equally within a given fund family. Internet Appendix Table IA6 repeats the analysis in Table 5 weighting contests equally within a given fund family.

The voting decisions of the top ten mutual fund families affirm the presence of a positive relationship between the share of passive funds within a family and support for management. The "Big Three" are generally pro-management: their support rates for full or partial dissident slates range from 16.3% by Vanguard to 37.3% by BlackRock. A significant fraction of funds from BlackRock and State Street vote for partial slates, whether those of dissidents or those of management, indicating some nuance in their voting decisions. At the other end of the spectrum, Goldman Sachs Funds, American Funds, and Prudential are almost all actively managed. Their support rates for dissidents are considerably higher, at 69.2%, 57.14%, and 42.5%, respectively.

In Panel B, we rank fund families by their average support rates for dissidents. We restrict the sample to fund families that vote in at least 20% of the proxy contests in our sample and report the five most pro-dissident and the five least pro-dissident families. Gabelli is the most pro-dissident family, followed by Mutual of America, Goldman Sachs Asset Management, Nuveen Investments, and SunAmerica Asset Management, with support rates for dissidents ranging from 60.6% to 74.6%. On the other end, Guggenheim Investments is the least pro-dissident family, voting for dissidents in only 10.9% of events. Vanguard and State Street also appear on the list of the least pro-dissident fund families.

### *3.3.4. Voting by Withholding*

While voting affirmatively for individual candidates is the most natural way for shareholders to express their preferences, shareholders are also able to signal their disapproval of some candidates by withholding their votes. Withholding is commonly used in uncontested proposals and precatory elections, where a large share or majority of withheld votes often leads to changes that cater to shareholder sentiment (Del Guercio, Seery, and Woidtke (2008)). In contested elections, withholding votes may be considered inferior to voting affirmatively for a preferred candidate for the outcome to aggregate investor preferences (Hirst (2018)). As shown in Figure 2, Panel B, however, close to 6% (18%) of the voted proxy cards in our sample involve withheld votes on management (dissident) slates. Two frictions are responsible for this phenomenon. First, as discussed in Section 2, the lack of a universal proxy makes it impossible for some individual funds to convey their desired board compositions via "mixing-and-matching' of nominees from both ballots. Instead, they compromise by voting for only a subset of nominees from the relatively favored side between management and dissidents. Second, some funds may resort to withholding votes on a subset of management nominees as a way of expressing dissension without appearing to be anti-management because, after all, they still vote on the management card.

A mutual fund's decision to withhold a vote ought to have an impact when its withholding is concentrated on a nominee from whom other funds have also decided to withhold their votes. Such concentrated voting, which we refer to loosely as "coordination," increases the odds that withheld votes materially impact voting outcomes, as opposed to a situation in which investors randomly select the nominees from which they will withhold their votes. We utilize a statistical test that is designed to distinguish explicitly between the two types of withholding behavior. We first search for contests where mutual funds return proxy cards—either management's or a dissident's—with affirmative "For" votes for some while withholding votes from others. We then compare the candidate receiving the most withholding votes with the counterfactual outcome where withholding funds independently and randomly select the individual candidates from whom to withhold their votes. To account for common voting guidelines within fund families, we conduct the test at the fund-family level to err on the conservative side. 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 identity of nominees from whom to withhold their votes. We restrict the sample to proxy contests in which at least two families submit withholding 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 $\alpha$-tails ($\alpha$ = 10%, 5%, and 1%). We then record the percentage of events where the observed maximum withholding statistic exceeds each $\alpha$-tail. If this percentage exceeds $\alpha$, the observed votes support the hypothesis that predicts coordinated votes across fund families.[27] It is important to note that such an outcome does not require explicit communication or collusion, and may simply result from funds acting on common information, such as candidates' track records, or public signals, such as proxy advisors' recommendations.

We report the results in Table 6. We observe 48 (74) events where funds submitted partial withholding votes on management (dissident) proxy cards. On average, there are 4.8 (3.9) candidates up for election on management (dissident) cards whose names are not listed on an opponent's card. In 60.4% (71.6%) of contests, the number of withholding votes received by the weakest management (dissident) candidate exceeds the 10% threshold under the null; the frequency of exceeding the 1% threshold is 39.6% (55.4%). The p-values for

[27]Note that we are comparing an extremum statistic against its null distribution, instead of the common mean test.

such deviations to occur under the null are all smaller than 0.001. The results reported in Table 6 further demonstrate the role of ISS as a potential coordinating signal. When ISS explicitly recommends from which nominees to withhold votes, 80.0% (69.8%) of events exceed the 1% tail under the null, higher than the percentage across all events. While the ISS effect is large, we continue to find evidence of coordinated withholding even in the absence of explicit recommendations from ISS on the identities of candidates from whom to withhold votes. When we consider withholding on management cards (dissident cards) only in contests where ISS recommends that investors vote on a dissident card (management card), 29.2% (41.7%) exceed the 1% tail under the null.

[Insert Table 6 here.]

Importantly, we find that coordinated withholding materially impacts contest outcomes: 46.4% (67.9%) of management (dissident) candidates who received the highest number of withholding votes were not elected. More importantly, in 26.9% (52.6%) of such cases, the number of withholding votes exceeds the "winning margin," such that the candidate would have been elected if the withhold votes she received were instead cast as affirmative "For" votes. Finally, comparing withheld votes from active and passive funds suggests there is little disagreement: in most contests, an equal share of active and passive funds agreed on the most-withheld nominee.

## 4. Mutual Fund Voting in Proxy Contests

### *4.1. Determinants of Mutual Fund Support for Dissidents*

In this section, we use our voting dataset to formally explore the most important variables explaining mutual fund support for dissidents in proxy contests. We estimate the following linear regression at the firm-fund-year level:

$$Vote_{i,j,t} = X_{i,t}\gamma + Z_{i,j,t}\lambda + \alpha_{FF12} + \alpha_t + \alpha_j \text{ (or } \alpha_{i,t}) + \epsilon_{i,j,t}. \quad (1)$$

The dependent variable, $Vote_{i,j,t}$, is the vote cast by fund ($j$) at firm ($i$) in year ($t$). As explained in Section 3.1.2, we classify votes into five ordered levels, which we code as follows: full support for management = 0; partial support for management = 0.25; abstention = 0.5; partial support for dissident = 0.75; and full support for dissident = 1. Because we normalize the range of variation to one, the fitted values for the dependent variable can be interpreted as the probability of supporting 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. $\alpha_{FF12}$, $\alpha_t$, $\alpha_{i,t}$ and $\alpha_j$ are fixed effects, representing Fama-French 12 industry group, year, event, and funds, respectively.

We report the regression results in Table 7. 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 5% level as our threshold for statistical significance.

[Insert Table 7 here.]

The results reported in columns (1) and (2) show that support for dissidents decreases significantly with market capitalization, suggesting stronger support for dissidents' agendas at smaller firms. 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. For example, a one-standard deviation decrease in a fund's basis-adjusted return increases the probability that it will support a dissident by 3.1 percentage points. Basis-adjusted return does not, however, predict support once event fixed effects are included, indicating that past stock returns explain voting behaviour in the cross-section but not within a given event. In addition, the coefficient on operating performance, or $ROA$, is significant, but only in the specification without fund fixed effects.

The significant positive coefficient on $HHI$ 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 late in their lifecycles. All these firm and industry conditions render "change" at a target firm more appealing.

Hedge fund dissidents receive support that is 13.1 to 14.4 percentage points higher than other dissidents. Interestingly, investors are unimpressed by the sheer number of activist campaigns launched by a dissident, as the number of such campaigns is negatively correlated with shareholder support. Neither investment size nor holding horizon is related to shareholder support.

Passive funds are about ten percentage points less likely to vote for dissidents. The same pattern is echoed in Bubb and Catan (2020), who find that passive managers are

significantly more pro-management when voting on both shareholder- and management-initiated proposals. Because a fund's passive status is exogenous, in that it is determined at the inception of a fund and does not change over time, its strong relationship with support for management in proxy contests cannot be explained by reverse causality or an omitted factor that affects both variables.[28]

By incorporating fund fixed effects in the specification used to generate the results reported in column (2), the estimates are purged of unobserved fund heterogeneity that may be correlated with the residual in the voting regression. In other words, $\alpha_j$ in equation (1) represents inherent fund stances toward shareholder activism.[29] Without fund fixed effects, the estimates could be biased, because a fund's inherent stance may be correlated with firm characteristics through (actively-managed) funds' non-random selection of portfolio firms. The high consistency of the coefficients in columns (1) and (2) suggests that endogeneity arising from unobserved fund heterogeneity does not drive our results.

In the same vein, for column (3) of Table 7 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 actively-managed funds to support a dissident. The fact that the coefficient is nearly identical to its counterpart in the pooled cross-section suggests that the composition between active and passive funds across firms does not impact the estimate of the gap in their pro-dissident stances.

The active-passive gap revealed in Table 7 suggests that the two types of funds may vote in systemically different ways, which we examine in more detail to obtain the results in Table 8. The results reported in columns (1) and (2) of Panel A reiterate that passive funds are more likely than active funds to support management slates and less likely to support dissident slates. Conditional on returning dissident cards, passive funds are more likely to withhold votes from certain nominees. The results reported in the last two columns of Panel A, however, reveal considerable heterogeneity across passive funds. Passive funds managed by the Big Three fund families support full management slates in 64.6% of contests, significantly higher than the 51.7% support rate among non-Big Three passive funds. Similarly, Big-Three passive funds support full dissident slates in only 14.0%

[28] It is worth noting that this result does not contradict Appel, Gormley, and Keim (2019), who show that activism is more likely to escalate to more confrontational interventions, including proxy contests, conditional on activist campaigns, if the target has more passive ownership.

[29] Given the focus of this study, we remain agnostic about the causes for heterogeneity in pro-activist stance among institutional investors. Possible causes include fund family-wide governance policies and the extent of business relations with portfolio firms (Cvijanovic, Dasgupta, and Zachariadis (2016)).

of contests, while non-Big Three passive funds do so in 22.3% of contests.

[Insert Table 8 here.]

For column (1) of Panel B, we repeat the voting regression associated with Table 7 but separate the indicator variable *Passive* into two separate variables, *Passive-Big Three* and *Passive-Non Big Three*. The respective coefficients, $-0.200$ and $-0.044$, confirm the contrast in voting behavior between the two groups of passive funds. Although both coefficients are significant, they suggest that Big Three passive funds are four times more pro-management than other passive funds. Overall, these results indicate that the active-passive gap is driven largely by the largest mutual fund families.

Finally, in the last two columns of Panel B we report separate voting regressions for active and passive funds. 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*). Further, a passive fund is more likely to support management when the firm represents a large share of its portfolio; the opposite effect holds for active funds, but it the coefficient is not significant at the 5% level.

### *4.2. Extracting Mutual Fund Pro-Activist Stances from Voting Records*

Given that shareholder support determines the winning side in a proxy contest, rational activists should pick battles in companies with sympathetic shareholder bases and try to win over their support. Gauging shareholder support is also necessary given that dissidents and insiders tend to hold quite comparable stakes, and the support of disinterested shareholders is therefore crucial for the success of a campaign.[30] Whether dissidents can count on shareholders as their "friends" is driven by two factors. The first is situational: All shareholders are expected to lean more decisively towards a dissident when incumbent management performs poorly, as shown in Table 7. The second, and equally important factor, concerns shareholder heterogeneity in their stances toward activism. Some institutional shareholders are more open-minded about shareholder rights while others hold views thaat are more management/board-centric. In other words, in the same situation there is a spectrum of shareholder friendliness toward dissidents reflecting their inherent stances.

[30] Fos and Jiang (2016) report that, in proxy contests, average ownership by incumbent management and dissidents is 10.9% and 9.6%, respectively.

In regression equation (1), we treat each fund's fixed effect, $\alpha_j$, as its "pro-dissident stance." The results reported in Table 7 shows that adding fund fixed effects increases the adjusted R-squared from 12% in column (1) to 20% in column (2), revealing that a large share of the variation in voting outcomes is explained by fund identity. We further add event fixed effects ($\alpha_{i,t}$) for column (3) and extract each fund's fixed effect from this final specification as its stance measure. The inclusion of event fixed effects helps to address endogeneity concerns related to mutual funds' selection of portfolio firms. Specifically, a given fund may tend to hold certain firms where support for dissidents is high as a result of factors that are unrelated to shareholders' pro-dissident stances. When we add event fixed effects, each fund fixed effect, $\alpha_j$, is estimated using within-event variation in voting. A fund with a higher stance measure is therefore more likely to vote for dissidents than other shareholders who vote *in the same contest*. The inclusion of event fixed effects not only filters out potential endogenous matching between firms and some funds, but is also designed to capture shareholders' inherent "friendliness" beyond event-specific circumstances, such as satisfaction with current management team, firm performance, or dissident's track record.

We summarize our estimated stance measures in Table 9. In Panel A, we report the relationship between fund stance and fund characteristics. We first group funds into quintiles based on their stance measures, where the first quintile (fifth quintile) contains the least (most) pro-dissident funds. Within each quintile, we then take the average fund characteristic across all funds. Several patterns emerge. Approximately one-third of funds in each of the lowest two quintiles are passive funds, while only 13.5% of funds in the highest quintile are passive, indicating that passive funds are less pro-dissident than active funds. Across all funds, the correlation between stance and passive status is significantly negative ($-0.14$). In addition, large funds are disproportionately represented in the lowest stance quintile, driven by the concentration of funds from the Big Three fund families. There is, however, no noticeable difference across the remaining four quintiles, and across all funds, the correlation between stance and fund size is only $-0.04$. Finally, there is no clear relationship between stance and the remaining fund characteristics.

[Insert Table 9 here.]

In Panel B, we aggregate our stance measures at the family level. Within each fund family we average across all stance measures, weighting by the number of contests in which each fund votes. This allows us to rank fund families by their inherent pro-dissident stance. We report the five most and least pro-dissident fund families, restricting the sample to fund

families that vote in at least 20% of the contests in our sample. Compared with the results reported in Panel B of Table 5, which simply ranks funds based on average support rates, here we observe a different ranking for the most pro-dissident fund families in Table 9. Goldman Sachs Asset Management's pro-dissident stance, while supporting dissidents with the third-highest rates among all fund families, does not rank among the top five. This suggests that this asset manager tends to participate in proxy contests where dissidents receive strong support from all shareholders. Once we adjust for the "merit" of these contests, which is absorbed by the event fixed effect, Goldman Sachs Asset Management does not appear more pro-dissident than its peers. Similar reasoning suggests that T. Rowe Price is among the most pro-dissident fund families. At the other end of the spectrum, Vanguard Group, State Street, and Wilmington Trust remain among the least pro-activist asset managers.

### *4.3. Integrating Mutual Fund Voting in Proxy Contests with Dissident Targeting of Firms*

#### *4.3.1. Model Specification*

Because the regressions estimated in Table 7 are estimated using only proxy contests that proceed to the voting stage, they are reduced-form and may not capture mutual funds' true voting behavior. From a dissident's perspective, the decision to initiate a proxy contest involves picking a target from a set of candidate companies and, once the contest is underway, deciding whether to proceed to the voting stage, to settle with management, if possible, or to withdraw. Of course, voting outcomes are observed only when a contest does proceed to the voting stage. To analyze this joint system of targeting and voting, we estimate the following parsimonious partial-observability model:

$$Contest^k_{i,t} = W_{i,t}\beta^k + \bar{Z}_{i,t}\eta^k + \alpha^k_{FF12} + \alpha^k_t + u^k_{i,t}, \qquad k \in \{0,1,2,3\} \tag{2a}$$

$$Vote_{i,j,t} = X_{i,t}\gamma + Z_{i,j,t}\lambda + \alpha_{FF12} + \alpha_t + \alpha_j + \epsilon_{i,j,t}, \qquad \text{observed when } k = 1. \tag{2b}$$

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 $k \in \{0,1,2,3\} = \{\text{not targeted}, \text{voted contest}, \text{settlement}, \text{withdrawal}\}$. The coefficients for $k = 0$, corresponding to not being targeted in firm-year $(i,t)$, are normalized to zero.

Equation (2b) predicts $Vote_{i,j,t}$, the vote cast by fund $(j)$ at firm $(i)$ in year $(t)$. Crucially, this decision is observed only if a contest proceeds to the voting stage. Although the vector of firm characteristics that are relevant to a dissident's targeting decision, $W_{i,t}$, overlaps with the determinants of voting $(X_{i,t})$, we adopt alternative notations for the two sets of variables, for two reasons. First, certain variables, such as dissident track records,

are relevant only once targeting materializes, that is, when $k \neq 0$, and are thus omitted from the targeting equation. Second, the variables are measured at different times, as described in Section 3.2.4. $W_{i,t}$ is measured as of the announcement date for targets; for non-targets, it is measured as of March of the fiscal year to approximate when dissidents would have made the decision not to target a certain firm. On the other hand, $X_{i,t}$ is measured just prior to shareholder meetings, which usually occur in May or June. Finally, because a shareholder base is an important part of "picking friends" by dissidents, equation (2a) includes $\bar{Z}_{i,t}$, which aggregates each fund variable $Z_{i,j,t}$ to the firm-year level using each fund's ownership weights, which are proportional to their voting power. It is worth noting that $\bar{Z}_{i,t}$ includes the ownership-weighted average of $\alpha_j$, measuring the average pro-dissident stance of the shareholder base of targets and non-targets.

The two equations are integrated because the residuals $u^1_{i,t}$ and $\epsilon_{i,j,t}$ are potentially correlated. A company is more likely to be targeted, and a contest is more likely to reach the voting stage rather than be withdrawn, when anticipated (unobservable) shareholder support is high. There is no clear prediction, however, from economic theory as to whether stronger shareholder support will favor or disfavor a vote versus a settlement. Insofar as a settlement is mutually agreed upon by both parties, it must deliver to each party more favorable outcomes than if they were to lose a contest but not as favorable as they would be if they were to win. Thus, strong shareholder support will encourage a dissident to persist to the voting stage but will also induce management to offer a settlement with terms that are lucrative for the dissident.[31]

The two-stage multinomial model with partial observability, developed in multiple papers, especially Lee (1983) and then Dahl (2002) and Bourguignon, Fournier, and Gurgand (2007), is well suited to such a setup. The model is based on the insight in Heckman (1979). We replace the assumption of binary selection with selection into four possible states, and we assume extreme-value, rather than normal, distributions for the errors in the selection equations. In the first step, we estimate the probability of 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 $J = \Phi^{-1}(P^{k=1}_{i,t})$ transforms the probability of a voted contest, $P^{k=1}_{i,t}$, into a standard normal distribution, and $\phi[\Phi^{-1}(P^{k=1}_{i,t})]$ into the corresponding density of a standard normal distribution. Finally, the Lee bias correction term for all contests that

[31] The settlement of an activist campaign is akin to the settlement of litigation to avert going to trial in court. The literature on the economics of litigation and settlements (see Spier (2007), Wickelgren (2013) and Daugherty and Reinganum (2017)) provides insights into why and when cases settle. Bebchuk, Brav, Jiang, and Keusch (2020) discuss on the determinants of settlements between firms and activists in detail.

reach a vote is calculated as:

$$L_{i,t} = -\frac{\phi[J(P_{i,t}^{k=1})]}{\Phi[J(P_{i,t}^{k=1})]}, \tag{3}$$

which is analogous to the inverse mills ratio in the Heckman (1979) two-step model.[32]

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 on the sample of observations with observed votes (i.e., selection state $k = 1$):

$$Vote_{i,j,t} = X_{i,t}\gamma + Z_{i,j,t}\lambda + \eta L_{i,t} + \alpha_{FF12} + \alpha_t + \alpha_j + \epsilon'_{i,j,t}. \tag{4}$$

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 $\eta$ is informative of the nature of the selection bias because it is *negatively* proportional to the correlation, $corr(\epsilon_{i,j,t}, u^1_{i,t})$. 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.

In most Heckman-type models, identification is achieved using an instrumental variable in the selection equation that is excluded from the second stage. In our setting, however, we do not believe there are underlying economic factors that affect dissidents' targeting decisions but not mutual funds' voting decisions. Instead, we aim for identification using two sources of variation. First, the variables used in the two equations are measured at different points in time. The median time lag between proxy contest announcements and shareholder voting is 137 days. Second, the variables are measured at different levels of aggregation. While the voting equation includes fund-level characteristics in $Z_{i,j,t}$, the targeting equation includes aggregate firm-year level variables in $\bar{Z}_{i,t}$.[33] Both factors break down the collinearity between the two equations.[34]

[32] The negative sign in front of equation (3) is discretionary but we follow the procedure in Lee (1983). Note that it negates the sign of the correlation, as we discuss below. In Internet Appendix Table IA8 we repeat the analysis using the Heckman two-step model.

[33] Such a setting is analogous to analyzing firm-level responses to state-level policy changes.

[34] As in the Heckman two-step model, identification may also be afforded by non-linearity in equation (3). However, identification based on non-linearity alone is hardly justified, as it tends to have low power and suffers from issues similar to those associated with weak instruments (French and Taber (2010)).

*4.3.2. Discussion of the Empirical Results*

In Table 10 we report the results obtained by estimating the system in (2a) and (2b) using the Lee (1983) two-step approach. In the first three columns report the coefficients from the first-stage estimates, predicting each of the three outcomes following the announcement of a proxy contest—voted, settled, and withdrawn—relative to the outside option of not targeting a firm in a given year. In the fourth column, we show the second-stage voting regression with the Lee bias-correction term. Several results are insightful.

[Insert Table 10 here.]

First, a pro-dissident stance taken by a company's shareholder base predicts the occurrence of a proxy contest, whether it proceeds to the voting stage (significant at the 1% level) or to a settlement (significant at the 10% level). Moreover, the coefficient associated with the voted state is 2.5 times larger than that of the settled state. Translating into "odds ratios," which are exponentiated coefficients in logit models,[35] a one-standard deviation increase in the pro-dissident stance of a firm's shareholder base increases the odds of seeing a voted proxy contest by 28% and a settled proxy contest by 10%, relative to the unconditional probabilities of 0.51% and 0.80% across all firm-year observations. The ordering of these coefficients across the three outcomes strongly supports the narrative that dissidents "pick friends" before picking proxy fights. A dissident-friendly shareholder base encourages dissidents to launch proxy contests and persist to the voting stage; it also, to a lesser degree, motivates an incumbent management to offer a settlement to avert a fight. On the other hand, and perhaps not surprisingly, shareholders in firms involved in contests that have been withdrawn are indistinguishable from non-targets in their pro-dissident stance. This result is consistent with a finding reported in 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. The main difference, however, is that our measures are designed to reflect shareholders' "friendliness" above and beyond firm-specific characteristics.

Second, the coefficient on the Lee bias-correction term in the second stage is negative

[35] The exponentiated coefficients in logit models correspond to the change in the "odds ratio," or $P(Y = 1)/P(Y = 0)$ where $Y$ is the dependent variable for a one-unit change in the independent variable. When the probability of a positive outcome (e.g., a proxy contest) is small, the odds ratio is approximately the probability itself.

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 measured stances of shareholders.[36] In other words, dissidents' "pick friends" based on information that is hard to measure and quantify, suggesting that dissidents conduct sophisticated research to identify firms whose shareholders favor a change.

Third, compared with the reduced-form regression reported in column (2) of Table 7, which include fund fixed effects, shareholder support for dissidents becomes more sensitive to firm characteristics. The coefficients on Tobin's $q$ and basis-adjusted return are larger and the coefficient on return on assets turns significant. This difference can be attributed to attenuation bias in the reduced-form regression resulting from non-random selection by dissidents. Suppose, for example, that firm underperformance contributes to the merit of a dissident's agenda. Then, in a hypothetical world in which shareholders are asked to choose between incumbents and "change" at shareholder meetings 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, is underperforming, 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 firm performance on shareholder voting.

Because our stance measures are estimated using the entire sample of voted events but are used to predict targeting at any point throughout our sample, we implicitly assume that dissidents have more information about the pro-dissident stances of shareholders than the researcher does. For example, shareholders can learn about a firm's shareholder base by meeting directly with large shareholders or retaining professional proxy services. We relax this assumption in the analysis reported in Internet Appendix Table IA7 and construct the stance measure using only proxy contests that have occurred up to the year of targeting. We re-estimate the Lee correction model and find qualitatively similar results.

Finally, we recognize that our model focuses on addressing selection into voting among the universe of firm-year observations. In this setup, dissidents take the shareholder base of potential targets as given. Another dimension of selection that may impact the targeting-voting dynamics is the extent to which active funds choose their portfolio holdings based

[36]The t-statistics reported in Table 10 are unadjusted for generated regressor bias. In Internet Appendix Table IA9, we use a bootstrap procedure to compute adjusted t-statistics.

on their propensity to support dissidents when proxy contests materialize. We address this issue in two ways. First, we repeat the second-stage regression using only passive funds, where the possibility of discretionary investment is not an issue; results are shown in Internet Appendix Table IA10. Second, in the Appendix, we model investor turnover after a proxy contest announcements (and potentially before record dates). We find that mutual fund shareholder turnover around proxy contests does not exceed the normal frequency of portfolio reshuffling and that the new shareholders neither exhibit pro-dissident stances nor vote in a systematically different way from current shareholders. We conclude that investor selection is unlikely to affect our main results.

### *4.4. Integrating Votes in Voted, Settled, and Withdrawn Contests*

Our analysis of mutual fund voting has so far focused on the subset of proxy contests that proceed to votes, because these are the only events for which we observe a full sample of voting records. As we mention in Section 3.1.2, however, we observe additional voting records for a subset of settled and withdrawn contests that were resolved just before the shareholder meeting. This sample, while incomplete, provides a rare opportunity to observe a "counterfactual," i.e., how shareholders would have voted in proxy contests at firms that did not actually experience proxy contests.

As this is the first time in the literature that votes in settled and withdrawn proxy contests have been documented, we begin with an overview of these unique data. The results reported in Table 11, Panel A, show that we are able to locate fund votes in 42 (of 324) settled contests and 26 (of 128) withdrawn contests. Within this subset, we observe votes by a majority (70%-72%) of the funds that held the stock at the time of the meeting. In settled contests, management receives unusually low shareholder support: the average vote for the full management slate is 43.8%, compared with an average of 50.6% for voted contests. Similarly, dissidents in the set of withdrawn contests receive near zero shareholder support, compared with 24.2% (18.1%) support for the full (partial) dissident slates in voted contests. It is important to note that it is dissidents who "pick the fight" and can thus withdraw voluntarily from a contest. On the other hand, if management expects to lose a vote by a large margin, they can offer a settlement that is acceptable to a dissident. This disparity in support rates suggests that both sides of a contest closely heed to cues from shareholders and will not proceed to the final battle if their "friends" are not present. Finally, while the track records of dissidents in settled contests with early votes are slightly weaker than those of dissidents in voted contests, the track records of dissidents in withdrawn events are markedly weaker: dissidents are less likely to be hedge funds and have previously launched fewer and less intense campaigns.

[Insert Table 11 here.]

Because we observe votes in only a subset of the settled and withdrawn events, we explore whether these events are distinct from the broader sample of settled and withdrawn events and report the results in Panel B. The only significant difference is in the time between the resolution of the contest and the date of the scheduled vote. On average, the settled (withdrawn) events that have early votes are resolved with 5.5 (4.0) days to spare, compared with 48 (32) for the broader set of settled and withdrawn events. No firm characteristic, including shareholders' pro-dissident stance, appears to differ between the samples with and without observed votes.

The results reported in Panel C show which fund characteristics predict early votes in settled and withdrawn contests. The only significant predictors are a fund's passive status and holding horizon. If a fund is passively managed or has held a position for a long time, it is more likely to have an established routine of casting votes at the firm, and hence is more likely to cast votes early, some of which end up preceding to an eventual settlement or withdrawal. Because passive funds tend to be significantly more pro-management than active funds, as shown in Tables 8 and 9, a low pro-dissident stance is associated with a higher likelihood of early votes. If we include both the passive indicator and pro-dissident stance, the latter coefficient becomes insignificant.

The results reported in Panels B and C in Table 11 suggest that a mutual fund's decision to submit an early vote to a contest that results in a settlement or withdrawal is likely driven by routine, administrative voting procedures. Therefore, these additional votes may permit us to more accurately estimate each fund's pro-dissident stance. For Table 12, we repeat the analysis associated with Table 10 with first-stage stance measures estimated from the expanded sample. For economy of space, we report the coefficients directly associated with the "picking friends" effect: the coefficients on shareholder stance in the first-stage regression predicting the three contest outcomes and the coefficient on the Lee bias-correction term in the second stage.

[Insert Table 12 here.]

In Panel A, we restate the results reported in Table 10 to facilitate comparison. For Panel B, we pool the additional votes from settled and withdrawn contests into the sample of voted contests and use this pooled sample to estimate pro-dissident stance. Because there are considerably more voted events, these stance measures may insufficiently reflect the information contained in the settled and withdrawn events with early votes. We therefore

present a third stance measure, for which we re-sample with replacement from the settled and withdrawn events, such that the sample used to estimate stance contains the same number of settled and withdrawn events in the entire sample (324 and 128, respectively). We repeat this procedure 500 times and take each fund's average stance measure across bootstrap subsamples.

Our qualitative inferences are unchanged when we add these alternative stance measures to the first-stage analysis: shareholder stance predicts the occurrence of voted and settled proxy contests, but not withdrawn contests. Moreover, shareholder stance has a stronger effect on the probability of reaching a vote than on the probability of reaching a settlement. Finally, the coefficient on the Lee bias-correction term is negative and significant across all specifications, confirming a positive correlation between unobservable factors that lead dissidents to target certain firms and unobservable factors that lead shareholders to support dissidents if a vote occurs.

## 5. Conclusion

Using a comprehensive sample of proxy contests and mutual fund voting records from 2007 through 2017, we study the joint determinants of mutual funds' voting decisions and dissidents' target selection. Weaker firm performance and valuation, as measured by Tobin's $q$, return on assets, and stock returns, predict stronger mutual fund support for dissident nominees. Passively-managed funds are significantly less likely than active funds to vote for dissidents; but passive funds remain active monitors in that their voting outcomes exhibit similar sensitivities to the merits of cases as active funds. In addition, we find a "picking friends" effect along both observable and unobservable dimensions. Firms whose shareholders adopt high pro-activist stances, as revealed by funds' voting records, are more likely to experience proxy contests that proceed to the voting stage or are settled. Furthermore, the correlation between the unobservable determinants of dissidents' targeting decisions and mutual funds' support for dissident nominees is positive. Overall, our study demonstrates the pivotal role that institutional investors play in shaping outcomes of proxy contests between management and dissident shareholders.

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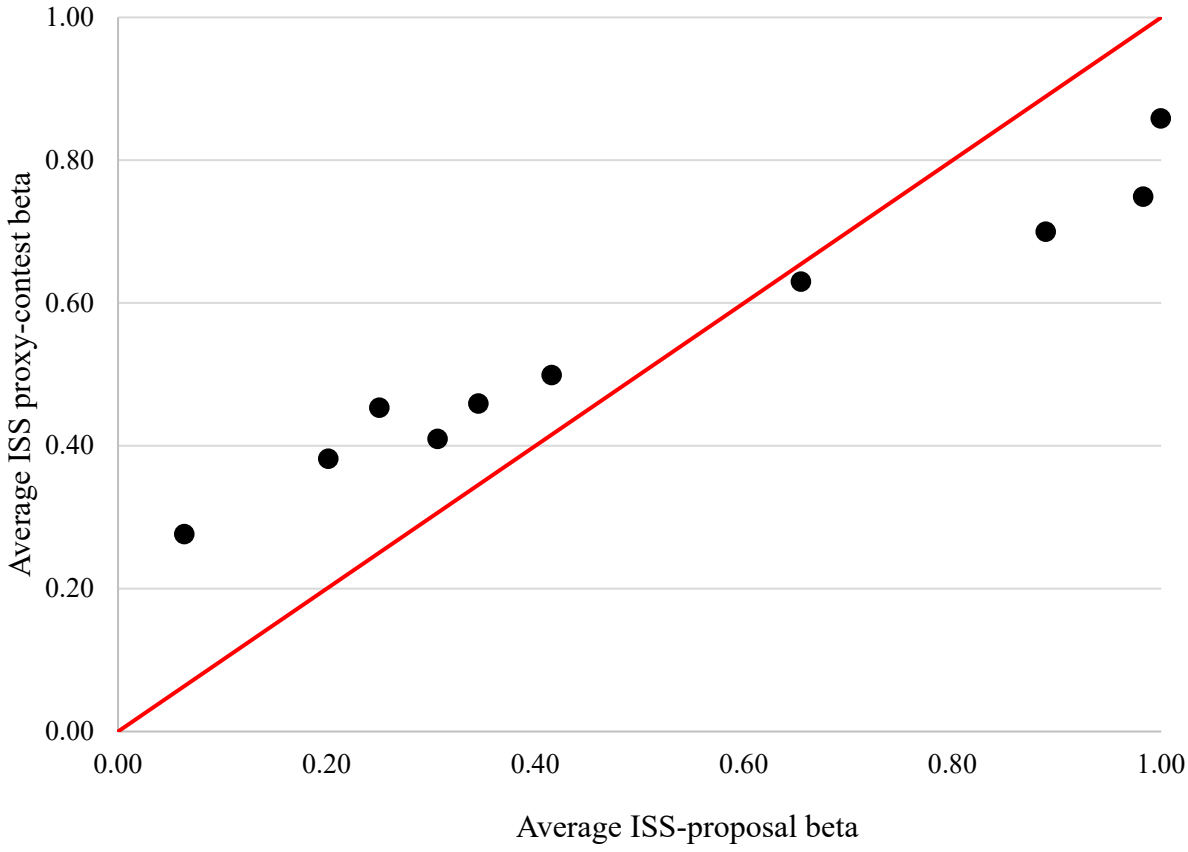
**Figure 1: Sensitivity to ISS recommendations in management proposals and proxy contests**

This figure compares mutual funds' voting sensitivities to ISS recommendations in management proposals versus their sensitivity in proxy contests. We first form a sample of Say-on-Pay votes and uncontested director elections held over the period of 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:

$$VoteForMgmt_{ij} = \beta_0 + \beta_{ij} ISSForMgmt_j + \epsilon_{ij}$$

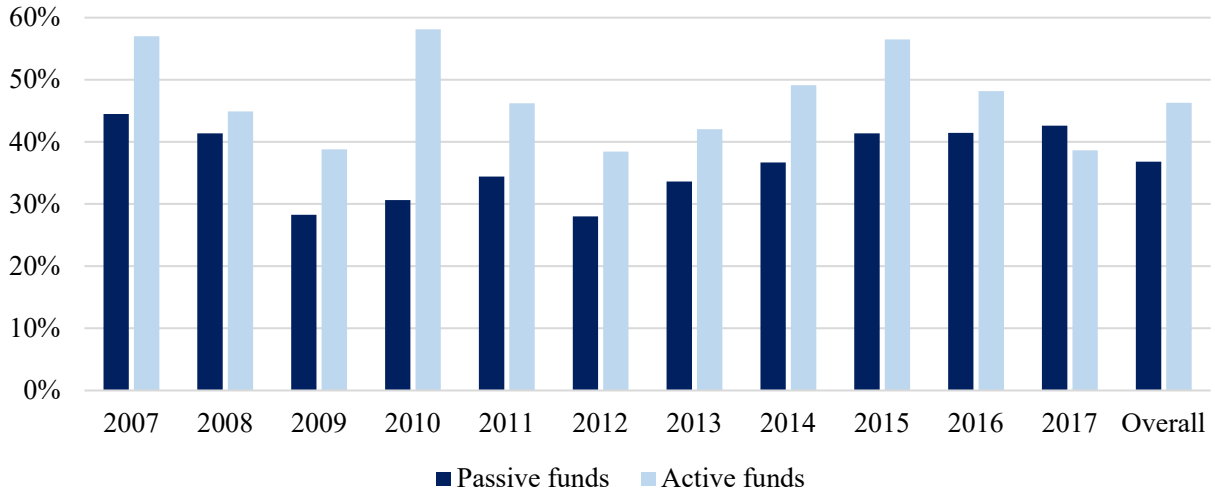
where *i* identifies a mutual fund and *j* identifies a proposal. We run two regressions per fund: 1) using all management proposals voted on by each fund and 2) using all proxy contests voted on by the same fund. For the management-proposals sample, we drop abstentions unless the voting base includes abstentions. 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.



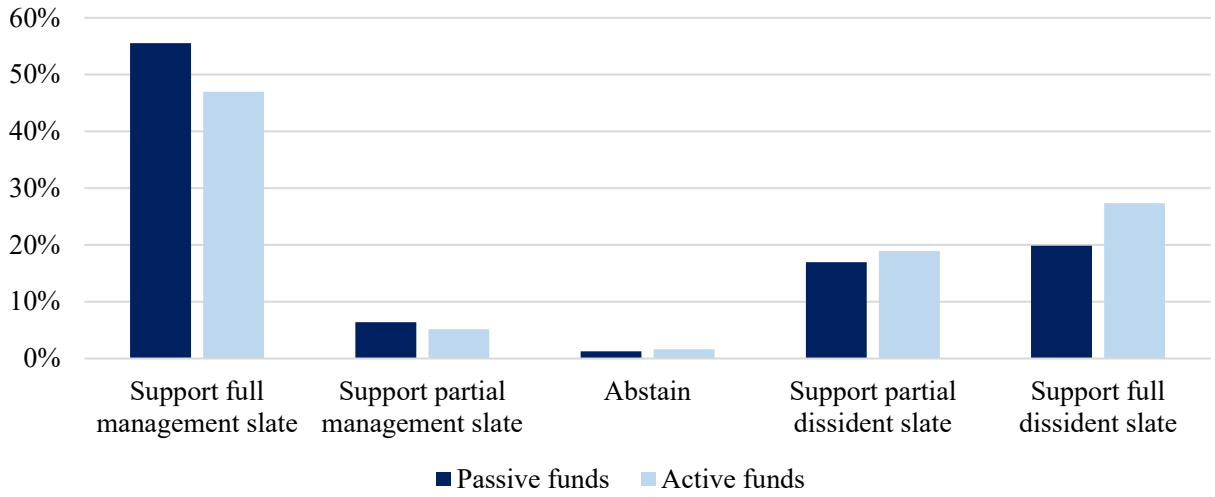
## Figure 2: Passive and Active Fund Support for Dissidents in Proxy Contests

This figure displays support rates by passive and active mutual funds for management and dissident slates of directors in proxy contests over the period of July 2006 through June 2017. We define a fund as passively managed if its name includes the indexation-related strings as described in section 3.2.2, or if the fund is categorized as an index fund/ETF in the CRSP Mutual Fund database. We report in Panel A how support for dissidents' full and partial slates of directors vary 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 by passive funds per year. The light bars plot the corresponding average votes in favor of dissidents by active funds. We report in Panel B 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. 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.

**Panel A: Yearly support for dissidents by passive and active funds**




**Panel B: Passive and active funds' support for management and dissident slates**



## Table 1: Top Ten Fund Family Votes in DuPont's Proxy Contest with Trian Partners

This table provides information on ownership and voting by DuPont's top ten 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. Fund voting records are 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 holds DuPont shares and column (2) reports the numbers and percentages 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 fractions 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 fractions 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% |

## Table 2: Proxy Contests by Year, Industry, and Dissident Type, 2007 – 2017

This table provides descriptive statistics for proxy contests by year in Panel A, by industry in Panel B, and by dissident type in Panel C. We identify proxy contests through contested proxy statements (PREC14A and DEFC14A), 13D filings, and SharkRepellent over the period of 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 dates of contests, valid book values of assets within two years prior to meeting dates, and valid market capitalization as of month-end's immediately prior to meeting dates. In Panel A we report the annual numbers of proxy contests that were either voted, settled, or withdrawn. In Panel B, columns (1) and (2) provide the numbers and proportions 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 the t-statistics for the differences between columns (2) and (3). In Panel C, columns (1) and (2) provide the numbers and proportions of proxy contests by dissident type, and columns (3) and (4) show the numbers and proportions of unique investors by dissident type.

**Panel A: Proxy contests by 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 |

**Panel B: Proxy contests by Fama-French 12 industry classification**

| | No. of events | % in industry | % among non-target firms | *t*-stat. of diff. 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% | |

**Panel C: Proxy contests by type of dissident**

| | No. of proxy contests | % of total | No. of unique dissidents | % 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 3: Characteristics of Target and Non-Target Firms

This table provides information about the characteristics of target firms reaching voted, settled, or withdrawn proxy fights as well as the characteristics of non-target firms. In columns (1)–(3), we report the averages, medians, and standard deviations of firm characteristics across target firms. For each target firm, we select a non-target 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-stats 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 annoncement 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 abovementioned 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 with control firm in same industry-year closest in MV | |
|---|---|---|---|---|---|
| | Average | Median | Std. Dev. | Avg. Diff. | t-stat. of Diff. |
| *Firms reaching a vote* | (1) | (2) | (3) | (4) | (5) |
| 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 with withdrawn fights* | | | | | |
| 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 4: Mutual Fund Support by Event and Fund Characteristics

This table provides information about event and fund 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 × 1 + #Proposal × 2 + #Confront × 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 ("CAR") 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 3.2.2 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 level of a support rate takes the value of 0, while a high level 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 in Panel A (Panel B).

**Panel A: Event characteristics**

| | | | | Event-level support rate 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 | 51.7% | 100% | 50.1% | | | | | | | | | | |
| Event–level support for dissident | 41.9% | 44.3% | 34.6% | | | | | | | | | | |
| ISS for dissident | 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 | 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 | 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 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 | 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 | 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 5: Mutual Fund Voting in Proxy Contests by Fund Family Subsamples

This table provides information about proxy voting by selected subsamples of mutual fund families. In Panel A we report proxy voting by the top ten mutual fund families by assets under management ("AUM"). We exclude Pacific Investment Management Company from our list as it is primarily a fixed-income fund company. 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 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. Panel B provides information on proxy voting by the most and least pro-dissident fund families among frequent institutional voters. We rank fund families by the sum of support for full dissident slates and support for partial dissident slates. Frequent institutional voters are fund companies that voted in at least 20% of the 207 proxy contests held between 2007 and 2017. Voting records are obtained from N-PX filings. AUM data are collected from N-CSR, 10-K, 10-Q filings, and fund company websites.

**Panel A: Top 10 mutual fund families' voting behavior**

| Fund family name | AUM as of 2017 ($ trillion) | 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) |
| 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 | 52.5% | 3.3% | 2.1% | 21.9% | 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% | 0.0% | 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% |

**Panel B: Most and least pro-dissident fund families among frequent voters**

| 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 | 109 | 85.3% | 0.5% | 3.3% | 2.5% | 8.4% | 54.5% |
| 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 6: Analysis of Withheld Votes

In this table we report the results of an analysis of the subset of voted proxy contests where funds submit withhold votes on either management or dissident cards. We restrict the sample to contests in which at least two funds return the same card withhold votes on 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]." Panel A provides summary statistics on the withholding sample. Panel B presents the results of the test for "coordinated withholding" across funds, adjusting for family-level decision-making. For each contest with withholding votes on either the management or dissident card, we simulate the distribution of the number of withhold votes the most-withheld nominee receives under the null hypothesis that mutual funds randomly select the identities of nominees from whom to withhold support. We report the percentages of contests where the number of withhold votes the most-withheld nominee receives exceeds the 90$^{th}$, 95$^{th}$ and 99$^{th}$ percentiles of each contest's simulated distribution.

**Panel A: Summary of proxy contests with withhold votes**

| | *Management card* | *Dissident card* |
|---|---|---|
| | (1) | (2) |
| Number of contests | 48 | 74 |
| Mean (standard deviation) across contests | | |
| Number of director nominees | 4.8 (2.2) | 3.9 (1.9) |
| Number of withholding funds | 22.2 (20.1) | 67.3 (85.7) |
| Number of withholding families | 8.3 (7.8) | 23.7 (25.0) |

**Panel B: Tests for coordinated voting across funds**

| | *% of contests with maximum withholding above null* | | |
|---|---|---|---|
| | 90$^{th}$ percentile | 95$^{th}$ percentile | 99$^{th}$ 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% | 55.40% |
| ISS recommends partial dissident card | 86.05% | 83.72% | 69.77% |
| ISS recommends management card | 58.33% | 50.00% | 41.67% |

## Table 7: Determinants of Mutual Funds' Support for Dissidents

The results we report in this table reveal the relationship between mutual funds' voting choices and observable variables in the sample of proxy contests that reached a vote. We report how firm, dissident, fund, 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 3 and 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.

| | Dependent variable: Mutual fund supports dissident {0, 0.25, 0.5, 0.75, 1} | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| Log(MV) | -0.010** | -0.021*** | |
| | [-2.56] | [-3.54] | |
| $q$ | -0.032*** | -0.027*** | |
| | [-7.32] | [-5.59] | |
| ROA | -0.095** | -0.083 | |
| | [-2.10] | [-1.64] | |
| Leverage | 0.055** | 0.059* | |
| | [2.06] | [1.94] | |
| Dividend yield | 0.171* | 0.197* | |
| | [1.85] | [1.95] | |
| HHI | 0.307*** | 0.346*** | |
| | [7.49] | [6.90] | |
| Institutional ownership | 0.036 | 0.015 | |
| | [1.42] | [0.53] | |
| Hedge fund dissident | 0.131*** | 0.144*** | |
| | [5.16] | [4.92] | |
| # past events by dissident | -0.010*** | -0.012*** | |
| | [-4.51] | [-5.86] | |
| Past campaign intensity | 0.003 | 0.005 | |
| | [0.67] | [1.08] | |
| Passive fund | -0.092*** | | -0.100*** |
| | [-3.62] | | [-4.24] |
| Log(fund assets) | -0.004 | -0.006 | -0.005 |
| | [-0.49] | [-0.39] | [-0.65] |
| Investment as % of fund assets | 0.102 | 0.180 | 0.315 |
| | [0.34] | [0.15] | [1.55] |
| Holding horizon (year) | 0.002 | -0.000 | 0.001 |
| | [0.92] | [-0.18] | [0.40] |
| Basis-adjusted return | -0.084*** | -0.091*** | -0.008 |
| | [-3.98] | [-4.25] | [-0.49] |
| Fiscal year FEs | Yes | Yes | No |
| Industry FEs (FF-12) | Yes | Yes | No |
| Fund FEs | No | Yes | No |
| Event FEs | No | No | Yes |
| Observations | 20,350 | 18,790 | 20,748 |
| Adj. R-squared | 0.12 | 0.20 | 0.40 |

## Table 8: Passive Fund Voting in Proxy Contests

This table provides evidence relating voting outcomes to fund investment styles. In Panel A, we show average support rates for the management and dissident slates by types of funds. 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 class of funds. Similarly, we also calculate the percentage of abstentions, where a fund abstains if it submits either a dissident or management's blank proxy card or both blank proxy cards. In column (3) we show support rates by funds that are passively managed and managed by BlackRock, Vanguard, or State Street, and in column (4) we show support rates by funds that are passively managed and not managed by BlackRock, Vanguard, or State Street. For Panel B, we adopt the regression specification of Table 7. 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 column (1), the variables *Passive fund: Big Three* and *Passive funds: Non-Big Three* are as defined in Panel A. All other independent variables are as defined in Tables 3 and 4. For columns (2) and (3), we restrict the sample to passively managed and actively managed funds, respectively. 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: Average support rates by investment style**

| | Active funds | Passive funds | Passive funds: Big Three | Passive funds: Non-Big Three |
|---|---|---|---|---|
| | (1) | (2) | (3) | (4) |
| Vote for management slate | 52.10% | 61.91% | 73.35% | 57.08% |
| Full management slate | 46.95% | 55.52% | 64.56% | 51.70% |
| Partial management slate | 5.15% | 6.39% | 8.79% | 5.38% |
| Abstain | 1.62% | 1.27% | 0.61% | 1.55% |
| Vote for dissident slate | 46.28% | 36.82% | 26.04% | 41.38% |
| Partial dissident slate | 18.93% | 16.97% | 11.99% | 19.08% |
| Full dissident slate | 27.35% | 19.85% | 14.05% | 22.30% |

**Panel B: Heterogeneity in voting patterns by investment style**

| | All funds | Passively managed funds | Actively managed funds |
|---|---|---|---|
| | (1) | (2) | (3) |
| Log(MV) | -0.010** | -0.025*** | -0.017* |
| | [-2.45] | [-4.08] | [-1.94] |
| $q$ | -0.032*** | -0.018*** | -0.038*** |
| | [-7.44] | [-2.99] | [-7.45] |
| ROA | -0.092** | -0.131** | -0.042 |
| | [-2.06] | [-2.62] | [-0.60] |
| Leverage | 0.061** | 0.117*** | -0.020 |
| | [2.19] | [2.93] | [-0.50] |
| Dividend yield | 0.152* | 0.288* | 0.114 |
| | [1.68] | [1.73] | [0.80] |
| HHI | 0.303*** | 0.299*** | 0.398*** |
| | [7.34] | [4.67] | [6.55] |
| Institutional ownership | 0.040 | 0.007 | 0.024 |
| | [1.56] | [0.20] | [0.49] |
| Hedge fund dissident | 0.132*** | 0.091*** | 0.187*** |
| | [5.32] | [2.96] | [5.88] |
| # past events by dissident | -0.010*** | -0.015*** | -0.009*** |
| | [-4.52] | [-8.07] | [-2.67] |
| Past campaign intensity | 0.003 | 0.014*** | -0.002 |
| | [0.58] | [2.66] | [-0.25] |
| Log(fund assets) | 0.002 | 0.001 | -0.018 |
| | [0.33] | [0.04] | [-1.18] |
| Investment as % of fund assets | 0.216 | -5.000*** | 2.028* |
| | [0.74] | [-4.85] | [1.65] |
| Holding horizon (year) | 0.002 | 0.004* | -0.003 |
| | [0.98] | [1.98] | [-1.40] |
| Basis-adjusted return | -0.094*** | -0.055** | -0.132*** |
| | [-5.29] | [-2.10] | [-6.50] |
| Passive fund: Big Three | -0.200*** | | |
| | [-4.22] | | |
| Passive fund: Non-Big Three | -0.044** | | |
| | [-2.00] | | |
| Fiscal year FEs | Yes | Yes | Yes |
| Industry FEs (FF-12) | Yes | Yes | Yes |
| Fund FEs | No | Yes | Yes |
| Event FEs | No | No | No |
| Observations | 20,350 | 8,762 | 10,007 |
| Adj. R-squared | 0.13 | 0.20 | 0.21 |

## Table 9: Fund Characteristics and Stance

This table provides information on correlations between fund characteristics and the fund-level fixed-effect stance measure. We estimate each fund's stance measure as the fixed effect recovered from the voting regression with both event and fund fixed effects. *Passive fund* is a dummy variable that equals 1 for a passively managed fund and 0 otherwise. *Fund assets* and *Investment as % of fund assets* are measured at quarter ends before contested meetings. *Holding horizon* is the number of years a fund holds a firm's shares. *Basis-adjusted return* is the percentage deviation of the current stock price from the aggregate cost basis. Panel A provides averages of fund characteristics by stance quintile. Fund characteristics are averaged by fund across all proxy contests. Panel B lists the most and least pro-dissident fund families among frequent institutional voters based on stance. Families are ranked by average fund-level stance measures across all funds within a given family. Individual funds are weighted by the number of contests in which they voted. Frequent institutional voters are fund companies that voted in at least 20% of the 207 proxy contests that were held between 2007 and 2017. Voting records are obtained from N-PX filings. AUM data are collected from N-CSR, 10-K, 10-Q filings, and fund company websites.

**Panel A: Fund characteristics sorted by stance**

| | Average within each quintile | | | | | |
|---|---|---|---|---|---|---|
| Stance quintile | Passive fund | Fund assets ($ billion) | Investment as % of fund assets | Investment as % of firm equity | Holding horizon (year) | Basis-adjusted return |
| 1 | 32.55% | 2.40 | 0.86% | 0.20% | 2.47 | 6.33% |
| 2 | 34.33% | 1.25 | 0.67% | 0.18% | 2.42 | 7.75% |
| 3 | 28.85% | 1.25 | 0.62% | 0.17% | 2.36 | 8.85% |
| 4 | 22.96% | 1.44 | 0.59% | 0.15% | 2.21 | 5.18% |
| 5 | 13.49% | 1.37 | 0.98% | 0.30% | 2.27 | 6.29% |

**Panel B: Most and least pro-dissident fund families by fund stance among frequent voters**

| Fund family name | AUM as of 2017 ($ billion) | No. of proxy contests voted | Average stance measure | 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) | (3) | (4) | (5) | (6) | (7) | (8) |
| *Most pro-dissident families* | | | | | | | | | |
| Gabelli Asset Management | 43.1 | 70 | 1.514 | 23.8% | 0.4% | 1.2% | 15.7% | 58.9% | 0% |
| T. Rowe Price Group | 991.1 | 102 | 0.529 | 39.3% | 8.3% | 1.3% | 20.0% | 31.0% | 18.8% |
| Mutual of America | 21.2 | 42 | 0.519 | 28.0% | 0% | 0.8% | 32.0% | 39.2% | 33.3% |
| Nuveen Investments | 970.5 | 89 | 0.463 | 30.4% | 7.9% | 0.5% | 27.6% | 33.6% | 20.7% |
| SunAmerica Asset Management | 79.2 | 86 | 0.458 | 31.8% | 6.1% | 1.5% | 30.8% | 29.8% | 0% |
| *Least pro-dissident families* | | | | | | | | | |
| Vanguard Group | 4,940.4 | 188 | -1.218 | 78.2% | 4.3% | 1.2% | 4.6% | 11.7% | 76.9% |
| State Street | 2,781.7 | 118 | -0.725 | 60.1% | 12.4% | 1.4% | 17.0% | 9.1% | 66.7% |
| Wilmington Trust | 89.2 | 97 | -0.724 | 73.6% | 3.1% | 1.9% | 6.3% | 15.1% | 0% |
| Royce Investment Partners | 15.0 | 59 | -0.623 | 59.5% | 0.0% | 0.8% | 26.7% | 13.0% | 0% |
| Penn Mutual Asset | 23.5 | 92 | -0.587 | 55.3% | 10.7% | 1.9% | 21.4% | 10.7% | 66.7% |

## 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),* and *Basis-adjusted return* 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 Table 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) | -0.148** | -0.250*** | -0.129* | -0.049*** |
| | [-2.46] | [-4.71] | [-1.67] | [-6.23] |
| *q* | -0.057 | -0.142*** | -0.131** | -0.039*** |
| | [-1.38] | [-3.28] | [-2.08] | [-7.95] |
| ROA | 0.310 | 0.352 | 1.319** | -0.108** |
| | [0.63] | [0.85] | [2.00] | [-2.01] |
| Leverage | 0.288 | -0.583* | -0.706 | 0.119*** |
| | [0.81] | [-1.83] | [-1.37] | [3.37] |
| Dividend yield | -0.857 | 0.943 | 1.545 | 0.244** |
| | [-0.58] | [0.86] | [0.93] | [2.41] |
| HHI | -0.845* | -0.170 | -0.871 | 0.312*** |
| | [-1.68] | [-0.45] | [-1.37] | [5.91] |
| Institutional ownership | 0.930*** | 1.370*** | 0.570 | 0.139*** |
| | [2.85] | [4.98] | [1.38] | [3.68] |
| Log(fund assets) (firm-level) | 0.023 | -0.040 | -0.037 | |
| | [0.27] | [-0.64] | [-0.39] | |
| Inv. as % of fund assets (firm-level) | 1.798 | 1.120 | -1.036 | |
| | [0.85] | [0.56] | [-0.19] | |
| Holding horizon (year) (firm-level) | 0.004 | 0.003 | 0.005 | |
| | [1.44] | [1.28] | [1.19] | |
| Basis-adjusted return (firm-level) | -0.557** | -0.879*** | -1.022*** | |
| | [-2.56] | [-4.72] | [-3.43] | |
| Fund stance measure (firm-level) | 2.718*** | 1.147* | 0.167 | |
| | [3.78] | [1.85] | [0.16] | |
| Hedge fund dissident | | | | 0.145*** |
| | | | | [4.84] |
| # past events by dissident | | | | -0.009*** |
| | | | | [-3.87] |
| Past campaign intensity | | | | 0.004 |
| | | | | [0.79] |
| Log(fund assets) | | | | -0.008 |
| | | | | [-0.52] |
| Investment as % of fund assets | | | | 0.200 |
| | | | | [0.16] |
| Holding horizon (year) | | | | 0.001 |

| | | | | |
|---|---|---|---|---|
| | | | | [0.69] |
| Basis-adjusted return | | | | -0.095*** |
| | | | | [-4.67] |
| Lee correction term | | | | -0.357*** |
| | | | | [-5.55] |
| Fiscal year FEs | Yes | Yes | Yes | Yes |
| Industry FEs (FF-12) | Yes | Yes | Yes | Yes |
| Fund FEs | No | No | No | Yes |
| Observations | 37,660 | 37,660 | 37,660 | 18,698 |
| Adj. R-squared | | | | 0.21 |
| Pseudo R-squared | 0.05 | 0.05 | 0.05 | |

## Table 11: Settled and Withdrawn Events with Observed Votes

This table presents information on fund votes for events that were eventually settled or withdrawn. In Panel A, we summarize results for fund voting and dissident characteristics for all contests with observed votes. We define *# fund votes per event* as the number of funds we observe voting in a given event and *% of funds casting votes* as 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. Panel B provides results for firm characteristics associated with settled and withdrawn contests with observed votes. For Panel C, we use a linear probability model to study what factors predict whether a fund votes in settled and 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 3 and 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.

**Panel A: Fund votes in contests with observed votes**

| | Voted | Settled | Withdrawn |
|---|---|---|---|
| | (1) | (2) | (3) |
| # events | 207 | 42 | 26 |
| # fund votes per event | 140 | 110 | 130 |
| % of funds casting votes | --- | 69.9% | 72.2% |
| 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 | 0.78 | 0.50 |
| # past campaigns | 1.82 | 1.11 | 0.72 |
| Past campaign intensity | 2.01 | 1.71 | 1.41 |

**Panel B: 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 |
| Firm-aggregated stance measure | -0.030 | -0.011 | -1.09 |
| *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 |
| Firm-aggregated stance measure | -0.033 | -0.025 | -0.41 |

**Panel C: Characteristics of funds voting in settled and withdrawn events**

| | Dependent variable: Dummy for mutual fund voting | | | |
|---|---|---|---|---|
| | Settled events | | Withdrawn events | |
| | (1) | (2) | (3) | (4) |
| Passive fund | 0.101*** | | 0.118*** | |
| | [3.45] | | [4.56] | |
| Fund stance measure | | -0.138** | | -0.197*** |
| | | [-2.12] | | [-2.88] |
| Log(fund assets) | -0.010 | -0.013 | 0.003 | 0.000 |
| | [-1.30] | [-1.56] | [0.39] | [0.02] |
| Investment as % of fund assets | 2.449** | 1.285 | 1.492 | 0.186 |
| | [2.49] | [0.94] | [1.28] | [0.14] |
| Holding horizon (year) | 0.001** | 0.001*** | 0.001** | 0.001*** |
| | [1.98] | [2.61] | [2.42] | [3.39] |
| Basis-adjusted return | -0.013 | -0.005 | 0.014* | 0.009 |
| | [-0.42] | [-0.14] | [1.70] | [1.00] |
| Event FEs | Yes | Yes | Yes | Yes |
| Observations | 4,537 | 3,756 | 3,299 | 2,837 |
| Adj. R-squared | 0.16 | 0.17 | 0.36 | 0.38 |

## Table 12: Integrated Analysis of Proxy Contests and Voting using Alternative Measures of Fund Stance

This table extends the analysis associated with Table 10 using alternative estimation samples for the fund stance measure. For each estimation sample, we report four coefficients and their associated *t*-statistics from the estimated system of equations for dissident targeting (first stage) and investor voting (second stage). Second-stage standard errors are clustered at the fund-family level and *, ** and *** indicate statistical significance at the 10%, 5% and 1% levels, respectively. We report in columns (1)–(3) the first-stage loadings on the firm-aggregated stance measure for reaching a vote, settlement, and withdrawal, respectively. In column (4), we report the second-stage Lee correction terms. Panel A provides the results obtained from the baseline specification associated with Table 10. For Panel B, we re-estimate the fund stance measure by adding to the estimation sample votes from settled and withdrawn events for which we observe votes. In Panel C, we resample the settled and withdrawn events for which we observe votes such that the number of settled (withdrawn) events in the estimation sample equals the total number of settled (withdrawn) events, including those without observed votes. For each iteration, we sample with replacement from the settled and withdrawn events with early votes, add these votes to the main voting sample, and recover each fund's fixed effect from the voting regression with both event and fund fixed effects. We repeat this resampling procedure 500 times and compute each fund's stance measure as its average fixed effect over all iterations. We then aggregate each fund's average stance measure to the firm level, as in Table 10.

**Panel A: Baseline specification**

| First-stage loadings on stance measure | | | Second-stage |
|---|---|---|---|
| Voted | Settled | Withdrawn | Lee correction term |
| (1) | (2) | (3) | (4) |
| 2.718*** | 1.147* | 0.167 | -0.357*** |
| [3.78] | [1.85] | [0.16] | [-5.55] |

**Panel B: Adding votes from settled and withdrawn events**

| First-stage loadings on stance measure | | | Second-stage |
|---|---|---|---|
| Voted | Settled | Withdrawn | Lee correction term |
| (1) | (2) | (3) | (4) |
| 3.082*** | 1.357** | 0.361 | -0.343*** |
| [4.08] | [2.03] | [0.33] | [-5.27] |

**Panel C: Resampling to total number of settled/withdrawn events**

| First-stage loadings on stance measure | | | Second-stage |
|---|---|---|---|
| Voted | Settled | Withdrawn | Lee correction term |
| (1) | (2) | (3) | (4) |
| 3.242*** | 1.402** | 0.510 | -0.227*** |
| [4.14] | [1.97] | [0.43] | [-3.42] |

# Appendix

## Appendix A1. Mutual Fund Voting Participation and Trading Prior to Voting

Actively managed mutual funds may invest in or divest from companies based on their propensity to support dissidents in proxy contests. A priori, the direction of selection is ambiguous based on findings from existing literature. Li, Maug, and Schwartz-Ziv (2021) show that shareholder trades are related to their voting in proposals around shareholder meetings. A fund manager might take a "Wall Street walk" by selling shares of a firm she perceives to be poorly managed to avoid voting against the manager (Admati and Pfleiderer (2009); Edmans (2009)). Alternatively, a pro-activist fund may accumulate a block in a firm that is vulnerable to, or already experiencing, activist situations (Kedia, Starks, and Wang (2021), He and Li (2019)).

This section examines what motivates investor selection along three margins: (i) no show, or non-participation in voting despite holding shares in a target firm; (ii) buy-into-voting, or voting by shareholders who accumulate their stakes after announcements of proxy fights; and (iii) sell-out-of-voting, or selling by shareholders prior to voting but after sannouncement of proxy fights. Overall, we find that position turnover rates that involve actively managed funds in target companies are no higher than normal rates and that the average pro-dissident stance of shareholders involved in these situations is not statistically different from that of their peers. The evidence presented in this section mitigates the concern that shareholder turnover biases our estimation of shareholder voting and dissident targeting, which takes the shareholder base as given.

*A1.1 No Show*

Shareholders are not legally required to vote, although most institutional shareholders do, especially after the 2003 SEC rule change mandating disclosure of votes by mutual funds. "No-show" funds are those that have shareholdings but do not participate in the voting process. It is difficult to classify no-show funds with certainty, because quarterly holdings disclosures do not enable us to pin down changes in holdings relative to record dates. Given this constraint, we define no-shows as 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 stock in a target company from quarter-end $Q$-2 to quarter-end $Q$, where $Q$ is the quarter that contains the record date (we set the requirement for holdings status in $Q$-2 to rule out frequent inter-quartile portfolio changes by some funds; the results are similar if we drop the $Q$-2 filter); (iii) there is no disclosed votes by the fund in the target company. By these criteria, about 14.3% of funds that were eligible to vote in the proxy contest did not; they were "no-shows." This turnout rate is consistent with rates reported in prior studies that estimate the overall participation rate to be around 75%, with a much lower participation

rate among retail investors, at around 30% (see Cvijanovic, Groen-Xu, and Zachariadis (2020) and Brav, Cain, and Zytnick (2021)).

The results are reported in the Internet Appendix. In columns (1)–(3) of Table IA11 we report the determinants of no-shows. A no-show is more likely when a firm is small, a fund's stake is small relative to its own assets under management, and the firm's overall institutional ownership is high. The benefit gained by influencing control is presumably lower in these situations. Funds are more likely to skip voting if ISS or Glass Lewis supports a dissident slate, perhaps to avoid confrontation with management. Importantly, the estimate of the fund-level shareholder pro-dissident stance measure is insignificant, suggesting that inherent attitudes toward activism do not drive selection into no-show.

One reason commonly cited for no-shows is that shares lent out and not recalled on record dates cannot be voted by owners. In recent years, however, institutional shareholders have become conscious about calling back shares on loans prior to record dates, especially for high-stakes voting events (Aggarwal, Saffi, and Sturgess (2015)). Our finding that passively managed funds, which are significantly more likely to lend out their shares, are no more likely to skip voting confirms that stock lending is unlikely to be a driving force in this setting.

Overall, these results are consistent with 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.

*A1.2 Buy-into-Voting and Sell-out-of-Voting*

A fund can choose to join the vote in a proxy contest by buying into a company after it has become the target of an activist but before the record date, analogous to what risk arbitrageurs do in M&A transactions (Jiang, Li, and Mei (2018)). Again, with quarterly holdings information, we can approximate buy-into-voting only by requiring that a voting fund has disclosed holdings in quarter $Q$ but not in quarter $Q$-1 or $Q$-2, where $Q$ is the quarter that contains the record date. According to this definition, 6.3% of the funds at the voting stage are new entrants. To obtain the results reported in columns (4)–(6) of Table IA11 we analyze the characteristics of buy-into-voting funds as opposed to the characteristics of all funds that cast votes in a contest, restricting the sample to actively managed funds. Overall, buy-in funds are more likely to target firms with relatively high market capitalization but low institutional ownership, where the expected benefit of influencing voting outcomes is presumably greater.

We find that buy-into-voting investors' average pro-dissident stance measure is similar to that of other shareholders. Moreover, they vote in favor of management at a 52.2% rate, which is indistinguishable from the 52.8% support rate among pre-standing shareholders. Within the same event, buy-in investors'

support rate for management is 2.7 percentage points higher than that for pre-standing shareholders, but the difference is not statistically significant.

Next, we classify an actively managed sell-out-of-voting fund as a non-voting fund that has disclosed holdings in quarters *Q*-2 and *Q*-1 but not in *Q*. We require the fund to disclose 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. By these criteria, 6.8% of funds are sell-out-of-voting funds. Relative to the stakes for voting funds, sell-out funds' stakes in target companies are smaller as a share of their portfolios and have been held for shorter horizons. Sell-out funds appear to be neutral, however, in their inherent stance favoring incumbent management over dissidents. Because proxy advisors usually issue recommendations after record dates, funds that want to get in or out for voting-related motives cannot condition their decisions on proxy advisors' recommendations. Therefore, we omit variables relating to proxy advisors from the buy-in and sell-out regressions.

Naturally, there is turnover in mutual fund holdings even in the absence of proxy contests. Therefore, turnover prior to shareholder meetings may not be attributable solely to proxy contests, especially if the turnover rate is not excessive. We therefore conduct a placebo test to assess the relative magnitude of position turnover by funds leading up to proxy contests. In the test, we set "pseudo-event time" to two quarters prior to the announcement dates of proxy contests for target firms. The results are reported in Table IA12.

First, we find the "pseudo buy-in" and "pseudo sell-out" rates to be 7.2% and 8.9%, respectively. These rates are slightly higher than the shareholder turnover levels around proxy contests. In other words, shareholder turnover around proxy contests is not higher than at other times. Second, the same set of variables predict buy-ins and sell-outs in Table IA11 and Table IA12. This suggests that the turnover that we do observe around proxy contests is driven by common factors motivating portfolio turnover.

# Internet Appendix

## "PICKING FRIENDS BEFORE PICKING (PROXY) FIGHTS: HOW MUTUAL FUND VOTING SHAPES PROXY CONTESTS"

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

## Internet Appendix Table IA1: Sample Voting Records

This appendix provides samples from four N-PX files for funds submitting their voting records in the DuPont 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 the Vanguard Institutional Index Funds. Available at: https://www.sec.gov/Archives/edgar/data/862084/000093247115007129/institutionalindexfunds0870.htm

**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 the Vanguard Admiral Funds. Available at: https://www.sec.gov/Archives/edgar/data/891190/000093247115006938/admiralfunds1841.htm

**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 the Northern Lights Fund Trust III. Available at: https://www.sec.gov/Archives/edgar/data/1537140/000158064215003790/nlftiiinpx1.htm

**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 the Northern Lights Fund Trust III. Available at: https://www.sec.gov/Archives/edgar/data/1537140/000158064215003790/nlftiiinpx1.htm

**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 |

## Internet Appendix Table IA2: An Example of Fund Abstention

This appendix 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 *WisdomTree Earnings 500 Fund* submitted in the N-PX annual report of proxy voting records by the WisdomTree Trust. Available at:
https://www.sec.gov/Archives/edgar/data/1350487/000119312515306915/d84606dnpx.txt

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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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## Internet Appendix Table IA3: Measurement, Censoring, and Winsorization of Regression Variables

This table provides additional details on the measurement, censoring, and winsorization of the variables described in Section 3.2 in the text that appear in our analyses.

**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. Left-tail bounded at 0 by construction. | N/A |
| 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-event. Left-tail bounded at 0 by construction. | Right-winsorized at 1% across all firm-years. Left tail bounded at 0 by construction. |
| Basis-adjusted return | Thomson Reuters S12/CRSP | Right-winsorized at 1% across all fund-events. Left tail bounded at -1 by construction. | Right-winsorized at 1% across all firm-years. Left tail bounded at -1 by construction. |

## Internet Appendix Table IA4: Concentration of Mutual Fund Holdings

This table provides information regarding the ownership profiles of target firms that reach votes, settlements, or withdrawals 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 | 2 | 3.1 | 2 |
| 10% | 5.1 | 4 | 7.2 | 5 | 8 | 6 | 7.5 | 5 |
| 15% | 12.0 | 7 | 12.5 | 8 | 20 | 9 | 14.6 | 9 |
| 20% | 19.9 | 12 | 19.0 | 13 | 27 | 14 | 25.5 | 14 |

## Internet Appendix Table IA5: Mutual Fund Support by Event and Fund Characteristics

The structure of this table corresponds to that of Table 4 in the text, providing information on event and fund characteristics in proxy contests that reached a vote. Rather than weighting each fund vote equally as in Table 4, we weight each event equally. In columns (1)–(3) in Panels A and B we 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 for Panel B, we first average a variable across funds in a given event before averaging across all events. *Dissident win* is coded as 1 if a dissident wins the voted contest and 0 otherwise. *Event level support for dissident* is the percentage of funds voting for the dissident's full or partial slate in a given event. *ISS for dissident* (*Glass Lewis for dissident)* is an indicator variable coded as 1 if ISS (Glass Lewis) recommends that investors vote for at least one director nominee from a dissident's slate and 0 otherwise. *Hedge fund dissident* is an indicator coded as 1 if a 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 × 1 + #Proposal × 2 + #Confront × 3) / #All campaigns, where #Communication is the number of events in which a dissident seeks to communicate with 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 or initiates a proxy contest, a lawsuit, or a takeover bid, or wants board representation. *Announcement return* is the cumulative abnormal return ("CAR") between -10 days and +10 days around the announcement of a proxy contest. *Passive fund* is a dummy variable coded as 1 for a passively managed fund and 0 otherwise. We define a fund as passively managed by searching to determine whether its name includes indexation-related strings as described in section 3.2.2 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 the quarter end prior to a contested meeting. *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 to represent the same holding sequence. *Basis-adjusted return* is the percentage deviation of the 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 slate, (ii) partial management slate, (iii) partial dissident slate, and (iv) full dissident slate 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. For Panel A, we group contests into low and high levels based on each contest's event-level characteristic. We then average the support rate across all funds within a given contest before taking the average across events within each low/high group. For Panel B, we group fund-event observations into low and high levels based on the value of each fund characteristic. We first average the support rate across all fund-event observations within a given contest that fall into each of the low or high group. We then take the average across all contest-low/high-level averages. For *ISS for dissident*, *Glass Lewis for dissident*, *Hedge fund dissident*, and *Passive fund*, low level is coded as 0 while high level is coded as 1. For all other variables the cutoff for a high or low level is the median across the event-level values of the characteristic variable.

**Panel A: Event characteristics**

| | | | | Event-level support rate 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 | 51.7% | 100% | 50.1% | | | | | | | | | | |
| Event level support for dissident | 41.9% | 44.3% | 34.6% | | | | | | | | | | |
| ISS for dissident | 55.6% | 100% | 49.8% | 79.9% | 30.2% | 8.2% | 5.1% | 1.1% | 1.9% | 2.3% | 24.9% | 8.6% | 37.8% |
| Glass Lewis for dissident | 34.8% | 0% | 47.8% | 60.8% | 31.7% | 7.1% | 5.0% | 1.7% | 1.4% | 12.8% | 21.1% | 17.7% | 40.7% |
| Hedge fund dissident | 78.3% | 100% | 41.3% | 55.7% | 48.6% | 11.1% | 5.0% | 1.1% | 1.7% | 10.9% | 17.2% | 21.0% | 27.5% |
| # past events by dissident | 1.82 | 0.40 | 2.85 | 49.7% | 50.6% | 7.7% | 4.9% | 1.9% | 1.3% | 13.6% | 18.1% | 27.1% | 25.1% |
| Past campaign intensity | 2.01 | 2.00 | 1.69 | 50.3% | 49.9% | 8.2% | 4.6% | 1.3% | 1.9% | 14.1% | 17.5% | 26.1% | 26.2% |
| Announcement return | 5.1% | 4.4% | 18.6% | 55.9% | 44.4% | 4.8% | 7.9% | 1.8% | 1.4% | 13.7% | 17.9% | 23.8% | 28.4% |

**Panel B: Fund characteristics**

| | | | | Event-level support rate 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 | 43.5% | 44.6% | 19.9% | 45.1% | 57.0% | 6.8% | 5.4% | 1.6% | 1.8% | 16.0% | 15.0% | 30.5% | 20.8% |
| Fund assets ($ billion) | 7.67 | 3.71 | 14.24 | 48.7% | 61.7% | 6.9% | 5.8% | 1.8% | 1.4% | 15.9% | 10.3% | 26.7% | 20.8% |
| Investment as % of fund assets | 0.3% | 0.2% | 0.4% | 52.0% | 45.2% | 6.5% | 6.9% | 1.6% | 2.1% | 16.0% | 14.1% | 23.8% | 31.7% |
| Investment as % of firm equity | 0.4% | 0.2% | 0.8% | 50.5% | 54.2% | 6.8% | 6.5% | 1.8% | 1.5% | 16.0% | 11.8% | 25.0% | 26.0% |
| Holding horizon (year) | 3.15 | 2.94 | 1.61 | 50.3% | 52.8% | 6.6% | 7.0% | 1.8% | 0.9% | 15.6% | 14.8% | 25.8% | 24.5% |
| Basis-adjusted return | -4.1% | 0.4% | 34.4% | 48.9% | 54.0% | 6.6% | 6.9% | 1.9% | 1.0% | 16.3% | 13.6% | 26.3% | 24.5% |

## Internet Appendix Table IA6: Mutual Fund Voting in Proxy Contests

The structure of this table corresponds to that of Table 5 in the text, providing information on proxy voting by selected subsamples of mutual fund families. Rather than weight each fund vote equally as in Table 5, here we weight each event equally. In Panel A we report proxy voting by the top ten mutual fund families by assets under management ("AUM"). We exclude Pacific Investment Management Company from our list as it is primarily a fixed-income fund company. To calculate support for the (i) full management, (ii) partial management, (iii) partial dissident, and (iv) full dissident slates, we average support, coded as 1 if a fund supports the full management/partial management/partial dissident/full dissident slates and 0 otherwise, across funds within a family for a given proxy contest. We then average across proxy contests for that 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. Panel B provides evidence 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 support for a full dissident slate and support for a partial dissident slate. Frequent institutional voters are fund companies that voted in at least 20% of the 207 proxy contests that occurred between 2007 and 2017. Voting records are obtained from N-PX filings. AUM data are collected from N-CSR, 10-K, 10-Q filings, and fund company websites.

**Panel A: Top 10 mutual fund families' voting behavior**

| Fund family name | AUM as of 2017 ($ trillion) | 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) |
| BlackRock | 6.3 | 173 | 53.4% | 8.5% | 1.3% | 18.5% | 18.3% | 91.9% |
| Vanguard Group | 4.9 | 188 | 76.6% | 4.3% | 1.2% | 5.3% | 12.7% | 76.9% |
| State Street | 2.8 | 118 | 58.1% | 15.3% | 3.0% | 14.2% | 9.4% | 66.7% |
| Fidelity Investments | 2.4 | 166 | 47.3% | 7.3% | 2.7% | 17.1% | 25.6% | 22.1% |
| Dreyfus Investments (BNY Mellon) | 1.9 | 75 | 50.7% | 5.3% | 4.0% | 18.7% | 21.3% | 37.5% |
| American Funds (Capital Group) | 1.8 | 34 | 50.8% | 6.6% | 0% | 12.3% | 30.3% | 0% |
| J.P. Morgan Asset Management | 1.7 | 82 | 47.2% | 7.7% | 1.4% | 16.2% | 27.5% | 14.7% |
| Goldman Sachs Asset Management | 1.5 | 45 | 21.5% | 7.1% | 0% | 41.7% | 29.6% | 11.1% |
| Prudential Financial | 1.4 | 100 | 47.8% | 6.7% | 0.2% | 17.9% | 27.4% | 7.7% |
| Northern Trust Investments | 1.2 | 134 | 72.6% | 0.7% | 0% | 8.2% | 18.4% | 62.5% |

**Panel B: Most and least pro-dissident fund families among frequent voters**

| 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* | | | | | | | | |
| Goldman Sachs Asset Management | 1,490.0 | 45 | 21.5% | 7.1% | 0% | 41.7% | 29.6% | 11.1% |
| Mutual of America | 21.2 | 42 | 27.0% | 0% | 2.4% | 31.3% | 39.3% | 33.3% |
| Gabelli Asset Management | 43.1 | 70 | 30.4% | 0.7% | 1.4% | 14.3% | 53.2% | 0% |
| LWI Financial | 16.3 | 113 | 37.2% | 5.3% | 0% | 23.0% | 34.5% | 0% |
| AssetMark, Inc. | 44.0 | 59 | 41.5% | 1.7% | 0% | 21.2% | 35.6% | 36.3% |
| *Least pro-dissident families* | | | | | | | | |
| Guggenheim Investments | 208.0 | 109 | 84.8% | 0.6% | 3.4% | 1.8% | 9.4% | 54.5% |
| Vanguard Group | 4,940.4 | 188 | 76.6% | 4.3% | 1.2% | 5.3% | 12.7% | 76.9% |
| State Street | 2,781.7 | 118 | 58.1% | 15.3% | 3.0% | 14.2% | 9.4% | 66.7% |
| Northern Trust Investments | 1,161.0 | 134 | 72.6% | 0.7% | 0.0% | 8.2% | 18.4% | 62.5% |
| Penn Mutual Asset Management | 23.5 | 92 | 58.2% | 10.9% | 2.2% | 19.4% | 9.4% | 50.0% |

## Internet Appendix Table IA7: Integrated Analysis of Proxy Contests and Voting – Time-Adapted Stance Measure

This table repeats the analysis associated with Table 10 using an alternative measure of fund stance. We estimate each fund's fixed effect using only voted events that have occurred up to the year of 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 the full management slate, votes for the partial management slate, abstains, votes for the partial dissident slate, or votes for the full dissident slate, respectively. In the targeting equation, *Voted, Settled, or Withdrawn* is coded as 1 if a proxy contest results in a vote, is settled, or withdrawn. *Log(fund assets), Investment as % of fund assets, Holding horizon (year),* and *Basis-adjusted return* are aggregated to the firm level by weighting each fund by its investment as a percentage of firm equity. All other independent variables are as defined in Table 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) | -0.187*** | -0.237*** | -0.096 | -0.057*** |
| | [-2.86] | [-4.02] | [-1.16] | [-5.56] |
| *q* | -0.049 | -0.102** | -0.117* | -0.034*** |
| | [-1.18] | [-2.39] | [-1.83] | [-5.83] |
| ROA | 0.349 | 0.141 | 1.191* | -0.094* |
| | [0.68] | [0.31] | [1.73] | [-1.78] |
| Leverage | 0.213 | -0.405 | -1.127* | 0.107*** |
| | [0.57] | [-1.18] | [-1.92] | [3.36] |
| Dividend yield | -0.408 | 0.924 | 1.493 | 0.167 |
| | [-0.27] | [0.78] | [0.84] | [1.31] |
| HHI | -1.060* | -0.230 | -0.329 | 0.274*** |
| | [-1.95] | [-0.55] | [-0.51] | [4.62] |
| Institutional ownership | 1.163*** | 1.477*** | 0.708 | 0.205*** |
| | [3.31] | [4.87] | [1.61] | [6.35] |
| Log(fund assets) (firm-level) | 0.054 | -0.071 | -0.019 | |
| | [0.57] | [-0.96] | [-0.17] | |
| Inv. as % of fund assets (firm-level) | 1.892 | 0.468 | -0.500 | |
| | [0.80] | [0.19] | [-0.09] | |
| Holding horizon (year) (firm-level) | 0.005 | 0.004 | 0.003 | |
| | [1.45] | [1.46] | [0.85] | |
| Basis-adjusted return (firm-level) | -0.534** | -1.024*** | -1.245*** | |
| | [-2.31] | [-4.82] | [-3.72] | |
| Fund stance measure (firm-level) | 2.502*** | 1.476** | 1.087 | |
| | [3.76] | [2.51] | [1.15] | |
| Hedge fund dissident | | | | 0.161*** |
| | | | | [4.58] |
| # past events by dissident | | | | -0.010*** |
| | | | | [-4.14] |
| Past campaign intensity | | | | -0.001 |
| | | | | [-0.16] |
| Log(fund assets) | | | | -0.008 |
| | | | | [-0.43] |
| Investment as % of fund assets | | | | -0.139 |

| | | | | |
|---|---|---|---|---|
| | | | | [-0.11] |
| Holding horizon (year) | | | | -0.001 |
| | | | | [-0.55] |
| Basis-adjusted return | | | | -0.085*** |
| | | | | [-4.09] |
| Lee correction term | | | | -0.352*** |
| | | | | [-4.55] |
| Fiscal year FEs | Yes | Yes | Yes | Yes |
| Industry FEs (FF-12) | Yes | Yes | Yes | Yes |
| Fund FEs | No | No | No | Yes |
| Observations | 33,281 | 33,281 | 33,281 | 17,574 |
| Adj. R-squared | | | | 0.20 |
| Pseudo R-squared | 0.06 | 0.06 | 0.06 | |

## Internet Appendix Table IA8: Integrated Analysis of Proxy Contests and Voting – Heckman Correction

This table repeats the analysis associated with Table 10 using the Heckman two-step procedure to estimate 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 the full management slate, votes for the partial management slate, abstains, votes for the partial dissident slate, or votes for the full dissident slate, respectively. The dependent variable in the first stage probit, *Voted*, is coded as 1 if a firm experiences a proxy contest that reaches a vote and 0 otherwise. In specification 1, we treat firms that experience a proxy contest that reaches a settlement or a withdrawal as non-targets. In specification 2, we exclude such firms from the sample. In the targeting equation, *Log(fund assets), Investment as % of fund assets, Holding horizon (year),* and *Basis-adjusted return* 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 Table 3 in the text. Panel A reports results using the full-sample stance measure, while Panel B features the time-adapted stance measure. 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.

**Panel A: Full-sample stance measure**

| | (1) | | (2) | |
|---|---|---|---|---|
| | Targeting equation: Probit | Voting equation: Linear regression | Targeting equation: Probit | Voting equation: Linear regression |
| Log(MV) | -0.054*** | -0.050*** | -0.055*** | -0.050*** |
| | [-2.57] | [-6.28] | [-2.62] | [-6.22] |
| $q$ | -0.018 | -0.039*** | -0.018 | -0.039*** |
| | [-1.32] | [-7.96] | [-1.35] | [-7.96] |
| ROA | 0.113 | -0.110** | 0.115 | -0.110** |
| | [0.66] | [-2.04] | [0.68] | [-2.03] |
| Leverage | 0.100 | 0.126*** | 0.098 | 0.124*** |
| | [0.79] | [3.49] | [0.78] | [3.45] |
| Dividend yield | -0.240 | 0.258** | -0.234 | 0.257** |
| | [-0.46] | [2.52] | [-0.45] | [2.51] |
| HHI | -0.302* | 0.309*** | -0.306* | 0.309*** |
| | [-1.72] | [5.83] | [-1.74] | [5.82] |
| Institutional ownership | 0.314*** | 0.141*** | 0.320*** | 0.141*** |
| | [2.73] | [3.76] | [2.78] | [3.74] |
| Log(fund assets) (firm-level) | 0.010 | | 0.010 | |
| | [0.34] | | [0.34] | |
| Inv. as % of fund assets (firm-level) | 0.728 | | 0.736 | |
| | [0.85] | | [0.86] | |
| Holding horizon (year) (firm-level) | 0.002 | | 0.002 | |
| | [1.38] | | [1.40] | |
| Basis-adjusted return (firm-level) | -0.201*** | | -0.206*** | |
| | [-2.66] | | [-2.72] | |
| Fund stance measure (firm-level) | 0.971*** | | 0.978*** | |
| | [3.65] | | [3.67] | |
| Hedge fund dissident | | 0.144*** | | 0.144*** |
| | | [4.79] | | [4.81] |
| # past events by dissident | | -0.009*** | | -0.009*** |
| | | [-3.96] | | [-3.99] |
| Past campaign intensity | | 0.004 | | 0.004 |
| | | [0.82] | | [0.81] |

| | | | | |
|---|---|---|---|---|
| Log(fund assets) | | -0.009 | | -0.009 |
| | | [-0.54] | | [-0.53] |
| Investment as % of fund assets | | 0.202 | | 0.203 |
| | | [0.16] | | [0.16] |
| Holding horizon (year) | | 0.001 | | 0.001 |
| | | [0.71] | | [0.70] |
| Basis-adjusted return | | -0.097*** | | -0.097*** |
| | | [-4.80] | | [-4.81] |
| Heckman correction term | | 0.372*** | | 0.365*** |
| | | [5.69] | | [5.60] |
| Fiscal year FEs | Yes | Yes | Yes | Yes |
| Industry FEs (FF-12) | Yes | Yes | Yes | Yes |
| Fund FEs | No | Yes | No | Yes |
| Observations | 36,633 | 18,698 | 36,221 | 18,698 |
| Adj. R-squared | | | | 0.21 |
| Pseudo R-squared | 0.04 | 0.21 | 0.04 | |

**Panel B: Time-adapted stance measure**

| | (1) | | (2) | |
|---|---|---|---|---|
| | Targeting equation: Probit | Voting equation: Linear regression | Targeting equation: Probit | Voting equation: Linear regression |
| Log(MV) | -0.068*** | -0.056*** | -0.069*** | -0.056*** |
| | [-3.01] | [-5.37] | [-3.04] | [-5.28] |
| $q$ | -0.015 | -0.034*** | -0.015 | -0.034*** |
| | [-1.08] | [-5.77] | [-1.11] | [-5.75] |
| ROA | 0.127 | -0.093* | 0.128 | -0.093* |
| | [0.71] | [-1.76] | [0.72] | [-1.76] |
| Leverage | 0.075 | 0.109*** | 0.073 | 0.108*** |
| | [0.56] | [3.37] | [0.54] | [3.33] |
| Dividend yield | -0.099 | 0.181 | -0.094 | 0.177 |
| | [-0.19] | [1.38] | [-0.17] | [1.35] |
| HHI | -0.367* | 0.276*** | -0.371** | 0.278*** |
| | [-1.95] | [4.63] | [-1.96] | [4.64] |
| Institutional ownership | 0.397*** | 0.199*** | 0.403*** | 0.196*** |
| | [3.20] | [6.15] | [3.24] | [6.02] |
| Log(fund assets) (firm-level) | 0.022 | | 0.022 | |
| | [0.67] | | [0.66] | |
| Inv. as % of fund assets (firm-level) | 0.819 | | 0.821 | |
| | [0.90] | | [0.90] | |
| Holding horizon (year) (firm-level) | 0.002 | | 0.002 | |
| | [1.38] | | [1.40] | |
| Basis-adjusted return (firm-level) | -0.188** | | -0.193** | |
| | [-2.34] | | [-2.40] | |
| Fund stance measure (firm-level) | 0.902*** | | 0.909*** | |
| | [3.57] | | [3.59] | |
| Hedge fund dissident | | 0.159*** | | 0.160*** |
| | | [4.51] | | [4.52] |
| # past events by dissident | | -0.011*** | | -0.011*** |
| | | [-4.24] | | [-4.28] |
| Past campaign intensity | | -0.001 | | -0.001 |
| | | [-0.11] | | [-0.12] |
| Log(fund assets) | | -0.008 | | -0.008 |
| | | [-0.44] | | [-0.44] |
| Investment as % of fund assets | | -0.138 | | -0.137 |
| | | [-0.11] | | [-0.11] |
| Holding horizon (year) | | -0.001 | | -0.001 |
| | | [-0.57] | | [-0.57] |
| Basis-adjusted return | | -0.085*** | | -0.086*** |
| | | [-4.15] | | [-4.16] |
| Heckman correction term | | 0.345*** | | 0.334*** |
| | | [4.34] | | [4.22] |
| Fiscal year FEs | Yes | Yes | Yes | Yes |
| Industry FEs (FF-12) | Yes | Yes | Yes | Yes |
| Fund FEs | No | Yes | No | Yes |
| Observations | 32,367 | 17,574 | 32,024 | 17,574 |
| Adj. R-squared | | | | 0.20 |
| Pseudo R-squared | 0.04 | 0.20 | 0.04 | |

## Internet Appendix Table IA9: Integrated Analysis of Proxy Contests and Voting – Adjusted t-Statistics

This table repeats the analysis associated with Table 10 and Internet Appendix Table IA7, adjusting for generated regressor bias in the second stage. For each bootstrap sample, we sample with replacement from the targeting sample and re-estimate each event's Lee correction term. We then re-estimate the second stage for each iteration. We compute the adjusted variance of each coefficient estimate as the sum of its unadjusted variance and the variance of point estimates across bootstrap samples. Unadjusted standard errors are clustered at the fund-family level. We report results for 500 bootstrap samples. 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 the full management slate, votes for the partial management slate, abstains, votes for the partial dissident slate, or votes for the full dissident slate, respectively. In column 1 (2) we report results using the full-sample stance measure (the time-adapted stance measure) in the first stage. 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.

| | Full-sample stance measure in first stage | Time-adapted stance measure in first stage |
|---|---|---|
| | (1) | (2) |
| Log(MV) | -0.049*** | -0.057*** |
| | [-3.50] | [-3.32] |
| $q$ | -0.039*** | -0.034*** |
| | [4.26] | [-4.03] |
| ROA | -0.108 | -0.094 |
| | [-1.60] | [-1.41] |
| Leverage | 0.119** | 0.107** |
| | [2.30] | [2.35] |
| Dividend yield | 0.244** | 0.167 |
| | [2.14] | [1.15] |
| HHI | 0.312*** | 0.274*** |
| | [4.30] | [3.34] |
| Institutional ownership | 0.139** | 0.205*** |
| | [2.03] | [2.80] |
| Hedge fund dissident | 0.145*** | 0.161*** |
| | [4.71] | [4.50] |
| # past events by dissident | -0.009*** | -0.010*** |
| | [-3.20] | [-3.62] |
| Past campaign intensity | 0.004 | -0.001 |
| | [0.75] | [-0.16] |
| Log(fund assets) | -0.008 | -0.008 |
| | [-0.52] | [-0.43] |
| Investment as % of fund assets | 0.200 | -0.139 |
| | [0.16] | [-0.11] |
| Holding horizon (year) | 0.001 | -0.001 |
| | [0.61] | [-0.51] |
| Basis-adjusted return | -0.095*** | -0.085*** |

| | | |
|---|---|---|
| | [-4.52] | [-3.93] |
| Lee correction term | -0.357** | -0.352** |
| | [-2.26] | [-2.14] |
| Fiscal year FEs | Yes | Yes |
| Industry FEs (FF-12) | Yes | Yes |
| Fund FEs | Yes | Yes |
| Observations | 18,698 | 17,574 |
| Adj. R-squared | 0.21 | 0.20 |

## Internet Appendix Table IA10: Integrated Analysis of Proxy Contests and Voting – Passive Funds Only

This table repeats the analysis associated with Table 10 and Internet Appendix Table IA7 with the second-stage sample restricted to passive funds only. The first-stage targeting equation is estimated as in Table 10 and Internet Appendix Table IA7. 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 the full management slate, votes for the partial management slate, abstains, votes for the partial dissident slate, or votes for the full dissident slate, respectively. Specification 1 (2) reports results using the full-sample stance measure (the time-adapted stance measure) in the first 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.

| | (1) | (2) |
|---|---|---|
| | Full-sample stance measure in first stage | Time-adapted stance measure in first stage |
| Log(MV) | -0.048*** | -0.058*** |
| | [-4.61] | [-7.02] |
| *q* | -0.029*** | -0.027*** |
| | [-5.23] | [-4.02] |
| ROA | -0.155*** | -0.146*** |
| | [-2.70] | [-2.84] |
| Leverage | 0.170*** | 0.152*** |
| | [3.40] | [3.79] |
| Dividend yield | 0.317** | 0.350** |
| | [1.99] | [2.08] |
| HHI | 0.263*** | 0.220*** |
| | [3.82] | [3.12] |
| Institutional ownership | 0.113** | 0.186*** |
| | [2.38] | [4.51] |
| Hedge fund dissident | 0.094*** | 0.097*** |
| | [2.99] | [2.69] |
| # past events by dissident | -0.012*** | -0.012*** |
| | [-5.18] | [-6.41] |
| Past campaign intensity | 0.014** | 0.008 |
| | [2.27] | [1.03] |
| Log(fund assets) | 0.000 | -0.001 |
| | [0.01] | [-0.05] |
| Investment as % of fund assets | -5.255*** | -5.468*** |
| | [-5.07] | [-4.96] |
| Holding horizon (year) | 0.005** | 0.004* |
| | [2.43] | [1.90] |
| Basis-adjusted return | -0.061** | -0.050* |
| | [-2.39] | [-1.98] |

| | | |
|---|---|---|
| Lee correction term | -0.316*** | -0.351*** |
| | [-3.18] | [-6.23] |
| Fiscal year FEs | Yes | Yes |
| Industry FEs (FF-12) | Yes | Yes |
| Fund FEs | Yes | Yes |
| Observations | 8,716 | 8,337 |
| Adj. R-squared | 0.20 | 0.20 |

## Internet Appendix Table IA11: 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 proxy contest. *No-show* is coded as 1 if a fund holds the target shares in quarter ends *Q*-2 to *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 quarter *Q*-1 or *Q*-2 and 0 otherwise. *Sell-out-of-voting* is an indicator variable coded as 1 if a non-voting 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 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 | | | Sell-out-of-voting | | |
|---|---|---|---|---|---|---|---|---|---|
| | Coefficient | *t*-stat. | Marg. Prob. | Coefficient | *t*-stat. | Marg. Prob. | Coefficient | *t*-stat. | Marg. Prob. |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Log (MV) | -0.078*** | -5.05 | -2.0% | 0.091*** | 3.50 | 1.3% | -0.023 | -1.34 | -0.3% |
| *q* | -0.005 | -0.46 | -0.1% | 0.009 | 0.36 | 0.1% | 0.013 | 0.91 | 0.2% |
| ROA | 0.099 | 0.79 | 2.5% | 0.390* | 1.68 | 5.5% | -0.140 | -0.90 | -2.0% |
| Leverage | -0.001 | -0.02 | -0.00% | -0.200 | -1.20 | -2.8% | -0.084 | -0.64 | -1.2% |
| Dividend yield | 0.069 | 0.16 | 1.7% | -1.155** | -2.07 | -16.3% | 0.208 | 0.40 | 2.9% |
| HHI | -0.207* | -1.81 | -5.2% | 0.387* | 1.74 | 5.5% | -0.395** | -2.16 | -5.6% |
| Institutional ownership | 0.296*** | 4.09 | 7.5% | -0.742** | -2.41 | -10.5% | 0.361** | 2.23 | 5.1% |
| Hedge fund dissident | -0.307*** | -4.18 | -8.5% | 0.104 | 0.97 | 1.4% | -0.235*** | -3.38 | -3.7% |
| # past events by dissident | -0.011* | -1.79 | -0.3% | 0.012 | 1.24 | 0.2% | 0.005 | 0.57 | 0.1% |
| Past campaign intensity | -0.007 | -0.63 | -0.2% | 0.044** | 2.15 | 0.6% | -0.010 | -0.57 | -0.1% |
| Log(fund assets) | 0.014 | 0.52 | 0.3% | -0.045 | -1.63 | -0.6% | -0.015 | -0.56 | -0.2% |
| Investment as % of fund assets | -12.366*** | -3.38 | -311.6% | -18.612*** | -3.86 | -263.2% | -26.313*** | -4.79 | -370.2% |
| Fund stance measure | 0.214 | 0.66 | 5.4% | -0.116 | -0.62 | -1.6% | -0.067 | -0.37 | -0.9% |
| Holding horizon (year) | 0.001 | 0.72 | 0.00% | | | | -0.004*** | -3.95 | -0.1% |
| Basis-adjusted return | 0.025 | 0.97 | 0.6% | | | | 0.028 | 1.19 | 0.4% |
| Passive fund | -0.123 | -1.56 | -3.1% | | | | | | |
| PA for dissident | 0.166*** | 3.89 | 4.2% | | | | | | |
| Fiscal year FEs | Yes | | | Yes | | | Yes | | |
| Industry FEs (FF-12) | Yes | | | Yes | | | Yes | | |
| Observations | 20,505 | | | 8,890 | | | 9,522 | | |
| Pseudo R-squared | 0.05 | | | 0.04 | | | 0.06 | | |
| % (Dep. Variable =1) | 14.3% | | | 6.3% | | | 6.8% | | |

## Internet Appendix Table IA12: Placebo Test for Buy-into-Voting and Sell-out-of-Voting

This table replicates the results reported in columns (4)–(9) in Internet Appendix IA11, except that quarter *Q* is set as two quarters before the quarter when a proxy contest is announced. All variables are identical to those in Internet Appendix Table IA11. 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 (1) | *t*-stat. (2) | Marg. Prob. (3) | Coefficient (4) | *t*-stat. (5) | Marg. Prob. (6) |
| Log (MV) | 0.087*** | 3.04 | 1.5% | -0.014 | -0.51 | -0.3% |
| *q* | -0.045** | -1.98 | -0.8% | 0.012 | 0.63 | 0.2% |
| ROA | 0.342 | 1.30 | 6.0% | 0.089 | 0.43 | 1.7% |
| Leverage | 0.192 | 1.38 | 3.3% | 0.083 | 0.63 | 1.6% |
| Dividend yield | -1.856*** | -2.70 | -32.4% | 1.029** | 1.98 | 19.9% |
| HHI | -0.628*** | -3.61 | -11.0% | -0.063 | -0.38 | -1.2% |
| Institutional ownership | -0.473* | -1.66 | -8.3% | -0.006 | -0.04 | -0.1% |
| Hedge fund dissident | -0.026 | -0.27 | -0.5% | -0.273*** | -3.36 | -5.9% |
| # past events by dissident | -0.016 | -1.42 | -0.3% | 0.000 | 0.02 | 0.0% |
| Past campaign intensity | 0.002 | 0.09 | 0.0% | 0.058*** | 3.91 | 1.1% |
| Log(fund assets) | -0.061** | -2.40 | -1.1% | -0.017 | -0.62 | -0.3% |
| Investment as % of fund assets | -10.019** | -2.22 | -175.1% | -19.948*** | -3.80 | -385.1% |
| Fund stance measure | 0.110 | 0.70 | 1.9% | -0.270 | -1.54 | -5.2% |
| Holding horizon (year) | | | | -0.005*** | -5.32 | -0.1% |
| Basis-adjusted return | | | | 0.022 | 0.95 | 0.4% |
| | | | | | | |
| Fiscal year FEs | Yes | | | Yes | | |
| Industry FEs (FF-12) | Yes | | | Yes | | |
| Observations | 8,266 | | | 8,632 | | |
| Pseudo R-squared | 0.04 | | | 0.06 | | |
| % (Dep. Variable =1) | 7.2% | | | 8.9% | | |

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