Proxy advisory firms are a silent threat to Main Street investors

BY JAY TIMMONS, OPINION CONTRIBUTOR — 12/12/18 07:00 AM EST
THE VIEWS EXPRESSED BY CONTRIBUTORS ARE THEIR OWN AND NOT THE VIEW OF THE HILL

Every day, 10,000 baby boomers retire, transitioning from living off their paychecks to living off their retirement savings.

Meanwhile, the first of 61 million Generation Z-ers are beginning to enter the workforce and put away money for their own retirement. As they age, most Americans put money in their individual retirement accounts (IRA) or 401(k)s, trusting that it will be managed wisely and produce returns they can count on later in life.

Unfortunately, that's not always the case.

Today, institutional investors — including the brokerages and money managers that maintain Americans' retirement accounts — control nearly 80 percent of the stocks and equities traded on U.S. exchanges.

With such large stakes in American businesses, they have a big say in corporate decision-making and governance when a vote is put before shareholders. They often turn to outside advisers, called proxy advisory firms, to guide those decisions.

Seeking outside advice makes sense, but many of the practices of these proxy advisory firms do not. That can lead them to give advice that isn't in the best interest of a company, which in turn harms a Main Street investor saving for retirement.

Here are a few of the ways their advice can be harmful. First, some proxy firm reports have been found to be riddled with errors. They can get basic facts about a company wrong — and some won't even let companies correct those errors without paying a fee, if at all.

This can lead money managers to cast shareholder votes based on misinformation, which could have devastating consequences for a company and the workers invested in it.

Proxy firms tend to insist on providing advice based on a one-size-fits-all approach to corporate governance, which doesn’t give companies the freedom to respond to their individual needs. This makes no sense.

The issues facing a large social media company, for example, are far different from those facing a major industrial firm. Treating them the same leads to bad business decisions.

In addition, proxy advisory firms often have conflicts of interest and can let views of political activists on issues unrelated to a company’s business color their recommendations.

Such conflicts lead to advice — sometimes ultimatums — that could harm a company’s growth, which, again, is why Americans invest in the stock market in the first place. They want those companies, and therefore their savings, to grow.

With all this power, proxy advisory firms should be subject to reasonable government oversight. For many years, they were not, but thankfully, the Securities and Exchange Commission (SEC) has taken action in recent months.

More can be done, and in mid-November, the SEC convened a roundtable at which the impact of proxy firms on Americans’ retirement savings was a key discussion topic.

We are hopeful that this will begin a process that leads to increased oversight of proxy advisory firms, and we have provided the SEC with...
many recommendations to ensure that proxy firms are providing high-quality advice in the best interests of Main Street investors.

And why do manufacturers care? First, we employ more than 12.5 million people, two-thirds of whom participate in a workplace retirement plan. We want manufacturing workers to have confidence that their retirement savings are going to help them achieve the retirement they hope to have.

Second, the capital raised through the stock market helps manufacturers grow right here in America. It means jobs. It means investments in communities. It means new factories and new equipment.

To develop life-changing products and technologies, manufacturers must invest in expensive research and development. A well-functioning stock market allows manufacturers to finance this growth.

Proxy advisory firms can influence money managers’ decisions about a manufacturing company’s governance. If they are giving bad advice, bad decisions will be made.

It doesn’t matter if that bad advice is the result of a calculation error or a conflict of interest; it still means the company suffers, driving away investment and hurting the growth of manufacturing in America.

Manufacturing plays a vital role in America’s economic strength, contributing more than $2.3 trillion to our economy. Over the past year, we’ve seen headline after headline about manufacturing growth and resurgence.

We want to keep that momentum going, and we don’t want to be derailed by something so preventable as bad information from proxy advisory firms.

It is time for the SEC to act. It is the right thing to do for retirees and Americans saving for retirement, for manufacturing workers and for the health of our broader economy.

Jay Timmons is president and CEO of the National Association of Manufacturers (NAM).