

THE PROXY VOTING CHOICE REVOLUTION

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KEY QUESTIONS

- **What does the expansion of proxy voting choice mean for the corporate governance ecosystem?**
- **How might certain unresolved regulatory and asset manager design choices impact corporate governance?**

VOTING CHOICE ACROSS THE BIG THREE

- **Commonalities:**

- Significant expansion of existing programs
- Menu of policy guidelines developed by third-party proxy advisors
- Available on an opt-in basis, with non-participating votes remaining with the asset manager's stewardship group as a default
- Inclusion of retail as well as institutional investors, with a commitment to expanding

- **Differences:**

- Blackrock has the most policies (16 across three advisors: Egan-Jones, Glass Lewis, and ISS) and the most uptake, with \$812 billion in AUM (out of \$3.65 trillion eligible index equity) participating in voting choice
- Vanguard has the fewest number of policies (5 across two advisors - Glass Lewis and Egan-Jones)

PROXY VOTING CHOICE AT VANGUARD AS OF MARCH 2025

- Available for clients in separately managed accounts, as well as some clients in institutional pooled funds and retail investors.
- **8 funds eligible to participate on an opt-in basis:** Vanguard S&P 500 Growth Index Fund, the Vanguard Russell 1000 Index Fund, the Vanguard ESG U.S. Stock ETF, the Vanguard Mega Cap Index Fund, the Vanguard Dividend Appreciation Index Fund, the Tax-Managed Capital Appreciation Fund, Tax-Managed Small Cap Fund, and High Dividend Yield Index Fund (*for a total value of \$264 billion in AUM, has since expanded to ~\$1T of August 2025*).
- **Five policies to choose from:**
 - Vanguard's own voting policy (default)
 - Company Board-Aligned Policy
 - Glass Lewis ESG Policy
 - Mirror Voting Policy (replaced the original Non-Voting policy)
 - Egan-Jones Wealth Focused Policy (added in 2025)

BEYOND 2025

- Plan is to offer voting choice for all Vanguard U.S. equity index products within the next few years
 - Investor interest appears to be substantial: in a 2025 survey, 66% of investor respondents stated that they were interested in participating in a proxy voting choice program offered through their retirement plan. <https://corporate.vanguard.com/content/corporatesite/us/en/corp/articles/investors-report-strong-interest-proxy-voting-choice.html>
- BlackRock and State Street have made similar commitments
- **Together, the Big Three manage over \$25 trillion, roughly 20% of the U.S. equity market.**



DATA COLLECTION

- 5 policies × 8 Vanguard funds × 3 proxy seasons (2023 to 2025)
- Shares directed to vote on each proposal under each policy, scraped from Vanguard's (voluntary) voting disclosure website
- Coverage: 36 firms (2023) → 68 (2024) → 1,241 (2025)
- Merged with ISS Voting Analytics and Form N-PX filings on EDGAR

EVIDENCE

1. How do specific policies differ from Vanguard's own voting?
2. Who participates in voting choice, and which policies do they pick?
3. Under full participation, would voting choice flip vote outcomes?

DISAGREEMENT: VANGUARD VS. MANAGEMENT POLICY

Panel A: Vanguard vs. Management policy

	Dividend Appreciation		ESG U.S. Stock ETF		Mega Cap Index		Russell 1000 Index		S&P 500 Growth Index		High Dividend Yield		Tax-Managed Capital Appreciation		Tax-Managed Small Cap		Total	
	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.
Director Election	0.0%	1582	0.6%	6596	0.2%	1234	0.6%	5489	0.2%	1322	0.3%	2968	0.4%	4625	0.4%	2751	0.6%	9134
Compensation - Say on Pay	0.0%	180	1.7%	863	0.9%	111	1.9%	625	1.4%	138	0.3%	319	1.7%	524	0.5%	401	1.6%	1181
Compensation - Other	2.0%	51	2.5%	326	0.0%	27	2.3%	217	0.0%	40	1.9%	104	2.2%	183	3.3%	180	3.0%	471
Auditor Ratification	0.0%	187	0.0%	915	0.0%	121	0.0%	666	0.0%	145	0.0%	332	0.0%	554	0.0%	412	0.0%	1245
Other Management Proposal	5.6%	54	4.1%	318	2.4%	41	3.1%	258	1.5%	67	1.7%	121	4.0%	198	2.9%	69	3.9%	406
Shareholder - E	0.0%	12	0.0%	35	0.0%	31	0.0%	47	0.0%	17	0.0%	29	0.0%	44	0.0%	2	0.0%	49
Shareholder - S	0.0%	29	1.4%	74	0.0%	61	1.0%	97	0.0%	46	0.0%	41	1.1%	94	0.0%	4	1.0%	100
Shareholder - G	10.0%	40	22.6%	124	9.4%	53	17.7%	147	8.5%	47	13.1%	61	17.4%	138	28.6%	14	19.1%	157
Shareholder - Director Election (Proxy Contest)	0.0%	4	0.0%	8	0.0%	4	0.0%	10	—	—	0.0%	10	0.0%	10	0.0%	4	0.0%	26
Total	0.4%	2139	1.2%	9259	0.6%	1683	1.2%	7556	0.5%	1822	0.6%	3985	1.0%	6370	0.7%	3837	1.1%	12769

Takeaway: Vanguard's voting tracks management closely. Total disagreement: **0.4% to 1.2%**. Largest gaps in shareholder governance proposals (10% to 29%).

DISAGREEMENT: VANGUARD VS. GLASS LEWIS ESG POLICY

Panel B: Vanguard vs. Glass Lewis ESG policy

	Dividend Appreciation		ESG U.S. Stock ETF		Mega Cap Index		Russell 1000 Index		S&P 500 Growth Index		High Dividend Yield		Tax-Managed Capital Appreciation		Tax-Managed Small Cap		Total	
	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.
Director Election	19.6%	1582	22.7%	6596	18.5%	1234	23.7%	5489	22.8%	1322	22.4%	2968	23.3%	4625	24.8%	2751	23.9%	9134
Compensation - Say on Pay	33.3%	180	52.6%	863	23.4%	111	44.0%	625	29.7%	138	38.9%	319	42.2%	524	56.4%	401	49.4%	1181
Compensation - Other	0.0%	51	6.1%	326	3.7%	27	3.7%	217	5.0%	40	3.8%	104	3.3%	183	2.8%	180	4.7%	471
Auditor Ratification	67.4%	187	44.6%	915	74.4%	121	55.0%	666	67.6%	145	60.2%	332	57.9%	554	34.0%	412	43.9%	1245
Other Management Proposal	22.2%	54	22.3%	318	17.1%	41	26.0%	258	25.4%	67	9.9%	121	29.8%	198	21.7%	69	23.4%	406
Shareholder - E	75.0%	12	62.9%	35	58.1%	31	63.8%	47	58.8%	17	69.0%	29	63.6%	44	100.0%	2	65.3%	49
Shareholder - S	41.4%	29	47.3%	74	31.1%	61	47.4%	97	43.5%	46	36.6%	41	45.7%	94	75.0%	4	48.0%	100
Shareholder - G	77.5%	40	55.6%	124	60.4%	53	59.9%	147	70.2%	47	62.3%	61	58.7%	138	50.0%	14	58.6%	157
Shareholder - Director Election (Proxy Contest)	75.0%	4	12.5%	8	75.0%	4	30.0%	10	—	—	30.0%	10	30.0%	10	50.0%	4	34.6%	26
Total	26.3%	2139	27.8%	9259	25.2%	1683	28.9%	7556	28.6%	1822	27.2%	3985	28.9%	6370	28.2%	3837	28.3%	12769

Takeaway: Dramatically different policy across all categories. Total disagreement: 25–29%.

- Director elections: 19–25%
- **Auditor ratification: 34–74%** (the ESG policy votes against tenure of 20+ years)
- Shareholder E/S/G proposals: 48–65%

DISAGREEMENT: VANGUARD VS. GLASS LEWIS BENCHMARK

Panel C: Vanguard vs. Glass Lewis benchmark policy

	Dividend Appreciation		ESG U.S. Stock ETF		Mega Cap Index		Russell 1000 Index		S&P 500 Growth Index		High Dividend Yield		Tax-Managed Capital Appreciation		Tax-Managed Small Cap		Total	
	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.
Director Election	4.2%	1209	6.3%	4461	4.7%	1214	6.4%	5405	6.2%	1300	4.6%	2193	6.2%	4565	5.5%	491	6.6%	5860
Compensation - Say on Pay	6.2%	128	13.4%	539	10.9%	110	12.0%	616	8.1%	136	8.6%	220	11.2%	517	18.8%	69	12.5%	694
Compensation - Other	0.0%	33	4.6%	195	3.8%	26	3.7%	214	5.1%	39	4.2%	71	3.3%	181	5.1%	39	4.0%	251
Auditor Ratification	0.0%	133	0.0%	573	0.0%	117	0.0%	653	0.0%	141	0.0%	228	0.0%	544	0.0%	74	0.0%	736
Other Management Proposal	22.2%	45	24.9%	213	17.9%	39	25.9%	247	28.8%	59	12.1%	91	29.3%	191	36.4%	11	26.5%	260
Shareholder - E	0.0%	12	12.5%	32	0.0%	31	8.9%	45	11.8%	17	0.0%	27	6.8%	44	—	—	8.9%	45
Shareholder - S	17.2%	29	37.0%	73	29.5%	61	36.5%	96	39.1%	46	17.5%	40	35.1%	94	100.0%	2	37.1%	97
Shareholder - G	65.8%	38	52.6%	116	49.1%	53	53.1%	145	59.6%	47	58.3%	60	51.5%	136	66.7%	6	53.7%	147
Shareholder - Director Election (Proxy Contest)	75.0%	4	0.0%	6	75.0%	4	30.0%	10	—	—	30.0%	10	30.0%	10	—	—	30.0%	20
Total	6.3%	1631	8.2%	6208	7.5%	1655	8.2%	7431	8.9%	1785	6.1%	2940	8.2%	6282	7.5%	692	8.4%	8110

Takeaway: Glass Lewis's benchmark exhibits moderate disagreement with Vanguard, far less than its ESG policy.

→ The ESG policy's divergence reflects an explicitly stricter rule set (e.g., fixed auditor-tenure rule, board-diversity thresholds, etc).

DISAGREEMENT: VANGUARD VS. EGAN-JONES WEALTH-

Panel D: Vanguard vs. Egan-Jones policy

	Dividend Appreciation		ESG U.S. Stock ETF		Mega Cap Index		Russell 1000 Index		S&P 500 Growth Index		High Dividend Yield		Tax-Managed Capital Appreciation		Tax-Managed Small Cap		Total	
	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.	%	Obs.
Director Election	0.4%	1582	1.2%	6596	0.6%	1234	1.3%	5489	0.4%	1322	1.3%	2968	0.8%	4625	1.3%	2751	1.4%	9134
Compensation - Say on Pay	20.6%	180	27.3%	863	33.3%	111	29.9%	625	17.4%	138	24.8%	319	28.1%	524	17.2%	401	25.7%	1181
Compensation - Other	0.0%	51	7.7%	326	7.4%	27	4.6%	217	7.5%	40	5.8%	104	4.4%	183	3.9%	180	5.9%	471
Auditor Ratification	0.5%	187	0.3%	915	0.8%	121	0.3%	666	0.7%	145	0.3%	332	0.4%	554	0.5%	412	0.3%	1245
Other Management Proposal	11.1%	54	11.3%	318	4.9%	41	11.2%	258	7.5%	67	9.9%	121	12.1%	198	10.1%	69	11.3%	406
Shareholder - E	0.0%	12	0.0%	35	0.0%	31	0.0%	47	5.9%	17	0.0%	29	0.0%	44	0.0%	2	0.0%	49
Shareholder - S	0.0%	29	0.0%	74	0.0%	61	0.0%	97	2.2%	46	0.0%	41	1.1%	94	25.0%	4	1.0%	100
Shareholder - G	45.0%	40	48.4%	124	45.3%	53	53.1%	147	48.9%	47	49.2%	61	52.9%	138	21.4%	14	50.3%	157
Shareholder - Director Election (Proxy Contest)	100.0%	4	0.0%	8	100.0%	4	40.0%	10	—	—	40.0%	10	40.0%	10	0.0%	4	30.8%	26
Total	3.4%	2139	4.7%	9259	4.6%	1683	5.0%	7556	3.5%	1822	4.3%	3985	4.7%	6370	3.3%	3837	4.7%	12769

Takeaway: High disagreement concentrated in three areas: Say-on-pay (17 to 33%), Governance proposals (21 to 53%), and Proxy contests (0% to 100%).

Almost zero disagreement on E/S proposals: both Vanguard and Egan-Jones routinely vote against them.

WHAT EXPLAINED THE DIVERGENCE BETWEEN GLASS LEWIS ESG AND BENCHMARK POLICIES?

- We hand-matched divergent votes to policy text (Appendix A4 to A6).
- Hard to match divergent votes to policies in many cases:
 - For example, of the 1,014 conflicting director election votes, only 664 of the ESG policy votes could be matched with the guidelines.
 - ESG policy produced 350 votes against directors that could not be attributed to the guidelines
 - **Menus grant proxy advisors ample discretion.**

WHO IS PARTICIPATING?

Table 5. Participation Analysis (July 2024 through June 2025)						
Panel A: Percent of fund AUM choosing a menu based on the firm with the latest record date						
Fund Name	Fund Size (Billion dol lars)	% fund AUM				Egan-Jones Wealth Focused Policy
		Vanguard-Advised Policy	Company Board-Aligned Policy	Glass Lewis ESG Policy	Mirror Voting Policy	
Dividend Appreciation Index Fund	109.6	98.27%	0.94%	0.39%	0.01%	0.38%
ESG U.S. Stock ETF	11.2	95.86%	0.15%	3.96%	0.00%	0.03%
Mega Cap Index Fund	8.5	98.55%	0.69%	0.36%	0.00%	0.40%
Russell 1000 Index Fund	9.4	99.34%	0.35%	0.19%	0.01%	0.12%
S&P 500 Growth Index Fund	19.4	98.85%	0.62%	0.23%	0.01%	0.29%
High Dividend Yield Index Fund	76.3	98.63%	0.47%	0.26%	0.02%	0.62%
Tax-Managed Capital Appreciation Fund	24.6	96.50%	0.77%	0.76%	0.02%	1.95%
Tax-Managed Small-Cap Fund	8.7	97.03%	0.61%	0.84%	0.02%	1.50%
Total	267.6	98.16%	0.70%	0.53%	0.01%	0.60%
Panel B: Percent of fund investors choosing a policy conditional on participation						
Fund Name	Participation Rate	% fund AUM conditional on participation				Egan-Jones Wealth Focused Policy
		Vanguard-Advised Policy	Company Board-Aligned Policy	Glass Lewis ESG Policy	Mirror Voting Policy	
Dividend Appreciation Index Fund	2.9%	41%	31%	13%	1%	14%
ESG U.S. Stock ETF	4.9%	16%	4%	80%	0%	1%
Mega Cap Index Fund	2.2%	34%	33%	14%	0%	18%
Russell 1000 Index Fund	1.1%	41%	30%	16%	1%	12%
S&P 500 Growth Index Fund	2.0%	44%	29%	11%	1%	16%
High Dividend Yield Index Fund	2.0%	32%	23%	13%	1%	32%
Tax-Managed Capital Appreciation Fund	5.1%	31%	16%	14%	0%	38%
Tax-Managed Small-Cap Fund	4.3%	31%	19%	16%	0%	33%
Total	2.8%	35%	24%	18%	0.5%	23%

COUNTERFACTUAL: WHAT IF EVERYONE PARTICIPATED IN 2025?

- We examined 132 close shareholder votes from the 2025 proxy season with a counterfactual analysis applying two assumptions: 1) 100% participation in voting choice across all Vanguard equity index funds and 2) that the voting patterns in the pilot program hold up as the program expands.
 - 14 proposals would have flipped
 - How? Reduced Vanguard's pro-management voting
 - Enabled the passage of shareholder proposals that Vanguard and management opposed
 - Resulted in the failure of say-on-pay votes that Vanguard and management supported
- Implication: voting choice may empower shareholder activists who seek to chip away at Vanguard's pro-management voting.

COUNTERFACTUAL IN 2024

Under our counterfactual analysis, 2 close shareholder proposals at Tesla would have flipped from passing to failing: a proposal to adopt a majority vote and a proposal to declassify the board.

- Implication: To the extent that asset managers were previously challenging management, pass-through voting will make challenges more difficult.
- **Bottom line: The expansion of voting choice will empower activists when Vanguard opposes them, and it will hamper activists when Vanguard supports them. Signals a potential unraveling of the current status quo in corporate governance, where activists and companies alike can count on asset managers to be bellwethers for voting outcomes.**



VOTING CHOICE PROGRAM DESIGN

THE PARTICIPANTS

- **Investors**

- Rationally apathetic (particularly for retail investors choosing mutual funds)

- **Asset Managers**

- Administering voting choice programs is costly and will affect net-of-fee performance. Limits the degree to which they will invest.
- Diffusion of governance power further weakens incentives to participate.
- But competition for investor capital provides some discipline and suggests we will see convergence across programs.

- **Third-Party Policy Providers**

- Fixed fees for policies, regardless of uptake and performance (subject to some competitive discipline).
- Repeat players in governance.

THE FUTURE OF PROXY VOTING CHOICE: DESIGN PARAMETERS

A well-designed system:

- 1) Will not cause asset manager power to fall below a minimal level
- 2) Will translate declines in asset manager power to gains in shareholder power.
 - #2 requires a close fit between investor's policy election and investor preferences.

DESIGN CHOICES FOR ASSET MANAGERS: **POPULATING THE MENU**

- Menu approach mitigates rational apathy but does not solve it
- Therefore
 - When asset managers populate the menu, they will likely select a small number of policies that differ across many dimensions, and which might not reflect the values of various investors.
 - Menu approach results in broad grants of discretion to proxy advisors.
 - Sticky default awards power back to the asset manager.
- Alternatives:
 - Surveys (Fisch & Schwartz): better tailoring, but still constrained by rational apathy and litigation risk.
 - Open proxy (Griffin): risks choice overload and capture by idiosyncratic third parties.

DESIGN CHOICES FOR ASSET MANAGERS: **THE DEFAULT**

- **Votes stay with asset manager (status quo):** preserves blockholder incentives, with opt-out as a safety valve
- Vote in proportion to opt-ins: Diffuses blockholders and disempowers shareholders (opt-ins are unrepresentative)
- Mirror vote: Awards votes to the remaining voters, but eliminates the benefits of blockholders in the ecosystem

DESIGN CHOICES FOR ASSET MANAGERS: **THIRD-PARTY COMPENSATION**

- **Status quo:** flat fee, regardless of uptake or vote quality.
- **Possible reform:** tie compensation to investor uptake of the policy, or to other quality measures.
- Tradeoffs
 - Better proxy-advisor incentives, but higher fees dampen asset-manager incentives to do in-house stewardship
 - First-mover disadvantage for any asset manager that adopts pay-for-performance unilaterally
 - Gamesmanship risk: asset managers may price their own policy lower to retain uptake; advisors may directly market policies to investors
- → Not an uncomplicated solution

PROPOSED REGULATORY POLICIES

- 1) Enhance proxy advisor disclosure (including votes cast and fee structure)
- 2) Impose a fiduciary duty w/r/t voting choice
 - Asset managers
 - Proxy advisors

CONCLUSION

- Menus drive real divergence in voting
- Potential for a big impact on governance: in our counterfactual analysis, voting choice at Vanguard would have flipped 14 close votes in 2025 and 2 at Tesla in 2024.
- Net effect on governance depends on incentive-aware design: menus, defaults, compensation, disclosure, fiduciary duty.
- Done well: investors empowered without decimating benefits that come from blockholders.
- Done poorly: noise, fragmentation, and proxy-advisor influence.

THANK YOU