

Mutual Fund Board Connections and Proxy Voting

Paul Calluzzo
Assistant Professor
Smith School of Business, Queens University
Email: paul.calluzzo@queensu.ca

Simi Kedia¹
Albert R. Gamper, Jr. Chair and Professor
Rutgers Business School
Email: skedia@business.rutgers.edu

September, 2018

Abstract

We study fund-firm connections that arise when firm executives and directors serve as fund directors. We find that connected funds are significantly more likely to vote with management in proposals with negative ISS recommendations or low shareholder support. As our data shows that management support does not exist either before connection formation or after its termination, this result is unlikely to be caused by omitted factors. Rather, the connected fund's voting patterns show independence from ISS recommendations and successful connected voting is associated with positive announcement returns, suggesting that connected fund support for management reflects information advantages. Lastly, we find that a fund family and firm are more likely to connect when the fund family holds a large stake in the firm and is geographically proximate, as well as when it has a record of voting independently from ISS.

¹ We thank Doron Levitt, Quinn Curtis, Ran Duchin, seminar participants at Florida State University, Northeastern University, University of Washington, the 2015 ALEA meetings held at Columbia, and the 2015 SFS meetings held at Georgia Tech. We gratefully acknowledge the research support from the Whitcomb Centre at Rutgers and an RRC grant. All remaining errors are ours.

Mutual Fund Board Connections and Proxy Voting

1. Introduction

During the past couple of decades, shareholder voice has become an important mechanism of corporate governance. Its influence is reflected in the SEC's attempt to explore ways to improve the proxy voting process and to ensure that it is robust, effective, and workable.² The U.S. mutual fund industry, which owns 24% of the U.S. equity market, is a dominant player in the proxy voting process.³ If mutual funds vote their proxies to maximize firm value, they could play an important role in corporate governance. However, many funds may not find it optimal to invest resources to get informed about specific votes (Iliev and Lowry 2015).

To fill this gap, proxy advisory firms like Institutional Shareholder Services (ISS) gather information across firms and help guide mutual funds in their voting decisions. ISS recommendations have an important impact on voting patterns and a negative ISS recommendation will significantly reduce the aggregate support for management.⁴ Even if management wins the vote, low management support has consequences. The proxy vote has increasingly become a referendum on a firm's performance with investors using their vote to express concerns about firm policies or stewardship.⁵ Cai, Garner, and Walkling (2009) document that reduced management support in director elections is associated with lower compensation and a greater likelihood of governance changes.

As management is affected by vote outcomes that show low support, they have an incentive to have their own lines of communication and influence with mutual funds. Firms' incentives to communicate with mutual funds could arise from two non-mutually exclusive sources: to pursue

² See "SEC to Hold Roundtable on Proxy Voting" available at <http://www.sec.gov/news/pressrelease/2015-15.html>

³ See 2018 Investment Company Fact Book available at <http://www.icifactbook.org/ch1/>

⁴ See Bethel and Gillan (2002), Alexander et. al. (2010), and Malenko and Shen (2016) among others.

⁵ See "Shareholder voice growing louder in the Boardroom" available at <http://www.fticonsulting.com/global2/media/collateral/united-states/shareholder-voice-growing-louder-in-the-boardroom.pdf>

private interests or to facilitate information flow. Specifically, private interests may motivate firm managers to approach mutual funds to garner their support, especially in difficult and contentious voting situations. By influencing mutual funds to vote in management's favor, firms mitigate the pressure from shareholders to address agency problems and bring about value enhancing change. However, not all pressure from shareholder voice is value maximizing. Recent papers document that ISS often employs "one size fits all" positions on issues that may lead them to make recommendations on individual firms that are not value enhancing (Iliev and Lowry 2015; Larker, McCall, and Ormazabal 2015). Therefore, firm management may approach mutual funds to counteract the influence of these "one size fits all" ISS recommendations by facilitating mutual funds in their information gathering. Helping mutual funds get informed about issues in contentious proposals can help influence their voting in line with increased firm value, and help circumvent the pressure from these "one size fits all" ISS recommendations.

In this paper, we examine whether firms influence fund voting patterns and one potential way to do so. Specifically, we examine fund-firm connections that arise when executives and directors of firms are also simultaneously directors on the mutual fund board. As these fund directors are simultaneously employed by a firm, they may be informed about firm practices and supportive of firm management. These fund directors also have a responsibility to oversee the voting of the fund's proxies (MFDF Report 2012). We examine the role of these connected directors in the firm's proxy voting.

As the task of voting a large number of proxies in a relatively short time is both challenging and subject to public scrutiny, fund boards often adopt proxy voting procedures that govern this process. Many large institutions form a proxy committee that creates guidelines and oversees the voting process.⁶ Individual portfolio managers decide how to vote on the proxy proposals of firms in their

⁶ For example, T Rowe Price has a proxy committee comprised of portfolio managers, investment analysts, legal counsel, and operations manager. The proxy committee takes into account their own fundamental research, advice by independent proxy advisors, and other information to establish their recommendations that serve as voting

portfolio and, when portfolio managers cast votes contrary to the guidelines, they are required to document their reasons in writing to the proxy committee.

Connected fund directors, however, have the potential to influence fund voting. Proxy guidelines usually acknowledge that conflicts of interest may arise when the voting materially impacts the institution's relationship with large clients or potential clients—for example voting in a firm whose retirement business the institution manages.⁷ However, it is not clear whether mutual funds actively monitor conflicts of interest that may arise from fund-firm director connections. Furthermore, fund families are open to engaging with portfolio companies on voting issues. During proxy voting season, funds reach out to firms seeking information about upcoming votes, or vice versa (MFDF Report 2012). Such contact between fund family and firms may be through the connected director, especially in difficult voting situations. The presence of the connected director may increase the likelihood of interaction between fund and firm, and might also improve the quality of information flow. Whether connected fund directors influence the voting decisions of funds is an empirical question that we seek to answer in this paper.

We begin by examining the effect of these fund-firm connections on voting patterns prior to contentious voting situations. We hand collect the names of mutual fund directors from their N-CSR filings with the SEC, and match them with the names of the top five executives and firm directors in S&P 1500 firms. In our sample, about 66% of mutual funds and 20% of sample firms have at least one connection over the period from 2004 to 2015.⁸ Though *Executive Connections*, formed when executives of firms sit on fund boards, are less frequent, *Director Connections*, formed when firm

guidelines. This voting model of T Rowe Price (available at https://www3.troweprice.com/usis/content/trowecorp/en/utility/policies/_jcr_content/maincontent/policies_row_1/pa-ra-mid/thiscontent/pdf_link/pdffile) is representative of practices at many other large fund families.

⁷ Despite the acknowledgement of these conflicts of interest prior literature has documented their presence (see for example Cvijanovic, Dasgupta, and Zachariadis 2016).

⁸ As firms enter and exit the S&P 1500, we have 2327 unique firms over the sample period.

directors are also simultaneously fund directors, are more common. We find significantly higher support for management by connected funds in proposals that have a negative ISS recommendation. We control for unobserved heterogeneity using a rich set of saturated fixed effects that control for time, fund, firm, and proposal specific effects. The results also hold in a sample of firms that have at least one connection, and for proposals that garner low support for management.

One concern with the results is that connections may reflect omitted factors that also influence voting patterns. For example, connected funds may vote for management because of their favorable assessment of management's ability. A high regard for management could thus potentially be the reason for the fund-firm connection. In this case, a stronger support for management should be seen even prior to the connection, and continue after the connection termination. We examine and find no evidence of greater support for management in the years prior to a connection nor during the years after its termination.

We also collect data to isolate connection terminations that are more likely to be exogenous. First, we identify exogenous terminations as those that arise due to the retirement of directors, as in these cases termination is unlikely to be related to underlying firm characteristics and voting. Secondly, connection terminations that are accompanied by CEO turnover or poor firm performance are more likely to be endogenous and related to firm characteristics that also impact voting decisions. We, therefore, identify connection terminations that are not associated with CEO turnover or poor firm performance. We find that after these terminations that are more likely to be exogenous, there is no evidence of higher management support in conflict situations. This finding suggests that higher support for management in conflict situations is likely due to the active connection.

To assess its economic impact we examine the effect of connected fund support in conflict situations on vote outcomes. In a sample of proposals with a vote requirement and with a negative recommendation from ISS, the results imply that the presence of average connected shareholder

support is associated with an increase of 4.6% over the unconditional likelihood of the vote passing in favor of management.

The stronger support for management displayed by connected funds in contentious voting is consistent with both informed voting and conflicts of interest. We perform several tests to understand the importance of these explanations for our results. We collect data on director backgrounds and find that funds with connected director backgrounds that facilitate information gathering (e.g. directors with senior executive experience) are associated with greater management support in conflict situations, suggesting the role of information advantages. Iliev and Lowry (2015) propose that funds that display independence from ISS recommendations are more likely to be informed voters. In line with their tests, we find that connected funds are more likely to support management in proposals with a negative ISS recommendation and less likely to support management in proposals with a positive ISS recommendation. This effect is also seen in a sample of shareholder proposals and for a subsample of these proposals that focus on governance and compensation.

Finally, we perform a direct test to examine cumulative abnormal returns around connected voting. If the connected vote is informed, then its success—that is, when the vote outcome is in line with the connected vote—should be associated with a positive stock price reaction. We estimate market-adjusted abnormal returns around meeting dates for a sample of close votes that pass or fail within a margin of 5%, as vote outcomes for these cases are more likely to be unanticipated. We find significant positive stock price reactions to successful connected voting. In sum, the overall evidence suggests that information advantages, rather than conflicts of interest, are more likely to account for connected fund support of management in contentious voting situations.

We also examine the characteristics of fund families that are more likely to form fund-firm connections. The results suggest that fund families that hold a higher percentage of the firm, those that are dedicated investors, those with existing connections to other firms, and those that are

geographically proximate are more likely to form a connection. Finally, consistent with the role of fund-firm connections in voting support, we find that fund families that tend to vote with ISS are less likely to form a connection.

Our results suggest a potential use of fund-firm connections to reduce information asymmetry around contentious voting situations. As shareholder voice and activism become important agents for corporate governance, firms may use fund-firm connections as channels of information and influence to build support among institutional shareholders. There is an existing literature that documents the influence of proxy advisory firms, especially ISS, on the proxy vote. Recent literature has raised concerns whether ISS recommendations are always consistent with shareholder value. Evidence in this paper suggests that firms use fund-firm connections to influence mutual fund voting and mitigate the potential negative effects from the growing influence of ISS. The potential of this mechanism to counter the “one size fits all” recommendations of ISS has implications for the policy debate on the power of the proxy advisory firms.

The paper also contributes to the literature on the effect of business or education ties on firms’ voting behavior. Whereas it is difficult to change pension providers or to hire senior executives with particular education backgrounds to gain voting support, it is more feasible to have a firm executive begin serving on a mutual fund board or for a firm to hire a fund director. Furthermore, whereas the prior literature examines whether business and education ties reflect conflicts of interest, our results suggest that the fund-firm board ties have the potential to serve as conduits of information that may help connected mutual funds reduce the cost of becoming informed prior to contentious voting situations.

The next section discusses the literature. Section III describes the data, Section IV discusses connected voting patterns, Section V examines the role of information advantages and conflicts of

interest, Section VI examines fund characteristics associated with connections, and, finally, Section VII concludes.

II. Literature Review

This paper is related to a growing literature on proxy voting and proxy advisory firms. Bethel and Gillan (2002) document that a negative ISS recommendation was associated with 13.6% to 20.6% fewer shares voted in favor of management proposals (see also Choi, Fisch and Kahan 2009; Alexander, Chen, Seppi, and Spatt 2010). In more recent work, Malenko and Shen (2016) show, in a regression discontinuity framework, that a negative recommendation by ISS for say-on-pay proposals results in a 25% decline in voting support. Cai, Garner, and Walkling (2009) document that lower support for management in director election related proposals is associated with lower CEO compensation and more governance changes.⁹ More recently, Iliev and Lowry (2015) document that, although the majority of mutual funds vote with ISS, more are becoming active shareholders. Further, Iliev and Lowry (2015) show that ISS recommendations are not always in the interest of shareholders.¹⁰ Our paper documents that fund-firm connections mitigate the effect of negative ISS recommendations and highlights one channel to inform and influence the mutual fund vote.

Our paper is also related to the literature that examines other ties between firms and mutual funds. Specifically, Davis and Kim (2007); Ashraf, Jayaraman, and Ryan (2012); and, more recently, Cvijanovic, Dasgupta, and Zachariadis (2016) examine business ties that arise when mutual funds manage the firm's pension business and show greater management support by these funds.¹¹ However,

⁹Also see Aggrawal, Dahiya, and Prabhala (2017) and Fos, Li, and Tsoutsoura (2017) who document the effect of director elections on the careers of directors in question and CEO turnover performance sensitivity, respectively.

¹⁰ See also Larker, McCall, and Ormazabal (2015); Belinfanti (2009); and SEC (2010).

¹¹Davis and Kim (2007) and Ashraf, Jayaraman, and Ryan (2012) document that business ties do not impact the voting on the connected firm but rather makes the connected fund management friendly in all their proxy votes. However, Cvijanovic, Dasgupta, and Zachariadis (2016) examine business ties in a more comprehensive sample and document that business ties significantly influence pro-management voting in the connected firm. Butler and Gurun (2012) document that education ties lead to pro-management voting on compensation proposals pointing to conflicts of interest.

firms are unlikely to change their pension plan options, or hire executives with specific education backgrounds, to gain voting support in the short term. In contrast, it is more feasible to form a fund-firm board connection that is associated with increased management support. Further, whereas prior literature that studies business and education ties examines whether they are associated with conflicts of interest, the fund-firm ties that are studied here have the potential to be used as conduits of information in contentious voting situations to mitigate the potential “one size fits all” recommendations of ISS.¹²

Lastly, this paper has a bearing on the recent literature on shareholder activism (see Brav, Jiang, and Kim (2010) and Gillan and Starks (2007) for excellent reviews). As the activist relies on the support of other institutional investors to push for governance changes (see Kedia, Starks, and Wang 2016), the presence of connected institutions is likely to impact the success of the activist’s campaign, as well as his decision on which firms to target.

III. Data

Analyzing the impact of fund-firm connections on proxy voting requires obtaining mutual fund proxy voting data and fund director’s employment data. Since 2003, the SEC has required that investment companies disclose their proxy voting records to the public in Form N-PX. We use Risk Metrics’ ISS Voting Analytics database to access mutual fund proxy voting records over the period 2004 to 2015. For every vote cast, the database includes variables that describe the item being voted on, the voting recommendation of the firm’s management and that of ISS, as well as the fund’s vote.

¹² Whereas this paper examines the effect of fund-firm connections on proxy voting, Calluzzo (2015) documents the effect of fund-firm connection on the fund’s trading decisions. Duan, Hotchkiss, and Jiao (2011) also examine the effect of connections, specifically business ties, on mutual fund’s selling decisions. See Kuhnen (2009) for the role of more general business ties in the mutual fund industry.

We hand collect data on director employment to map fund-firm connections. This is a multi-step process. First, we identify the top five compensated executives of S&P 1500 firms using the ExecuComp database. We then identify which of these executives sit on the board of mutual funds. The names of all mutual fund directors are obtained from Form N-CSR, which the mutual funds are required to file with the SEC every year. We use a web crawler algorithm developed by Engelberg and Sankaraguruswamy (2007) to search for the ExecuComp names in each N-CSR filing. If an executive in ExecuComp is also a fund director, as seen in the N-CSR filing for a given year, we define the fund and the firm as *Executive Connected* for that year.¹³ A similar procedure for directors of S&P 1500 that are also directors of mutual funds allows us to identify *Director Connected* firms and funds.¹⁴ The variable definitions are provided in Table 1. We merge the proxy voting and director employment databases to identify the votes cast in connected firms.

Not surprisingly, *Executive Connections* are less frequent, with 42 unique firms, than *Director Connections* with 431 firms that are connected to at least one fund over the sample period. On average, 226 firms are connected to 2910 mutual funds each year (see Panel A of Table 2). Because many funds belong to the same family and are governed by the same board, the number of connected funds is much higher than the number of firms as the same executive/director is connected to multiple funds through one board. As seen in Panel B of Table 2, firms with connections are bigger, older, and have lower stock returns. The industry distribution of connected firms is similar to that of unconnected firms (see Panel C).

¹³ A concern in the data collection is that we may identify a person at the mutual fund with the same full (first, middle initial, and last) name as another corporate director or executive. To address this concern, we manually read the director biographical information provided in the N-CSR filing to confirm that the person named in the filing is indeed the specified S&P 1500 director or executive. Another concern is if the fund is a subsidiary of the connected firm (i.e. a Goldman Sachs executive on the board of a Goldman Sachs mutual fund). We eliminate these connections through a manual read.

¹⁴ The director names are from the Director Compensation file of Execucomp. As this data starts in 2005, we manually check if they were also on the board in 2004. The average firm board in our sample has 8.4 directors.

The proxy voting advisory firm, ISS, has a significant effect on voting outcomes with several institutions simply following its recommendation. About 9.11% of proposals have negative ISS recommendations. Whereas management on average garners 93.83% of the vote, in proposals with a negative ISS recommendation support for management drops to 69.94%, as seen in Panel A of Table 3.¹⁵ We also capture situations when management receives low support. The variable *Low Support* takes the value of one if the aggregate support for management is in the lowest decile of support for each year, making them the least supported proposals in the sample in that year. About 9.85% of proposals, with average management support of 66.36%, are classified as having garnered low support. Lastly, shareholder sponsored proposals are a small fraction of the sample, comprising only 3.73% of proposals with an average of 66.98% support for management.

Director election related proposals account for the majority of the management proposals, with an aggregate management support of 95.45%. Routine/Business proposals are the next largest group, with 98.03% management support. Compensation related proposals are the third largest group, with management support of 88.52% (see Panel B of Table 3).

IV. Voting by Connected Funds

We begin our empirical analysis by examining the patterns of connected and unconnected voting. The dependent variable in the estimation is *Withmgmt*, a dummy variable that takes the value one when the fund votes with management. *Connected* is a dummy variable that takes the value of one when the fund votes on a connected firm's proposal. A connected firm is one with which the fund has either an *Executive* or a *Director Connection*. *Negative ISS* is a dummy variable that takes the value of one when ISS recommends a vote against management's recommendation.

¹⁵ The sample of firms with at least one connection display a similar pattern. The results for this sample are tabulated in Appendix Table 1.

We control for unobserved heterogeneity by including a rich set of fixed effects. We estimate a linear probability model using OLS as this allows us to include saturated fixed effects.¹⁶ The linear probability model also helps with the interpretation of interaction terms in our estimation (see Ali and Norton 2003; Greene 2010). In line with Iliev and Lowry (2015), we cluster the standard errors at the fund level. We first include Year*Firm fixed effects and Year*Fund fixed effects. The Year*Firm fixed effects capture firm level characteristics, such as profitability, that change over time and Year*Fund fixed effects capture the propensity of a fund to vote with or against management over time.

As seen in Model 1 of Table 4, the coefficient of *Connected* is negative and significant, while its interaction with *Negative ISS* is positive and significant. Connected funds are significantly less likely to vote with management in normal times when ISS supports management and significantly more likely to support management when ISS issues a negative recommendation. Iliev and Lowry (2015) argue that this “independence” from ISS is a reflection of informed voting. These results suggest that connected funds are likely to be informed, a topic we examine in further detail later in Section 5.2 of the paper. The coefficient of *Negative ISS* is negative and significant, as expected, capturing that many funds vote in line with ISS recommendations.

In Model 2, we also include Year*Proposal Type fixed effects to capture potential focus on specific issues over time.¹⁷ For example, if compensation proposals are receiving scrutiny in a year, these fixed effects control for such trends. Inclusion of these fixed effects does not qualitatively change the estimated coefficients. In Model 3, we further saturate the fixed effects by including Year*Fund*Proposal Type fixed effects. These fixed effects capture the potential policy of a particular fund on a particular subject (like compensation) in a given year. Their inclusion substantially increases

¹⁶ For robustness, we also estimated Logit models with firm, year, institution, and proposal type (instead of proposal) fixed effects. The results are qualitatively similar and have not been tabulated for brevity.

¹⁷ ISS classifies proposals into 583 different categories that are then organized into 15 broad categories that are displayed in Panel B, Table 3. Proposal Type fixed effects capture the 583 categories of ISS. In Model 4, we also include Proposal fixed effects that control for each specific proposal.

the fit of the model with a qualitatively similar effect of connected voting in normal and conflict situations.¹⁸

Finally, we include Proposal fixed effects. The Proposal fixed effects capture each proposal voted by a firm in a given year, and subsume Year*Firm fixed effects. As displayed in Table 3, there are 150,799 proposals voted on in the sample. This is the strongest control for how the nature and timing of the proposal impacts management support. The Proposal fixed effects are quite distinct from the Proposal Type fixed effects that only capture the overall characterization of the proposal.¹⁹ As seen in Model 4, the coefficient of *Connected* and its interaction with *Negative ISS* continue to be significant. Support by connected funds in the presence of negative ISS recommendations is also economically important. As the unconditional support for management in negative ISS proposals is 69.94%, the 6.9% coefficient estimate of the interaction of *Connected* and *Negative ISS* seen in Model 4, represents a 9.9% increase in the likelihood that the fund supports management.

As we study how the voting pattern of connected funds differ from those that are not connected, we next restrict the sample to firms that have at least one connection, director or executive, over the sample period. In this subsample, we may lose the advantage of controlling for fund characteristics that manifest over the entire sample. However, by removing firms and associated heterogeneity that do not contribute to the identification of the connected voting, we make sure that they do not impact the results. This restricts the sample to 35,222 proposals. As seen in Model 1 of Table 5, the coefficient estimates for *Connected* and its interaction with *Negative ISS* are similar to those estimated in Table 4. We use this sample for further tests. Note that we include both Proposal fixed effects, as well as

¹⁸ The number of observations drops due to the inclusion of Year*Fund*Proposal Type fixed effects.

¹⁹ Inclusions of Proposal fixed effects implies that we cannot include proposal characteristics, including whether the proposal has a negative ISS recommendation.

Year*Fund*Proposal Type fixed effects and cluster the standard errors at the fund level in all estimations.²⁰

We next examine proposals that garner low shareholder support. In model 2, conflict situations are classified as proposals where the *Low Support* dummy takes the value of one, that is these proposals are in the bottom decile of shareholder support for all proposals in that year. The coefficient of *Connected* voting is negative and significant while its interaction with *Conflict* is positive and significant. Connected funds are less likely to support management in normal voting, though they significantly increase support for management when shareholder support is low.

In Model 3, we separate the connected funds into those that have *Executive Connections* and those that have *Director Connections*. Both *Executive* and *Director Connections* are associated with greater management support in conflict proposals, with the *Executive Connections* having a significantly larger effect (as seen in the t-test reported in Table 5). This higher support by *Executive Connected* funds could reflect conditions (or omitted variables) that are associated with the formation of *Executive Connections* or might reflect the potentially stronger ties of *Executive Connections*. A similar pattern is also seen when we use *Low Support* to proxy for contentious voting (Model 4).²¹

4.1 Identification Issues

It is possible that greater fund support for connected firms is the result of omitted characteristics. For example, connected funds may vote with management because of a higher assessment of managerial ability. It is when funds have a high regard for firm executives and directors

²⁰ The sample for Table 5 includes 412 connected firms, fewer than the 463 connected firms in Table 2A as we do not observe voting for all connected firms.

²¹ One possible concern is that funds in a family may vote in a similar way and our analysis uses voting at the fund level. Two third of institutions every year have proposals where funds within the family do not vote together and this increases significantly in conflict situations supporting the estimation at the fund voting level. However, for robustness, we also examined the vote at the institution level with similar results. For brevity, these results have not been included.

that they are invited to be a fund director. That is, it may not be the connection that leads to support but rather support that leads to the connection; in such cases, support for management should be observed prior to the connection as well. Alternatively, it is possible that a high regard for management does not exist prior to the connection but is formed during the connection; interaction between the firm executive and the fund causes the fund managers to learn about managerial ability and leads to greater management support. In this case, fund support for firm management should continue after the connection ends. To identify the effect of the connection, rather than potential omitted variables, we examine fund voting in the connected firm both prior to the formation of the connection and after its termination. The variable *Preconnected* takes the value of one for all the years prior to the formation of the connection and the variable *Postconnected* takes the value of one for all the years after the termination of the connection.

We re-estimate our model after including these two variables and find that coefficients of both *Preconnected* and *Postconnected* are negative and significant, suggesting that funds are less likely to vote with management both prior to the formation and after the termination of the connection. This lower support for management is also seen in conflict situations in the years after connection termination, although it is insignificant in the years prior to connection formation (Model 1, Panel A and B, Table 6).²² There is, however, significant support for management in conflict situations while the connection is active.²³

²² We test and find the coefficients of both *Preconnected* and *Postconnected* are significantly different from that of *Connected* in the presence of Negative ISS recommendations and when there is low support. The coefficients are also significantly different when there is no conflict.

²³ We also estimate a specification that includes Fund*Firm fixed effects. These fixed effects control for the average support of a given fund in a firm over the sample period. This controls for the high regard that the institution holds for firm management or for the existence of business ties between the fund and the firm. The coefficient of *Connected* in conflict situations remains significant with the inclusion of Fund*Firm fixed effects supporting the causal effect of connections on management support in conflict situations. For brevity, we have not tabulated these results.

Even though controlling for pre- and postconnected periods mitigate endogeneity issues, some concerns remain. It is possible that firm characteristics, like poor performance, are related to the termination of the connection as well as fund voting in the postconnected period. To address these concerns, we identify connection terminations that are more likely to be exogenous. First, if a firm director leaves the board due to retirement or poor health, it is unlikely that the termination is due to firm specific factors and hence is likely to be unrelated to factors that impact voting on the firm. We hand collect biographical data on each director; specifically, for each connected director we collect information on all the boards he served on, including on firms not in our sample, along with the dates the director leaves these boards and joins new ones. If we observe a director leaving two or more positions in close proximity and not joining any new ones, we classify the case as an exogenous termination. Specifically, if a fund-firm connection is terminated in year t and the connected director leaves at least one other board or full-time position between year $t-1$ and year $t+1$, and does not join any other boards (nor takes a full-time position) in the year of the departure and in subsequent years, we classify the case as an exogenous termination.²⁴ About 22% of the terminations we examine are classified as exogenous by this measure, referred to as *Director Retirement*. The average age of the director at the time of exogenous (non-exogenous) termination is 68 (63) years.

We estimate the *Postconnected* voting separately for exogenous and non-exogenous terminations. As seen in Model 2 of Table 6, *Postconnected* voting in the case of exogenous terminations is not significantly different from zero in either normal or conflict situations. However, postconnected voting for non-exogenous terminations is significantly less supportive of management in both normal and conflict situations. This finding suggests that factors that lead to connection

²⁴ We manually check the director's employment up to three years after departure for new board appointments or full-time positions.

termination negatively influence fund voting in the postconnected period. The results are similar when we use low support to capture conflict (Panel B) instead of negative ISS recommendations.

Next, we examine the likelihood of CEO turnover and firm performance around the termination of connections. If the termination of connections is accompanied by CEO turnover or poor performance, then the termination is likely not exogenous and factors that influence the termination are also likely to impact the voting in the postconnected period. We find a higher incidence of CEO turnover and poor stock performance in the year of and the year after the termination.²⁵ We therefore construct two other measures of exogenous terminations. We classify a connection termination as exogenous if it is not accompanied by CEO turnover in the year of and year after the termination. Approximately 68% of the terminations are exogenous by the *No CEO Turnover* measure.

Similarly, we classify a connection termination as exogenous if it is accompanied by a positive market-adjusted stock return in the year of and year after the termination. About 46% of the terminations are classified as exogenous by this measure. As seen in Models 3 and 4, we find that postconnected voting in the case of exogenous terminations is not significantly different from others, while postconnected voting in the case of non-exogenous terminations is significantly less supportive of management, especially in conflict situations.²⁶ When we use low support to capture conflict, our results are qualitatively similar though tend to suggest less management support in the postconnected period.

²⁵ We thank the referee for suggesting these measures of exogenous terminations. We find higher incidence of CEO turnover in the year of (t) and the year after (t+1) connection termination, relative to year t-1 and year t+2. Similarly, we find that average market-adjusted stock returns are lower in the year of, and the year after connection termination.

²⁶ With CEO turnover, there is some evidence of lower management support in the postconnected period for exogenous terminations, and strong negative support for non-exogenous terminations. *No CEO Turnover* captures the cases of non-exogenous terminations clearly and captures the exogenous ones with noise. Consequently, the exogenous terminations constitute the majority of terminations. This finding likely explains the negative management support in exogenous terminations and the strong negative support for non-exogenous terminations.

4.2 Economic Effect

The previous sections show that connected funds vote with management in contentious situations. To understand the economic impact of this support we examine its effect on the likelihood of the vote passing in favor of management. We include all proposals for S&P 1500 firms that have a vote requirement and a negative ISS recommendation. These proposals with negative ISS recommendation are contentious, and represent proposals where connected fund support is observed and likely to matter most.²⁷

We create the variable *Pass* that takes the value of one if the vote passes in favor of management. The variable *Connected Shareholder* takes the value one if at least one connected fund voted on the proposal. We then interact *Connected Shareholder* with the variable *Conn. Voted For* that is the fraction of connected funds that vote with management in the proposal. The coefficient of the interaction term captures the effect of connected fund support for management on the likelihood of the proposal passing in line with management in conflict situations. As this analysis is at the proposal level, rather than at the fund vote level, we cannot include saturated fixed effects. Therefore, we include firm specific variables such as size and age; measures of firm performance like ROA, stock return, and Market to Book; along with Book Leverage, Asset Tangibility, and Institutional Ownership to control for firm characteristics. Furthermore, we include Firm, Year, and Proposal Type fixed effects.

As seen in Model 1 of Table 7, the coefficient of the interaction of *Connected Shareholder* and *Conn. Vote For* is positive and significant. Since many firms in this sample have no connections, we also estimate the model in a sample of proposals where at least one connected fund voted (Model 2). The coefficient of *Conn. Vote For* in Model 2 is 0.089 and is significant. The coefficient estimate implies that the support of connected shareholders on average is associated with an increase in the

²⁷ Director elections under plurality voting that have no threshold for pass or fail have been excluded for this analysis. We do not use the *Low Support* dummy as a proxy for conflict as this variable is constructed ex post based on low aggregate management support and would be mechanically related to vote outcome.

likelihood of passing in line with management by 4.6% over the unconditional likelihood.²⁸ Note, this effect of connected voting in conflict situations is its overall effect and potentially includes the impact connected funds have on the voting patterns of other funds through peer effects (see Matvos and Ostrovsky 2010). Further, it is quite possible that other informed institutions come to the same voting decision as the connected fund, which implies that the effect of connected support in conflict situations also captures the informed vote on the specific proposal.

The likelihood of the vote passing in favor of management should be increasing in the number of shares held by the connected fund. We do not have data on the number of shares held by the funds that vote on the date of the vote. To examine the effect of ownership level, we hand match the parent institution in the Risk Metrics Voting data to the name of the institutions in the 13F institutional holdings database.²⁹ The variable *Connected Ownership* is the fraction of the firm held by the connected institution that voted in the quarter prior to the vote. In line with earlier results, the coefficient of the interaction of *Connected Ownership* with *Conn. Vote For* is positive and significant. Overall, the evidence suggests that support by connected funds is economically important for the firm.

V. Information or Conflicts of Interest?

The greater support for management documented so far could be due to either informed voting or conflicts of interest. In this section, we conduct several analyses to examine which of these hypotheses might better explain the connected support in difficult voting situations.

²⁸ The average value of *Conn. Vote For* in the sample is 0.44. A coefficient of 0.089 in Model 2 implies that the likelihood of passing is 0.039 higher for average levels of connected support. As the unconditional likelihood of passing in line with management is 0.84 in this sample, this implies that connected support is associated with an increase of 4.6% over the unconditional likelihood of passing. Alternatively, economic significance can be accessed by examining the move from no connected support to full connected support, a move to the third quartile. A move from no connected support to full support is associated with an increase of 10.5% over the unconditional likelihood of the vote passing in line with management.

²⁹ Specifically, we hand match the *institution name* variable in the proxy voting database to the *manager name* variable in the 13F database. We match at the fund family level as matching at the fund level with CRSP mutual fund data results in a substantial shrinking of the sample.

5.1 Connected Director Backgrounds

In this section, we use biographical data of connected directors to understand the basis of their support for management. If support is provided by funds with directors that have backgrounds that facilitate information advantages, then informed voting is more likely to account for the documented results.

We collect information on the background of connected directors from the N-CSR, the personal information section of S&P Capital IQ, the Bloomberg Executive Profile & Biography, or the “Meet the Team” sections of company websites for the last year of the connection. The data is summarized in Table 8 and shows that the largest category is *Full Time* directors, that is directors who did not hold any other full time job and were retired.³⁰ We also collect information on the nature of the last job held by these *Full Time* directors and, not surprisingly, the majority of them were CEO/ CFO or other senior executives (see Column 2). The average director age for fund-firm connections is 64.77 years, and they serve on 2.38 boards in addition to the fund and firm board that leads to the connection (Panel B).

Some director backgrounds are more likely to facilitate information gathering than others. As *Full Time* connected directors do not have primary jobs and serve only as directors, they are more likely to take the time and effort to become informed. Connected directors who are *Corporate Affiliated*, that is, connected directors who serve or served as CEO/CFO/Senior Executives, are likely to understand the nature of issues surrounding the conflict and more likely to have views that are independent of ISS recommendations. In contrast, *Busy* directors are unlikely to have time to get informed about individual firm issues and are more likely to agree with ISS recommendations. To

³⁰ We obtained background information for 615 fund-firm connections. As the categories in Table 9 are not mutually exclusive, connected directors can be assigned to more than one category.

examine the effect of connected director background on fund voting patterns we create indicator variables for each director background and interact it with conflict situations.

Funds with *Full Time* connected directors are less likely to support management in normal times and more likely to support management in conflict situations, consistent with informed voting. Further, fund support for management in conflict situations is seen only when the connected director is a *Full Time* director. The presence of connected *Full Time* directors is associated with an increase in the likelihood that the fund supports management in conflict situations by 9.2% (Panel A, Table 9).³¹ Funds with *Corporate Affiliated* connected directors are also more likely to support management in conflict situations, though their support in normal times is not significantly different from funds with other directors. The 10.7% higher likelihood of fund support for management in conflict situations is seen only when the connected director is *Corporate Affiliated* (column 2, Panel A).

Lastly, the variable *Busy* director takes the value of one if the connected directors hold above median number of directorships, that is, they serve on more than two boards excluding the fund and firm board that lead to the connection.³² Funds with *Busy* connected directors are associated with a 17.4% decrease in the likelihood of management support in conflict situations (Column 3, Panel A). Funds with *Busy* connected directors are less likely to support management in normal times as well. Though funds with *Busy* connected directors do not support management across all proposals, their lack of management support is highest for proposals with negative ISS recommendations, suggesting a higher adherence to ISS recommendations. In sum, the study of director background and its influence

³¹ Note that *Director Background* is populated only for connected directors are present. Therefore, in Table 9, we have not included *Director Background* by itself because it is the same as *Director Background * Director Connected* (which is included).

³² In robustness tests, we have used alternate definitions of *Busy Directors*. Results are similar when we define *Busy Directors* as those with directorships in the top tercile (more than three directorships). We have also defined *Busy Directors* using a separate cut-off for full-time and other directors, as the distribution of board positions differs across the two groups. Specifically, we have defined a full-time (other) connected director as *Busy* if he serves on more than four (three) boards. The results are qualitatively similar.

on voting patterns, though not conclusive, suggests that information advantages are more likely to account for management support in conflict situations.

5.2 Independent Voting

Iliev and Lowry (2015) argue that, as many funds vote in line with ISS recommendations, a fund's informativeness can be estimated by its independence from ISS recommendations. In line with this argument, informed connected funds should be more likely to vote with management in proposals that have a negative ISS recommendation and against management in proposals with a positive ISS recommendation. In contrast, if conflicts of interest drive connected voting we should see management support for all proposals, and especially for contentious proposals. Consequently, we examine the connected fund support for management separately in proposals with a positive and negative ISS recommendation. As seen in Model 1 of Table 10, connected funds are more likely to support management when ISS has a negative recommendation, and, importantly, less likely to support management when ISS has a positive recommendation. Results are similar when we examine the connected subsample (Model 2).³³

Iliev and Lowry (2015) further show that this independence is more likely to be seen in contentious proposals. Cvijanovic, Dasgupta, and Zachariadis (2016) argue that shareholder proposals are more likely to be contentious and we examine these next. As these are contentious proposals, the conflict of interest hypothesis suggests that connected funds support management, especially when ISS has a positive recommendation as this provides easy justification for their support. However,

³³ Note that this is a variant of the specification already discussed in Tables 4 and 5 and allows us to focus on the difference in connected voting in proposals with a negative and positive ISS recommendation. The results from Table 6 (Model 1 of Panel A) show that the coefficient of *Preconnected* is negative and significant. This finding suggests that, even before the connection was formed, connected funds were less likely to vote with ISS when ISS gave positive recommendations. This suggests that connected funds display some independence from ISS even prior to the connection formation, which is not surprising as this is a fund attribute that firms seek when initiating a connection (see discussion in Section 6).

we find significantly lower support for management in shareholder proposals with a positive ISS recommendation suggesting that connected voting is unlikely to be due to conflicts of interest. We find no evidence of higher management support when ISS has a negative recommendation. We further restrict the sample to include only Compensation and Governance related shareholder proposals, likely the most contentious proposals (Model 5 and 6). We continue to find significantly lower support for management in proposals with positive ISS recommendation. For these proposals, there is significantly lower support for negative ISS recommendations as well.³⁴

5.3 Stock Returns around Connected Voting

A more direct test of the two explanations for connected fund support is to examine stock returns around each connected vote. If the connected voting is informed, then, when it succeeds—that is, the vote outcome is in line with connected voting—it should be associated with positive stock returns. In contrast, if connected voting reflects conflicts of interest, it should not be perceived as being value added and should be associated with negative returns when successful.

In line with the analysis in Cunat, Gine, and Guadalupe (2012), and Iliev and Lowry (2015), we study a sample of close votes, that is, those that pass or fail within a margin of 5%. For these close votes the outcomes are less likely to be anticipated by the market, and hence the returns around the vote are informative about its impact on firm value. Cumulative abnormal returns are calculated as market-adjusted abnormal returns over the $[0,+2]$ and $[-2,+2]$ day window where date 0 is the date of the vote. The variable *Connected Shareholder* takes the value of one if at least one connected fund voted; *Conn. Vote For*, as before, is the fraction of connected funds that vote in line with management;

³⁴ As these Governance and Compensation shareholder proposals also have a negative ISS recommendation, they are a small subset of the most controversial proposals. It is then perhaps not surprising that the “informed” vote for these proposals is to not support management. It should be noted that, though connected funds vote against management irrespective of the ISS recommendation, in these proposals their lack of support is more pronounced when ISS is positive.

and *Pass* takes the value of one when the vote passes in line with management. The interaction of *Connected Shareholder*, *Conn. Vote For*, and *Pass* captures connected support when it is in line with the vote outcome. Similarly, the interaction of *Negative ISS* and *Pass* captures when the proposal has a negative ISS recommendation and passes in favor of management, that is, an unsuccessful ISS recommendation.

As seen in Model 1 of Table 11, the coefficient on the interaction of *Connected Shareholder*, *Conn. Vote For*, and *Pass* is positive and significant.³⁵ When connected fund voting is successful it is associated with significant positive returns. In close votes, markets respond with a 1.5% higher return in the presence of average connected fund support that was successful.³⁶ The coefficient of the interaction of *Negative ISS* and *Pass* is not significant, consistent with the results in Iliev and Lowry (2015), and suggests no significant change in value when negative ISS recommendations fail. The results are similar when we examine abnormal returns over a different window, that is, the CAR[-2,+2] window as seen in Model 3. In Models 2 and 4, we restrict the sample to proposals with at least one connected fund voting and find qualitatively similar results. These results suggest that connected fund voting is more likely to reflect information advantages than conflicts of interest. Though suggestive, these results should be interpreted with some caution. The sample size is small and several proposals are voted on at each meeting; as such, the CARs around meeting dates reflect the information across the outcomes of several proposals.³⁷

³⁵ *Connected Vote For* is populated only when a *Connected Shareholder* is present. Therefore, we do not include *Connected Vote For* by itself because it is the same as *Connected Vote For* * *Connected Shareholder* (which is included). Further, sometimes there is more than one proposal with a close vote at a meeting, leading to the number of observations in Table 11 being somewhat larger than the number of meetings. In line with Iliev and Lowry (2015), we compute robust standard errors.

³⁶ The average value for *Conn. Vote For* in our sample is 0.67. A coefficient of 0.023 in Model 1 implies that CARs are higher on average by 0.015, or 1.5%, for successful connected voting.

³⁷ We also examine voting by connected funds in unconnected firms. In untabulated results, we find significantly higher management support in conflict situations by connected funds in unconnected firms. The favorable support for management seen in unconnected firms is less than that seen for connected firms as expected. As this result is consistent both with an across the board pro-management stance, as well as, information advantages that are applicable to unconnected firms, it does not help in distinguishing between the two hypotheses.

VI. Fund Characteristics

So far we have documented that firms garner greater support from connected funds in contentious situations. As this support can be advantageous, firms have an incentive to forge such connections possibly by approaching fund families through their investor relations department as part of routine communication or outreach initiatives. Firm may have preferences for certain types of funds, and not all funds are likely to welcome or acquiesce to these connections. In this section, we examine fund characteristics that are associated with connection formation. Specifically, Table 12 presents results of specifications that examine – conditional on forming a connection – the characteristics of funds with which connections are sought and obtained.

We begin by examining the fraction of the firm held by the fund, captured by *Firm Ownership Held*, and the fraction of the fund portfolio invested in the firm (captured by *Fund Portfolio Weight*). Funds with high *Firm Ownership Held* and with large *Fund Portfolio Weight* are likely to be natural choices for a connection. Among funds that do not have an existing investment in the firm, those that have the ability to increase their investment in the future are more likely to be approached for a connection. Hence, fund families that are larger in size (*Fund Family Size*) are more likely to be approached for a connection. Additionally, funds with longer investment horizons are likely to have greater discretion in their portfolio choice and are likely to reap the gains of their informed voting. These funds are thus also more likely to be approached and acquiesce to a connection. We use Bushee's (1998) classification of *Dedicated* fund families to capture these longer horizon investors.

In contrast to longer horizon investors, indexers are likely to have little discretion in portfolio choice, making them less attractive for firms seeking connection. However, indexers may hold large positions in the firm making them important allies. Whether firms seek and obtain connections with

indexers is an empirical matter. We use Bushee's (1998) classification of *Quasi Indexer* to capture fund families that are likely to be indexers.³⁸

Further, if the connection is being formed for voting support, then connections with funds that vote independently of ISS recommendations are more valuable. Funds that do not follow ISS may also be more amenable to these connections to reduce their costs of getting informed. We create a dummy variable, *ISS Voter*, that takes the value of one if the fund family voted with ISS more than 80% of the time in proposals with a negative ISS recommendation in the two years prior to connection formation. Fund families with *Existing Connections* with other firms are possibly cognizant of the information advantages that might arise from these connections, have experience managing connections, and show a willingness to engage in such relationships. Therefore, fund families with *Existing Connections* may be approached more often for a connection. However, limits to board size may make fund families with an existing connection reluctant to add another connection.³⁹

Lastly, Knyazeva, Knyazeva, and Masulis (2013) document the importance of the local supply of prospective directors in the board appointment process. This study suggests that firms and funds that are geographically proximate are more likely to have board connections. Coval and Moskowitz (2001) document that geographically proximate funds are more likely to hold and trade profitably in local stocks. It is possible that some of the information advantages of local fund families observed by Coval and Moskowitz arise from, or are further strengthened by fund-firm connections. This finding suggests that fund-firm connections are more likely between firms and funds that are proximate. However, fund families that are not proximate are likely to be uninformed about the firm. Forming a connection with these non-proximate funds that results in their informed vote is likely to be

³⁸ Bushee's (1998) classification of Quasi Indexer is broad, and along with indexers also captures many funds that actively manage some part of their portfolio and, consequently, have the discretion to increase ownership in a firm.

³⁹ We check all cases of connection formation in our sample for whether these are associated with an increase in board size (that is the connected director is an addition to the board) or not (in this case the connected director replaces another director). We find that in 20% of the cases the connected director replaces another director.

attractive to firms and therefore these connections may be more sought after. We examine these countervailing effects of proximity on connection formation by including *Fund Family-Firm Distance*, which is the log of the distance between the fund and firm headquarters. The headquarters data for firms is from Compustat and the data for funds is hand collected.

The sample consists of both firms that formed a connection in the specified year and fund families that are eligible to form a connection, that is fund families that do not already have a connection to the firm. The dependent variable is a dummy variable that takes the value of one if the fund and firm formed a connection in the specified year, and zero for all the other fund families that were eligible but did not form a connection in that year. We find that connections are sought and obtained with funds that hold a large fraction of the firm. Based on the estimates in Model 9 of Table 12, going from no ownership of the firm to 1% ownership increases the likelihood of forming a connection by 38% over the unconditional likelihood of forming a connection.⁴⁰ We also find that the coefficient of *Dedicated* is positive and significant. Being a dedicated investor, therefore, increases the likelihood of forming a connection by 80% over the unconditional likelihood of forming a connection.

Funds that are *ISS Voters* are less likely to be connected. Moving from not being an ISS voter to being one decreases the likelihood of forming a connection by 40% over the unconditional likelihood of forming a connection. We also find that funds that have existing connections are more likely to form another connection, with an existing connection more than doubling the unconditional likelihood of forming a connection. Finally, we find that funds that are geographically proximate are more likely to form a connection. Moving from the third to the first quartile of *Fund Family-Firm Distance* increases

⁴⁰ Moving to 1% ownership results in an increase in the likelihood of forming a connection by 0.0018 (0.01 x 0.1822). As the unconditional likelihood of forming a connection is 0.0048, this is a 38% increase over the unconditional likelihood of forming a connection. A move to 1% of Firm Ownership Held is a move to the 95th percentile.

the likelihood of forming a connection by 70% over the unconditional likelihood of forming a connection.⁴¹

VII. Conclusion

This paper studies the impact of fund-firm connections on the mutual fund proxy voting process. We find that connected funds are more likely to vote with management in contentious situations that involve a negative recommendation by ISS or proposals that garner low support for management. The results are robust to a saturated fixed effects model. Further, as the support for management is seen neither prior to connection formation nor after connection termination, it is unlikely to be due to omitted factors.

Evidence suggests that support for management is likely to be informed. Connected support for management in conflict situations is more likely when connected directors have backgrounds more conducive to information advantages. Connected support appears independent of ISS recommendations and successful connected voting is associated with positive stock price reactions, also pointing toward it being informed. We furthermore find that connections are sought with fund families that hold a larger fraction of the firm, are dedicated investors, have existing connections to other firms, are geographically proximate, and that have a record of not always voting with ISS recommendations.

Overall, the results suggest that firms use connections with funds as conduits of information, especially in contentious voting situations, to counter the effect of potentially “one size fits all” ISS

⁴¹ Going from not being an *ISS Voter* to being an *ISS Voter* decreases the likelihood of forming a connection by 0.0019. As the unconditional likelihood of forming a connection is 0.0048, this is a 40% decrease in the likelihood of forming a connection. The presence of an *Existing Connection* leads to a 0.0084 increase, which is a 175% increase over the unconditional likelihood of forming a connection. An increase in the *Fund Family-Firm Distance* from the first to the third quartile is associated with a 0.0034 decrease in the likelihood of forming a connection. The 25th (75th) percentile of *Fund Family-Firm Distance* is 5.9783 (7.2986) and the difference of 1.32 implies a reduction of (1.32×-0.0026) 0.0034.

recommendations. The results are relevant to both investment management firms and regulators as they implement practices and regulations to ensure that shareholder voice is an effective governance mechanism.

References

- Aggarwal, R., Dahiya, S. and Prabhala, N., 2016. The power of shareholder votes: Evidence from uncontested director elections. Forthcoming *Journal of Financial Economics*.
- Ai, C. and Norton, E.C., 2003. Interaction terms in logit and probit models. *Economics letters*, 80(1), 123–129.
- Alexander, C.R., Chen, M.A., Seppi, D.J. and Spatt, C.S., 2010. Interim news and the role of proxy voting advice. *Review of Financial Studies*, 23(12), 4419–4454.
- Ashraf, R., Jayaraman, N. and Ryan, H.E., 2012. Do pension-related business ties influence mutual fund proxy voting? Evidence from shareholder proposals on executive compensation. *Journal of Financial and Quantitative Analysis*, 47(3), 567–588.
- Belinfanti, T.C., 2009. The proxy advisory and corporate governance industry: The case for increased oversight and control. *Stanford Journal of Law, Business & Finance*, 14, 384–439.
- Brav, A., Jiang, W. and Kim, H., 2010. Hedge fund activism: A review. *Foundations and Trends in Finance*, 4(3), 185–246.
- Bethel, J., and Gillan, S.L., 2002. The impact of the institutional and regulatory environment on shareholder voting. *Financial Management*, 31(4), 29–54.
- Bushee, B.J., 1998. The influence of institutional investors on myopic R&D investment behavior. *Accounting Review*, 73(3), 305–333.
- Bushee, B.J., 2001. Do institutional investors prefer near-term earnings over long-run value? *Contemporary Accounting Research*, 18(2), 207–246.
- Bushee, B.J. and Noe, C.F., 2000. Corporate disclosure practices, institutional investors, and stock return volatility. *Journal of Accounting Research*, 38, 171–202.
- Butler, A.W. and Gurun, U.G., 2012. Educational networks, mutual fund voting patterns, and CEO compensation. *Review of Financial Studies*, 25(8), 2533–2562.
- Calluzzo, P., 2015. Director Connections in the Mutual Fund Industry. SSRN Working Paper.
- Cai, J., Garner, J., Walkling, R.A., 2009. Electing Directors. *Journal of Finance*, 64, 2389–2421.
- Choi, S., Fisch, J. and Kahan, M., 2009. The power of proxy advisors: Myth or reality. *Emory Law Journal*, 59, 869.

- Coval, J.D. and Moskowitz, T.J., 2001. The geography of investment: Informed trading and asset prices. *Journal of Political Economy*, 109(4), 811–841.
- Cuñat, V., Gine, M. and Guadalupe, M., 2012. The vote is cast: The effect of corporate governance on shareholder value. *Journal of Finance*, 67(5), 1943–1977.
- Cvijanović, D., Dasgupta, A. and Zachariadis, K.E., 2016. Ties that bind: How business connections affect mutual fund activism. *Journal of Finance*, 71(6), 2933–2966.
- Davis, G.F. and Kim, E.H., 2007. Business ties and proxy voting by mutual funds. *Journal of Financial Economics*, 85(2), 552–570.
- Duan Y., Hotchkiss, E., Jiao, Y., 2011. Business ties and information advantage: Evidence from mutual fund trading. University of Alberta, Working Paper.
- Engelberg, J. and Sankaraguruswamy, S., 2007. How to gather data using a web crawler: An application using SAS to search EDGAR. University of North Carolina, Working Paper.
- Fos, V., Li, K. and Tsoutsoura, M., 2017. Do director elections matter? Forthcoming *Review of Financial Studies*.
- Greene, W., 2010. Testing hypotheses about interaction terms in nonlinear models. *Economics Letters*, 107(2), 291–296.
- Gillan, S.L. and Starks, L.T., 2007. The evolution of shareholder activism in the United States. *Journal of Applied Corporate Finance*, 19(1), 55–73.
- Iliev, P. and Lowry, M., 2015. Are mutual funds active voters? *Review of Financial Studies*, 28(2), 446–485.
- Kedia, S., Starks, L.T. and Wang, X., 2016. Institutional investors and hedge fund activism. Working paper.
- Knyazeva, A., Knyazeva, D. and Masulis, R.W., 2013. The supply of corporate directors and board independence. *Review of Financial Studies*, 26(6), 1561–1605.
- Kuhnen, C.M., 2009. Business networks, corporate governance, and contracting in the mutual fund industry. *Journal of Finance*, 64(5), 2185–2220.
- Larcker, D.F., McCall, A.L. and Ormazabal, G., 2015. Outsourcing shareholder voting to proxy advisory firms. *Journal of Law and Economics*, 58(1), 173–204.
- Malenko, N. and Shen, Y., 2016. The role of proxy advisory firms: Evidence from a regression-discontinuity design. *Review of Financial Studies*, 29(12), 3394–3427.

Matvos, G. and Ostrovsky, M., 2010. Heterogeneity and peer effects in mutual fund proxy voting. *Journal of Financial Economics*, 98(1), 90–112.

MFDF Report, 2012. Practical Guidance for Fund Directors on Oversight of Proxy Voting, available at http://www.mfdf.org/images/Newsroom/Oversight_of_Proxy_Voting.pdf.

SEC, 2010. Concept release on the U.S. proxy system. Securities and Exchange Commission.

Table 1. Variable definitions

<u>Variable</u>	<u>Definition</u>
Asset Tangibility	The ratio of property plant and equipment to total assets.
Book Leverage	The ratio of long term debt to total assets.
Busy Director	A dummy variable that takes the value of one if the connected director serves on more than two boards, not including the fund and firm boards that lead to the connection.
Connected	A dummy variable that takes the value of one if a director or executive of the firm is also a director of the fund.
Connected Ownership	The fraction of firm shares owned by connected fund families.
Connected Shareholder	A dummy variable that takes the value of one if at least one connected fund voted on the proposal.
Connected Vote For	The proportion of connected fund votes with management.
Corporate Affiliated Director	A dummy variable that takes the value of one if the connected directors serve or served as a CEO/CFO/Chairman or senior executive of a firm.
Director Connected	A dummy variable that takes the value of one if a director of the firm is also a director of the fund.
Executive Connected	A dummy variable that takes the value of one if an executive of the firm is also a director of the fund.
Existing Connections	A dummy variable that takes the value of one if the fund family has at least one connection in the previous year.
Firm Age	The number of years since the firm's first appearance in the Computstat database.
Firm Ownership Held	The fraction of firm shares owned by the fund family in the last quarter of the previous year.
Firm Size	The market value of equity.
Full Time Director	A dummy variable that takes the value of one if the connected director is retired with no primary job.
Fund Family Dedicated Style	A dummy variable that takes the value of one if the institution is classified as "Dedicated." The classifications are as per Bushee (2001) and Bushee and Noe (2000), available at (http://acct.wharton.upenn.edu/faculty/bushee/IIvars.html#tqd).
Fund Family Quasi Indexer Style	A dummy variable that takes the value of one if the institution is classified as a "Quasi Indexer." The data are as per Bushee (2001) and Bushee and Noe (2000), available at (http://acct.wharton.upenn.edu/faculty/bushee/IIvars.html#tqd).
Fund Family Size	The log of the total net assets for the fund family as computed from their 13F holdings.
Fund Portfolio Weight	The proportion of the fund family's total assets that are invested in the specified firm.
Fund Vote	The mutual fund's vote on the agenda item. Most common values are For, Against, Withhold, and Abstain.
Fund Family-Firm Distance	The log of the distance (km) between the fund family headquarters and the firm headquarters. The data for firm headquarters is from Compustat, while the fund family HQ is hand collected.
Institution Ownership	The proportion of the firm's shares owned by institutional shareholders as measured by the Thomson Reuters 13F Database.
ISS Voter	A dummy variable that takes the value of one if the fund voted with ISS more than 80% of the time in ISS conflict votes (i.e. Negative ISS). This is computed using the past two years of data.

Low Support	A dummy variable that takes the value of one if the management support for the proposal is in the bottom decile in the sample for the year.
Market to Book	The market value of the firm to its book value.
Meeting Date	The date of the proxy vote meeting.
Management Recommendation	Management's vote recommendation for the proposal.
Negative ISS	A dummy variable that takes the value of one if ISS recommends a vote against management's recommendation.
Pass	A dummy variable that takes the value of one when the vote outcome is in line with management's recommendation.
Preconnected	A dummy variable that takes the value of one for all years prior to the formation of a (director or executive) connection.
Positive ISS	A dummy variable that takes the value of one if ISS recommends a vote with management recommendation.
Postconnected	A dummy variable that takes the value of one for all years after the termination of a (director or executive) connection.
Proposal Type	Risk Metrics' ISS Voting Analytics' proprietary coding key that categorizes each proposal into one of 583 categories.
ROA	The ratio of net income to total assets.
Shareholder Sponsored	Indicates if the proposal was sponsored by a shareholder of the firm.
Stock Return	The calendar year stock return of the firm.
Vote Requirement	The threshold of support required for the vote to pass.
Withmgmt	A dummy variable that takes the value of one if the fund vote aligns with management's recommendation.

Table 2. Descriptive Statistics on the Fund-Firm Connections

This table reports descriptive statistics for fund-firm connections. All statistics are reported as the yearly average over the sample period, 2004 to 2015, except the last column, which summarizes the data over the entire sample period. *Executive Connections* arise when the executive of a firm is also a director for the fund that is voting. *Director Connections* arise when a director of a firm is also a director in the fund that is voting.

Panel A: Frequency of Connections

	Mean	Median	Standard Deviation	Min	Max	Total Unique
Funds per Year	4054.46	4724	1287.02	907	5832	15091
Connected Funds per Year	2910.08	3182	788.11	666	3623	9984
Connected Firms per Year	226.42	229	55.97	125	298	463
Executive Connected Funds per Year	518.17	359	375.64	166	1264	2640
Executive Connected Firms per Year	14.92	15	6.96	6	25	42
Director Connected Funds per Year	2883.17	3176	795.67	624	3609	9885
Director Connected Firms per Year	214.17	220	52.93	111	279	431

Panel B: Firm Characteristics with Connections

This table displays the average values of firm characteristics for firms that are connected and unconnected. Compustat. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Connected (A)	Unconnected (B)	P Value A=B
Firm Size (000,000)	11848.48	8299.16	0.000***
ROA	12.99%	13.16%	0.466
Stock Return	12.22%	13.45%	0.261
Firm Age	22.57	20.10	0.000***
Book Leverage	0.23	0.21	0.000***
Market to Book	1.38	1.61	0.000***

Panel C: Industry Distribution of Connected Firms

This table displays the percentage of connected and unconnected firms in different industry groups.

Industry	SIC Covered	Connected Firms	Unconnected Firms
Mining	1000-1499	2.56%	4.41%
Construction	1500-1799	1.07%	1.08%
Manufacturing	2000-3999	33.12%	37.80%
Transportation, Communications, Electric, Gas, and Sanitary Service	4000-4999	11.32%	8.42%
Wholesale Trade	5000-5199	3.63%	3.38%
Retail Trade	5200-5999	6.41%	7.34%
Finance, Insurance, and Real Estate	6000-6799	22.44%	16.29%
Services	7000-8999	14.10%	17.37%
Public Administration	9100-9729	0.21%	0.00%
Non classifiable	9900-9999	5.13%	3.92%

Table 3. Descriptive Statistics on the Mutual Fund Proxy Voting Database

The sample consists of all S&P 1500 firms with mutual fund proxy voting data over the period from 2004 to 2015. *Negative ISS* proposals are those where the ISS recommendation is to vote against the management recommendation. *Withmgmt* is the percentage of votes that were cast in line with the management recommendation. *Low Support* is a dummy variable that takes the value of one if support for management is in the bottom decile for all proposals in that year. *Shareholder Sponsored* are proposals sponsored by shareholders.

Panel A: Management Support across Years and Proposals

Year	All Proposals		Negative ISS		Low Support		Shareholder Sponsored	
	Num.	Withmgmt	Num.	Withmgmt	Num	Withmgmt	Num.	Withmgmt
2004	9559	96.14%	1064	84.97%	1039	71.35%	491	72.13%
2005	9419	93.02%	911	70.12%	1013	66.86%	435	71.34%
2006	10689	93.63%	903	68.37%	1115	67.09%	480	66.74%
2007	11308	93.52%	1082	69.06%	1191	67.06%	501	68.18%
2008	11724	93.45%	1052	67.71%	1178	65.78%	455	66.50%
2009	12460	91.45%	1753	67.35%	1389	60.50%	520	62.37%
2010	12789	92.99%	1430	68.23%	1362	63.96%	500	63.79%
2011	14029	93.70%	1040	67.47%	1428	67.55%	377	63.89%
2012	12163	93.90%	879	67.28%	1095	66.02%	377	64.75%
2013	15498	94.27%	1240	70.37%	1384	66.95%	464	66.70%
2014	15506	94.83%	1115	69.82%	1337	68.09%	472	70.09%
2015	15655	94.79%	1274	69.98%	1324	66.59%	538	66.87%
Total	150799	93.83%	13743	69.94%	14855	66.36%	5610	66.98%

Panel B: Proposal Types

	All Proposals	Negative ISS	Low Support	Agg. Mang. Support
<u>Management Proposals</u>				
Antitakeover Related	809	78	159	88.86%
Capitalization	1143	120	292	87.66%
Director Related	110447	7877	6300	95.45%
Non-Salary Comp.	16141	1825	3753	88.52%
Reorganization/Mergers	347	15	35	94.34%
Routine/ Business	16302	149	192	98.03%
<u>Shareholder Proposals</u>				
SH Compensation	1121	825	835	70.37%
SH Corp. Governance	428	340	364	49.50%
SH Director Related	1568	1336	1338	54.82%
SH Gen Econ Issues	27	8	12	83.48%
SH Health/ Environment	658	290	361	78.57%
SH Other/ Misc.	892	490	617	73.83%
SH Routine Business	475	287	404	69.58%
SH Social Proposal	225	81	132	79.56%

Table 4: Fund Support for Management during Conflict – Full Sample

This table reports OLS estimates in a sample that includes all mutual fund votes for S&P 1500 firms over the period from 2004 to 2015. The dependent variable, *Withmgmt*, is a dummy variable that takes the value of one if the fund vote aligns with management's recommendation. *Connected* is a dummy variable that takes the value of one if the fund is connected to the firm. *Negative ISS* is a dummy variable that takes the value of one when ISS recommends voting against management. Standard errors are clustered by fund and reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Model 1	Model 2	Model 3	Model 4
Connected	-0.008*** (0.001)	-0.009*** (0.001)	-0.007*** (0.001)	-0.007*** (0.001)
Connected x Negative ISS	0.082*** (0.010)	0.091*** (0.010)	0.066*** (0.009)	0.069*** (0.009)
Negative ISS	-0.497*** (0.006)	-0.444*** (0.007)	-0.445*** (0.007)	
N	40,688,225	40,688,225	39,880,809	39,880,711
R-squared	0.377	0.397	0.531	0.555
<u>Fixed Effects</u>				
Year * Firm	Yes	Yes	Yes	
Year * Fund	Yes	Yes		
Year * Proposal Type		Yes		
Year * Fund * Proposal Type			Yes	Yes
Proposal				Yes
<u>Data Description</u>				
Number of Funds	15091	15091	15091	15091
Number of Fund Families	625	625	625	625
Number of Firms	2327	2327	2327	2327

Table 5: Model of Fund Support for Management in Conflict

This table reports OLS estimates in a sample that includes all mutual fund votes in firms with at least one connection over the period from 2004 to 2015. The dependent variable, *Withmgmt*, is a dummy variable that takes the value of one if the fund vote aligns with management's recommendation. *Connected* is a dummy variable that takes the value of one if the fund is connected to the firm. *Executive Connected* is a dummy variable that is equal to one if the firm executive is a director for the fund that is voting. *Director Connected* is a dummy that takes the value of one if the fund and the firm have a common director during that year. *Conflict* is captured with *Negative ISS* in Models 1 and 3, and with *Low Support* in Models 2 and 4. Standard errors are clustered by fund and reported below in parentheses. The results at the bottom of the table report P values for the t-test of the difference in the mentioned coefficients. ***, **, *, refer to significance at 1%, 5%, and 10% respectively.

	Model 1: Negative ISS	Model 2: Low Support	Model 3: Negative ISS	Model 4: Low Support
Connected	-0.007*** (0.001)	-0.007*** (0.001)		
Connected x Conflict	0.077*** (0.010)	0.060*** (0.008)		
Executive Connected (A)			-0.024*** (0.004)	-0.024*** (0.005)
Executive Connected x Conflict (B)			0.335*** (0.026)	0.351*** (0.026)
Director Connected (C)			-0.007*** (0.001)	-0.006*** (0.001)
Director Connected x Conflict (D)			0.060*** (0.010)	0.044*** (0.008)
N	10,317,847	10,317,847	10,317,847	10,317,847
R-squared	0.573	0.573	0.573	0.573
<u>Fixed Effects</u>				
Proposal	Yes	Yes	Yes	Yes
Year*Fund*Proposal Type	Yes	Yes	Yes	Yes
<u>Difference in Coefficients</u>				
P value for A – C = 0			0.0003***	0.0007***
P value of B – D = 0			0.0000***	0.0000***
<u>Data Description</u>				
Number of Funds	14012	14012	14012	14012
Number of Fund Families	596	596	596	596
Number of Firms	412	412	412	412

Table 6: Fund Voting Before and After Connection Formation

This table reports OLS estimates in a sample of firms with at least one connection over the period from 2004 to 2015. The dependent variable, *Withmgmt*, is a dummy variable that takes the value of one if the fund votes with management. *Connected* is a dummy variable that is equal to one if the fund is connected to the firm. *Preconnected* (*Postconnected*) take the value of one in years before (after) the connection formation (termination). *Conflict* is captured by *Negative ISS* in Panel A and with *Low Support* in Panel B. Model 2 (3) [4] separates connection terminations into exogenous and non-exogenous groups, where exogenous terminations are defined as connection terminations that are associated with director retirements (no CEO turnover) [positive stock returns]. Standard errors are clustered by fund and reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

Panel A: Negative ISS	Model 1: Pre and Postconnected	Model 2: Director Retirements	Model 3: No CEO Turnover	Model 4: Positive Stock Returns
Connected	-0.007*** (0.001)	-0.007*** (0.001)	-0.007*** (0.001)	-0.007*** (0.001)
Connected x Conflict	0.076*** (0.010)	0.076*** (0.010)	0.076*** (0.010)	0.076*** (0.010)
Preconnected	-0.016*** (0.003)	-0.016*** (0.003)	-0.016*** (0.003)	-0.016*** (0.003)
Preconnected x Conflict	0.002 (0.022)	0.002 (0.022)	0.002 (0.022)	0.002 (0.022)
Postconnected	-0.004** (0.002)			
Postconnected x Conflict	-0.044*** (0.013)			
Postconnected Exogenous		0.002 (0.002)	-0.004* (0.002)	0.001 (0.002)
Postconnected Exogenous x Conflict		-0.016 (0.046)	-0.018 (0.016)	-0.005 (0.019)
Postconnected non-Exogenous		-0.005** (0.002)	-0.001 (0.002)	-0.008** (0.003)
Postconnected non-Exogenous x Conflict		-0.048*** (0.013)	-0.112*** (0.015)	-0.068*** (0.016)
N	10,317,847	10,317,847	10,317,847	10,317,847
R-squared	0.573	0.573	0.573	0.573
<u>Fixed Effects</u>				
Year*Fund*Proposal Type	Yes	Yes	Yes	Yes
Proposal	Yes	Yes	Yes	Yes
<u>Data Description</u>				
Number of Funds	14012	14012	14012	14012
Number of Fund Families	596	596	596	596
Number of Firms	412	412	412	412

Panel B: Low Support	Model 1: Pre and Postconnected	Model 2: Director Retirement	Model 3: No CEO Turnover	Model 4: Non Negative Stock Returns
Connected	-0.007*** (0.001)	-0.007*** (0.001)	-0.007*** (0.001)	-0.007*** (0.001)
Connected x Conflict	0.060*** (0.008)	0.060*** (0.008)	0.060*** (0.008)	0.060*** (0.008)
Preconnected	-0.018*** (0.004)	-0.018*** (0.004)	-0.018*** (0.004)	-0.018*** (0.004)
Preconnected x Conflict	0.019 (0.015)	0.019 (0.015)	0.019 (0.015)	0.019 (0.015)
Postconnected	-0.003* (0.002)			
Postconnected x Conflict	-0.040*** (0.009)			
Postconnected Exogenous		0.000 (0.002)	-0.004* (0.002)	0.002 (0.002)
Postconnected Exogenous x Conflict		0.022 (0.021)	-0.019* (0.011)	-0.025* (0.014)
Postconnected non-Exogenous		-0.004** (0.002)	0.000 (0.002)	-0.009*** (0.003)
Postconnected non-Exogenous x Conflict		-0.048*** (0.010)	-0.104*** (0.013)	-0.048*** (0.011)
N	10,317,847	10,317,847	10,317,847	10,317,847
R-squared	0.573	0.573	0.573	0.573
<u>Fixed Effects</u>				
Year*Fund*Proposal Type	Yes	Yes	Yes	Yes
Proposal	Yes	Yes	Yes	Yes
<u>Data Description</u>				
Number of Funds	14012	14012	14012	14012
Number of Fund Families	596	596	596	596
Number of Firms	412	412	412	412

Table 7: Connected Fund Voting and Vote Outcomes

This table reports OLS estimates in a sample of proposals over the period from 2004 to 2015 that have vote requirements and a negative recommendation from ISS. Models 1 and 3 (2 and 4) include such proposals for S&P 1500 firms (firms with at least one connected fund voting). The dependent variable is *Pass*, a dummy that takes the value of one if the vote passes in favor of management. *Connected Shareholder* takes the value of one if at least one connected fund voted. *Connected Vote For* measures the proportion of connected funds that vote with management. *Connected Ownership* is the 13F ownership of the connected institutions in the quarter prior to the vote. Details of the other firm level control variables are in Table 1. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively. Standard errors are clustered at the firm level and reported in parentheses below.

	Connected Shareholder Dummy		Connected Shareholder Ownership	
	Model 1: Full Sample	Model 2: Connected Sample	Model 3: Full Sample	Model 4: Connected Sample
Connected Shareholder x Vote For	0.072** (0.033)	0.089** (0.036)		
Connected Shareholder	0.043 (0.038)			
Conn. Ownership x Conn			2.742** (1.211)	2.776** (1.283)
Connected Ownership			0.714 (1.135)	1.224 (1.324)
Log Firm Size	0.002 (0.020)	0.009 (0.060)	0.003 (0.020)	0.013 (0.061)
ROA	0.107 (0.157)	-0.585 (0.459)	0.118 (0.156)	-0.487 (0.436)
Stock Return	0.012 (0.016)	0.039 (0.055)	0.011 (0.016)	0.022 (0.051)
Log Age of Firm	-0.016 (0.017)	-0.030 (0.059)	-0.020 (0.018)	-0.041 (0.061)
Market to Book	-0.006 (0.018)	0.050 (0.056)	-0.005 (0.017)	0.053 (0.059)
Book Leverage	0.048 (0.099)	-0.163 (0.375)	0.055 (0.100)	-0.092 (0.370)
Asset Tangibility	0.041 (0.131)	0.241 (0.663)	0.024 (0.131)	0.141 (0.700)
Institutional Ownership	0.016 (0.057)	0.027 (0.199)	0.016 (0.057)	0.007 (0.195)
N	4884	494	4736	381
R-square	0.575	0.660	0.574	0.670
<u>Fixed Effects</u>				
Year Fixed Effect	Y	Y	Y	Y
Proposal Type Fixed	Y	Y	Y	Y
Firm Fixed Effect	Y	Y	Y	Y
Number of Firms	1202	129	1202	129
Number of Meetings	3249	307	3249	307

Table 8: Background of Connected Directors

This table summarizes the background of connected directors in the last year of the connection. Academic (Investment Professional) directors are those associated with universities (investment banks, mutual funds, or other investment funds). Full Time Directors are retired with no primary job. The unit of observation is a fund-firm connection.

Panel A: Primary Occupation of Connected Directors

	Primary Job Last Year of Connection	Primary Job prior to Full Time Director
Academic	74	21
Investment Professional	62	66
CEO	59	231
CFO	16	63
Non CEO/CFO Senior Executive	16	174
Lawyer	8	33
Chairman	7	56
Non-profit	7	6
Government / Politics	2	48
Principal / Founder	2	27
Accountant	1	35
Consultant	1	16
Full Time Director	390	
Full Time Directors with part-time adviser / consultant		71

Panel B: Age and Other Board Characteristics

The number of other corporate boards does not reflect the fund or firm boards that lead to the connection. Non-Corporate Board refers to board members in not-for-profit organizations that the connected directors serve on.

	Mean	Median	Standard Deviation	Min	Max
Age in Last Year of Connection	64.77	66	7.65	41	81
Number of Other Corporate Boards	2.38	2	1.80	0	11
Number of Non-Corporate Boards	0.38	0	0.97	0	7

Table 9: Impact of Director Background

This table reports OLS estimates in a sample that includes all mutual fund votes in firms with at least one director connection over the period from 2004 to 2015. The dependent variable, *Withmgmt*, is a dummy variable that takes the value of one if the fund vote aligns with management's recommendation. *Director Connected* is a dummy that takes the value of one if the fund and the firm have a common director that year. *Conflict* is captured by *Negative ISS (Low Support)* in Panel A (B). *Director Background* is defined by the characteristic on the column heading. *Full Time* if the connected director is retired with no primary job. *Corporate Affiliated* takes the value of one if the connected directors serve or served as a CEO/CFO/Chairman or senior executive of a firm. *Busy director* takes the value of one if the connected director serves on more than two boards, not including the fund and firm boards that lead to the connection. We omit observations if fund and firm are *Executive Connected*. Standard errors are clustered by fund and reported below in parentheses. ***, **, * refer to significance at 1%, 5%, and 10%, respectively.

	Model 1: Full Time	Model 2: Corporate Affiliated	Model 3: Busy
<u>Panel A: Negative ISS</u>			
Director Connected x Conflict x Director Background	0.092*** (0.021)	0.107*** (0.021)	-0.174*** (0.019)
Director Connected x Conflict	0.006 (0.017)	-0.002 (0.017)	0.123*** (0.014)
Director Connected x Director Background	-0.018*** (0.003)	-0.001 (0.003)	-0.009*** (0.003)
Director Connected	0.003** (0.002)	-0.006** (0.003)	-0.003 (0.002)
Number of Observations	9752517	9752517	9752517
R-square	0.573	0.573	0.574
<u>Panel B: Low Support</u>			
Director Connected x Conflict x Director Background	0.068*** (0.016)	0.079*** (0.017)	-0.134*** (0.014)
Director Connected x Conflict	0.002 (0.013)	-0.005 (0.013)	0.094*** (0.011)
Director Connected x Director Background	-0.017*** (0.003)	0.000 (0.003)	-0.011*** (0.003)
Director Connected	0.004** (0.002)	-0.006* (0.003)	-0.002 (0.002)
Number of Observations	9752517	9752517	9752517
R-square	0.573	0.573	0.573
<u>Fixed Effects</u>			
Proposal	Yes	Yes	Yes
Year * Fund * Proposal Type	Yes	Yes	Yes
<u>Data Description</u>			
Number of Funds	13935	13935	13935
Number of Fund Families	592	592	592
Number of Firms	384	384	384

Table 10: Independence from ISS

This table reports OLS estimates in a sample of mutual fund votes over the period from 2004 to 2015. The dependent variable, *Withmgmt*, takes the value of one if the fund votes with management. *Connected* is a dummy variable that is equal to one if the fund is connected to the firm. *Negative (Positive) ISS* take the value of one for proposals where ISS recommends voting against (with) management. Models 1 and 2 (3 and 4) [5 and 6] include all (shareholder) [Governance and Compensation shareholder] proposals for S&P 1500 and connected firms, respectively. Standard errors are clustered by fund and reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Connected x Positive ISS	-0.007*** (0.001)	-0.007*** (0.001)	-0.046*** (0.008)	-0.032*** (0.010)	-0.152*** (0.017)	-0.109*** (0.020)
Connected x Negative ISS	0.062*** (0.009)	0.069*** (0.010)	-0.001 (0.004)	-0.002 (0.005)	-0.017** (0.007)	-0.013* (0.008)
N	39,880,711	10,317,847	2,235,471	565,777	578,914	158,237
R-squared	0.555	0.573	0.802	0.817	0.835	0.845
Sample	All S&P 1500	All Connected	Shareholder S&P 1500	Shareholder Connected	G & C Shareholder S&P 1500	G & C Shareholder Connected
<u>Fixed Effects</u>						
Proposal	Yes	Yes	Yes	Yes	Yes	Yes
Year*Fund*Proposal Type	Yes	Yes	Yes	Yes	Yes	Yes
<u>Data Description</u>						
Number of Funds	15,091	14,012	13,895	12,251	12,742	10,569
Number of Fund Families	625	596	588	556	564	526
Number of Firms	2,327	412	780	193	423	113

Table 11: Returns Around the Vote

This table reports OLS estimates in a sample of proposals over the period from 2004 to 2015 that have vote requirements. The dependent variable in Model 1 is CAR[0,+2] and in Model 2 is CAR[-2,+2], where day 0 is the date of the vote. The abnormal returns are market-adjusted. The sample consists of close votes that pass or fail within a margin of 5% for S&P 1500 firms (Models 1 and 3), and where at least one connected fund voted (Models 2 and 4). *Connected Shareholder* takes the value of one if at least one connected fund voted, *Conn. Vote For* measures the proportion of connected funds that vote with management. *Pass* takes the value of one when the vote outcome is in favor of management. *Negative ISS* takes the value of one when the ISS recommendation is against management's recommendation. Robust standard errors are computed and reported below in parentheses. **, *, , refer to significance at 1%, 5%, and 10%, respectively.

	CAR[0,+2]		CAR[-2,+2]	
	Model 1: Full Sample	Model 2: Connected Sample	Model 3: Full Sample	Model 4: Connected Sample
Connected Shareholder x Conn. Vote For x Pass	0.023* (0.013)	0.033** (0.016)	0.026* (0.015)	0.029* (0.017)
Connected Shareholder x Conn. Vote For	-0.016 (0.011)	-0.024* (0.012)	-0.026** (0.012)	-0.027** (0.012)
Negative ISS x Pass	-0.005 (0.006)	0.016 (0.017)	0.000 (0.009)	0.007 (0.016)
Negative ISS	-0.001 (0.005)	-0.015 (0.013)	-0.005 (0.008)	-0.015 (0.011)
Pass	0.002 (0.006)	-0.023 (0.018)	0.002 (0.008)	-0.015 (0.018)
Negative ISS x Connected Shareholder	0.001 (0.009)		-0.007 (0.009)	
Pass x Connected Shareholder	-0.004 (0.008)		-0.013 (0.011)	
Connected Shareholder	0.005 (0.010)		0.012 (0.012)	
Constant	0.004 (0.005)	0.023* (0.014)	0.003 (0.008)	0.018 (0.013)
N	1085	109	1085	109
R-square	0.006	0.044	0.006	0.033
Sample	S&P 1500	Connected	S&P 1500	Connected
<u>Data Description</u>				
Number of Firms	587	54	587	54
Number of Meeting	946	94	946	94

Table 12: Fund Characteristics and Connection Formation

This table reports OLS estimates in a sample that includes firms that formed a connection in the specified year and fund families that are eligible to form a connection, that is fund families that do not already have a connection to the firm. The dependent variable is a dummy variable that takes the value of one if the firm and the fund family formed a connection in that year. It is zero for all other firm-fund family pairs that did not form a connection in that year. *Fund Ownership Held* is the fraction of firm shares owned by the fund family in the last quarter of the previous year. *Fund Portfolio Weight* is the proportion of the fund family's total assets that are invested in the firm in the last quarter of the previous year. *Fund Family Size* is the log of the total net assets for the fund family in the previous year. *Fund Family Quasi Indexer (Fund Family Dedicated)* is a dummy variable that takes the value of one if the fund family is classified as a Quasi Indexer (Dedicated), as per Bushee's classifications in the year prior. *ISS Voter* is a dummy variable that takes the value of one if the fund voted with ISS in more than 80% of proposals with negative ISS recommendations. *Existing Connections* is a dummy variable that takes the value of one if the fund family has at least one connection in the previous year. *Fund Family-Firm Distance* is the log of the distance between firm and fund headquarters. The fund characteristics are calculated at the fund family level. Standard errors are clustered at the firm level. ***, **, * refer to significance at 1%, 5%, and 10% respectively.

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9
Firm Ownership Held	0.4022*** (0.086)								0.1822* (0.102)
Fund Portfolio Weight		0.4229** (0.187)							0.146 (0.255)
Fund Family Size			0.0014*** (0.000)						0.000 (0.000)
Fund Family Quasi Indexer Style				-0.0012* (0.001)					-0.001 (0.001)
Fund Family Dedicated Style					0.0067*** (0.002)				0.0039* (0.002)
ISS Voter						-0.0033*** (0.001)			-0.0019*** (0.001)
Existing Connections							0.0090*** (0.001)		0.0084*** -0.001
Fund Family-Firm Distance								-0.0020*** (0.000)	-0.0026*** (0.001)
N	58245	58245	58245	58245	58245	86109	100736	83331	42809
R-squared	0.004	0.003	0.005	0.003	0.003	0.002	0.005	0.003	0.012
Year*Firm Fixed Effects	Y	Y	Y	Y	Y	Y	Y	Y	Y
Number of Fund Families	353	353	353	353	353	527	627	600	300
Number of Firms	325	325	325	325	325	325	325	287	287

Appendix Table 1: Descriptive Statistics for Connected Firms

This table replicates Table 3 for the sample of firms with at least one fund-firm connection over the sample period 2004–2015. Table 3 tabulates the results for all S&P 1500 firms.

Panel A: Management Support across Years and Proposals

Year	All Proposals		Negative ISS		Low Support		Shareholder Sponsored	
	Num.	With Mang.	Num.	With Mang.	Num	With Mang.	Num.	With Mang.
2004	2103	96.43%	190	82.47%	209	71.42%	154	75.84%
2005	2130	93.37%	179	68.28%	216	66.37%	140	72.88%
2006	2577	93.52%	231	66.11%	272	65.54%	139	65.92%
2007	2691	93.55%	256	67.65%	278	66.13%	171	67.64%
2008	2876	93.61%	263	67.18%	279	64.54%	144	66.03%
2009	2934	91.77%	405	67.12%	310	60.70%	146	62.52%
2010	3031	93.16%	314	67.70%	315	64.81%	132	63.78%
2011	3402	93.89%	245	66.11%	305	65.99%	105	62.40%
2012	2938	93.73%	222	65.25%	268	64.54%	110	63.75%
2013	3638	93.86%	302	67.25%	353	64.68%	166	65.14%
2014	3431	94.76%	233	67.26%	280	65.43%	134	69.71%
2015	3471	94.57%	291	68.32%	312	65.32%	155	66.95%
Total	35222	93.83%	3131	68.07%	3397	65.25%	1696	67.08%

Panel B: Proposal Type

	All Proposals	Negative ISS	Low Support	Agg. Mang. Support
<u>Management Proposals</u>				
Antitakeover Related	255	21	53	89.23%
Capitalization	226	30	59	87.26%
Director Related	25885	1545	1260	95.78%
Non-Salary Comp.	3503	407	734	88.78%
Reorganization/Mergers	67	2	6	95.12%
Routine/ Business	3590	28	28	98.09%
<u>Shareholder Proposals</u>				
SH Compensation	350	246	243	72.08%
SH Corp. Governance	136	106	115	50.11%
SH Director Related	513	422	437	56.51%
SH Gen Econ Issues	5	1	1	89.01%
SH Health/ Environment	127	46	73	77.60%
SH Other/ Misc.	295	161	214	74.48%
SH Routine Business	142	91	124	68.23%
SH Social Proposal	52	15	26	80.41%

Appendix Table 2: Table 10 estimation in the full Sample

This table reports OLS estimates in a sample that includes all mutual fund votes over the period from 2004 to 2015. The dependent variable, *Withmgmt*, is a dummy variable that takes the value of one if the fund vote aligns with management's recommendation. *Director Connected* is a dummy that takes the value of one if the fund and the firm have a common director in that year. *Conflict* is captured by *Negative ISS* (Low Support) in Panel A (B). *Director Background* is defined by the characteristic on the column heading. *Full Time* is a dummy that takes the value of one if directors are primarily serving on boards. *Corporate Affiliated* takes the value of one if the connected directors serve or served as a CEO/ CFO/ Chairman or senior executive of a firm. *Busy director* takes the value of one if the connected director serves on more than two boards, not including the fund and firm boards that lead to the connection. We omit observations if fund and firm are *Executive Connected*. Standard errors are clustered by fund and reported below in parentheses. ***, **, *, refer to significance at 1%, 5%, and 10%, respectively.

	Model 1: Full-time	Model 2: Corporate Affiliated	Model 3: Busy Board
Panel A: Negative ISS			
Director Connected x Conflict x Director Background	0.081*** (0.018)	0.096*** (0.019)	-0.146*** (0.017)
Director Connected x Conflict	0.006 (0.015)	-0.003 (0.016)	0.109*** (0.013)
Director Connected x Director Background	-0.015*** (0.003)	-0.001 (0.003)	-0.009*** (0.003)
Director Connected	0.002 (0.002)	-0.006** (0.003)	-0.003 (0.002)
Number of Observations	39877926	39877926	39877926
R-square	0.555	0.555	0.555
Panel B: Low Support			
Director Connected x Conflict x Director Background	0.057*** (0.014)	0.070*** (0.015)	-0.111*** (0.012)
Director Connected x Conflict	0.003 (0.011)	-0.006 (0.012)	0.080*** (0.009)
Director Connected x Director Background	-0.014*** (0.003)	0.000 (0.003)	-0.010*** (0.003)
Director Connected	0.002 (0.002)	-0.005* (0.003)	-0.001 (0.002)
Number of Observations	39877926	39877926	39877926
R-square	0.555	0.555	0.555
<u>Fixed Effects</u>			
Proposal	Yes	Yes	Yes
Year * Fund * Proposal Type	Yes	Yes	Yes
<u>Data Description</u>			
Number of Funds	15091	15091	15091
Number of Fund Families	625	625	625
Number of Firms	2327	2327	2327