tumelo

Part II

A playbook for pass-through voting

Latest insights on progress and process, 2024

Sequel to our white paper:
A deep dive into pass-through voting

September 2024

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Foreword

Much has happened since we published our white paper, A deep dive into pass-through voting, 18 months ago. In September 2023, Legal & General Investment Management (LGIM) partnered with us to introduce pass-through voting for institutional clients. By December, a coalition of UK investors had issued an open letter advocating for the widespread adoption of pass-through voting, while nearly half of BlackRock's $4.9 trillion in index equity assets became eligible for Voting Choice, spanning over 650 pooled investment funds across multiple countries.

The momentum continued into 2024. In April, several Local Government Pension funds, managing over $60 billion in assets, adopted pass-through voting in collaboration with LGIM and Tumelo. Northern Trust followed suit, announcing a programme in the same month to allow all investors, including those with pooled funds, the ability to vote directly in AGM meetings. May saw the launch of the first Defined Contribution (DC) pension scheme offering pass-through voting on pooled funds, marking another milestone in investor empowerment. By June, the Local Authority Pension Fund Forum (LAPFF) announced its plans to roll out pass-through-voting alerts for its members on LGIM funds, encompassing over $350 billion in assets under management.

In short, pass-through voting has rapidly moved from concept to reality.

Rewind four years ago, no one thought it possible that investors in pooled funds would be voting their shares. It was "too hard" and there was "not enough demand". Now, not only is it possible — it's popular.

So while the industry scratches its head about the "complexities" of implementing pass-through voting on ETFs in the relatively unchartered territory of Europe (for example) — we say it's possible. Why? Because we are already doing it. For retail and institutional investors.

Read on for a flavour of the "why" and the "how" we do it.

By Georgia Stewart
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Timeline of key events

2020

- **September 2020:** Tumelo launches 'Expression of Wish' voting platform, enabling individual investors to express their voting preferences on shares held on their behalf.

2021

- **October 2021:** BlackRock launches Voting Choice program for institutional clients.[1]

2022

- **December 2022:** State Street Global Advisors (SSGA) announces the Proxy Voting Choice program for institutional investors, further expanding options for client-directed voting.[2]

2023

- **February 2023:** Vanguard begins a pilot program for Proxy Voting Choice, targeting retail investors.[3]
- **September 2023:** Legal & General Investment Management (LGIM) and Tumelo announce a partnership to offer pass-through voting for institutional clients.[4]
- **December 2023:** A coalition of UK investors issues an open letter calling for the implementation of pass-through voting.[5]
- **December 2023:** 47% of BlackRock's $4.9 trillion in index equity assets, including over 650 pooled investment funds across the U.S., U.K., Ireland, and Canada, are eligible for Voting Choice.[6]

2024

- **April 2024:** Multiple Local Government Pension funds adopt pass-through voting with LGIM and Tumelo, representing over $60 billion in assets under management (AUM).[7]
- **August 2024:** Northern Trust announces program to offer all investors the ability to vote directly on AGM meetings, including assets held within pooled funds.[8]
- **May 2024:** First DC pension scheme launches pass-through voting on pooled fund.[9]
- **June 2024:** The Local Authority Pension Fund Forum (LAPFF) announces the implementation of pass-through voting alerts on LGIM funds to its members, representing over $350 billion in AUM.

Chapter one

Why has pass-through voting become more important?

Investor stewardship has moved firmly into the spotlight as global regulations tighten and ESG issues ignite political tensions. This chapter explores the increasing regulatory push on stewardship, the widening rift over ESG, the media scrutiny on proxy voting, the evident misalignment in voting practices, and the growing significance of pass-through voting as a key instrument for investors seeking to customise their own stewardship strategy.

Chapter commentary by Will Goodwin
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> "Our mission is to maximize risk-adjusted returns for our beneficiaries, full stop. And so it's another lever in that toolbox. But the secondary one is more philosophical, and that is: these are our shares. The right to vote is important. The number one reason for owning shares is you're meant to have the authority to have your say. That is the fundamental right of a shareholder."

Leola Ross, Seattle City Employees' Retirement System (SCERS).

Leola Ross at Tumelo's US roundtable event.

One | Growing regulation on stewardship

In recent years, there's been a marked shift towards improving how investors shoulder their responsibilities. Across the globe, regulators and industry bodies have rolled out new rules and guidelines, all aimed at encouraging asset managers and institutional investors to take a more hands-on approach with the companies in their portfolios.

These initiatives focus heavily on responsible ownership, transparency, and accountability. The UK's Stewardship Code, the EU's Shareholder Rights Directive II, and similar moves in the US, Japan[10], Australia[11], and Canada[12] are just a few examples of this growing trend.

The U.S. Securities and Exchange Commission (SEC):

Has worked over several administrations to ensure shareholders have the information and tools they need to take part in the governance of the companies they invest in. The most recent update requiring beneficial owners to provide more timely information on their positions.[13]

The UK pensions regulator:

Reported in an August 2024 review that trustees were failing to demonstrate proper oversight of fund managers' environmental, social and governance activities.[14] As a result, the regulator has urged trustees to "take ownership" of the scheme's policies in relation to ESG.

The UK's Taskforce on Pension Scheme Voting Implementation (TPSVI):

Report from 2021 revealed that 62% of asset owners believe that fund managers should be required to offer an "expression of wish" or proportional/split voting in pooled (commingled) funds.[17]

The UK Stewardship Code:

Growing number of signatories demonstrates how assets are managed in alignment with clients' stewardship and investment policies.[18] Asset managers are increasingly expected to disclose their policy on allowing clients to direct voting in both segregated and pooled accounts.

"Asset managers respond to two things: regulation and client demand. Over the last year we've seen tremendous growth in clients demanding flexible voting solutions [...]. Now regulation is pushing from the other side as well."

Will Goodwin, Tumelo co-founder, quoted in FT Ignites.[19]

The Financial Markets Law Committee (UK):

In early 2024 published its much anticipated paper on fiduciary duties, offering further clarity on the role of climate and related sustainability risks for investors.[15] The paper asserts that pension scheme trustees should consider sustainability factors as part of their investment decisions.

INvestor Democracy is EXpected Act or "the INDEX Act":

If passed, the United States would mandate that investment advisors of passively managed funds vote proxies according to the instructions of fund investors, rather than at the advisor's discretion.[16]

IGNITES EUROPE

Hike ESG pressure on fund managers, UK pensions regulator tells trustees

By Amie Keeley 13 August 2024

Two | Navigating the political arena

Environmental, Social and Governance (ESG) issues have become highly politicised, with 17 US states passing anti-ESG legislation, while six states have adopted pro-ESG stances.[20] The deeply divided views among investors, especially on fiduciary duty, environmental, and social matters, have left many managers in the challenging position of trying to satisfy a diverse and often global investor base with a single "house" voting and stewardship policy.

The political divide is most evident on a state-by-state basis within the US, but it also reflects a broader rift between European investors and their US-based asset managers.

Anti-ESG: Texas divests from BlackRock

A striking example is the recent decision by the Texas state fund for public schools to withdraw $8.5 billion in investment management contracts with BlackRock Inc.[21] The Texas Permanent School Fund Corp. stated on March 19 that the divestment complies with a 2021 state law prohibiting state and municipal agencies from doing business with asset managers that consider environmental, social, and governance criteria in their investment risk assessments.

Pro-ESG: Scottish Widows sets up pass-through voting to vote progressively

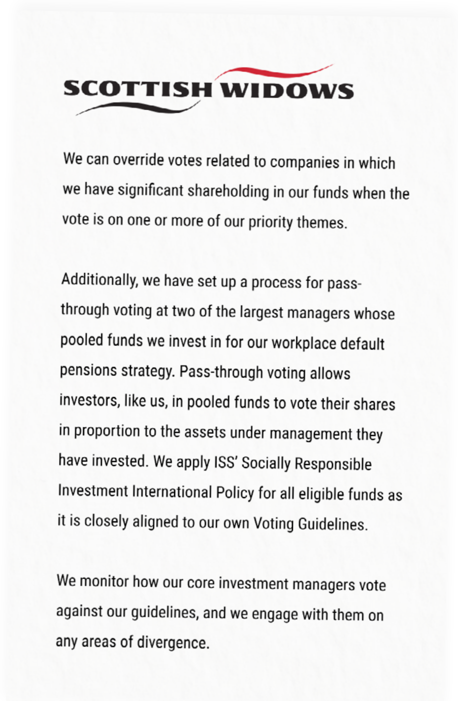
In contrast, European investors are embracing pass-through voting to support more progressive voting (e.g., Scottish Widows).[22]

> *"... We have set up a process for pass-through voting at two of the largest fund managers whose pooled funds we invest in for our workplace default pensions strategy..."*

Extract from Scottish Widows' Stewardship policy.


FINANCIAL TIMES

US investment funds pull $13.3bn from BlackRock in anti-ESG campaign


SCOTTISH WIDOWS

We can override votes related to companies in which we have significant shareholding in our funds when the vote is on one or more of our priority themes.

Additionally, we have set up a process for pass-through voting at two of the largest managers whose pooled funds we invest in for our workplace default pensions strategy. Pass-through voting allows investors, like us, in pooled funds to vote their shares in proportion to the assets under management they have invested. We apply ISS' Socially Responsible Investment International Policy for all eligible funds as it is closely aligned to our own Voting Guidelines.

We monitor how our core investment managers vote against our guidelines, and we engage with them on any areas of divergence.

Three | Media storms about proxy voting

As tensions rise over corporate accountability and environmental stewardship, major players in the investment world are taking bold stances.

The California Public Employees' Retirement System (CalPERS), the largest pension fund in the U.S. with over $483 billion in assets under management, has openly condemned ExxonMobil's legal actions against activist shareholders Arjuna Capital and Follow This, who had called for a shareholder vote on the company's climate policy.[23] CalPERS stated:

> *"Decades of shareholder rights are under threat from a lawsuit filed by the leaders of a powerful U.S. corporation, designed to punish two small groups that dared to speak truth to power. If successful, the legal action could diminish the role—and the rights—of every investor in improving a company's bottom line. That's why on May 29, 2024, CalPERS will cast our shareholder votes in opposition to all 12 members of ExxonMobil's board of directors and its chief executive officer."*

While advocacy groups are increasingly scrutinising how beneficiaries' funds are used, particularly in the oil and gas sector.

In early 2024, UK-based advocacy group ShareAction published its fifth annual "Voting Matters" report which analyses how the world's largest asset managers voted on shareholder resolutions.[24] It stated:

> *"We are seeing asset managers turning their backs on people and planet on an unprecedented scale. Efforts to change urgent climate, biodiversity, and social issues will face a steep uphill struggle if asset managers do not support them."*

Four | Increasing evidence of misalignment on voting and stewardship

Geographical and political fault lines are deepening around divisive environmental and social issues, leading to widespread criticism of manager voting records. Asset owners are increasingly identifying misalignments between their stated investment principles and those of their asset managers. They are also working to eliminate voting inconsistencies across different managers within their portfolios, which not only diminishes their impact (as votes may cancel each other out) but also complicates reporting to clients and beneficiaries.

Following research on misalignment conducted on behalf of the UK Asset Owner Roundtable, assessing asset owner and asset manager voting, the group commented:

responsible investor

UK asset owner review finds growing stewardship misalignment with managers

By Gine Gambetta 21 November 2023

> *"Urgent action is needed from the entire stewardship chain to address the misalignment issue identified in this research. A complete dismantling of failed status quo approaches to stewardship is needed by the fund management industry, with voting escalation not seen as a 'last resort' approach used on an exceptions basis, but rather a powerful signal to companies of what investors expect of them. A continued lack of industry action will seriously undermine the financial sector's ability to deliver not only its own net zero commitments but, more importantly, better outcomes for savers."*[25]

Five | Pass-through voting extends existing investor rights on equities and segregated funds

Asset owners have long voted their shares through direct ownership and separately managed accounts. Technology has now enabled integration into commingled, mutual and exchange traded funds, allowing an investor to dislocate investment management and stewardship across an entire portfolio.

Georgia Stewart, Tumelo CEO, discussing misalignment at a roundtable event.

Six | The rise of the retail investor

Section commentary by Charlie Barlow
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In the world of investing, institutional asset owners have long held more influence over asset managers than their retail counterparts, largely due to the sheer volume of assets and the higher fees they command. But the tide is turning. Retail investors are becoming more assertive, and for some asset managers — Vanguard being a notable example — retail clients are increasingly taking centre stage. **Three things are driving this growing demand among retail investors to vote their own shares:**

One | Growth of ETFs

The explosion of the Exchange-Traded Fund (ETF) market has created a swell of retail investors. As their numbers grow, so too does their desire for greater control over how their shares are voted.

Two | Shareholder democracy

While some of the world's larger asset managers are now offering pass-through voting to some of their institutional and retail clients, there are still millions of retails investors who are unable to cast their vote on matters of importance within pooled funds. And many would like to.

Tesla shareholder backlash

During the recent proxy votes for the June 2024 Tesla shareholder meeting, a survey was carried out of retail shareholders who were unable to cast their vote on Elon Musk's compensation package.[30]

The first 1,500 investors surveyed represented more than 2 million shares who were unable to vote on such matters. As one disgruntled shareholder commented on 'X':

"The ability to vote on shares should be the same for the individuals who own shares through index funds as it is for the institutional investors in actively managed funds. Why do the large asset managers get to cast votes on behalf of we retail investors within index funds? It's our money and our privilege to vote."

Activists like Alexandra Merz from L&F Investor Services are prepared to highlight the issue with their 'I WANT TO VOTE MY PROXY' campaign, naming those broker platforms who are not allowing retail investors to vote their own shares and the top 20 countries most affected. The results of the campaign's survey found:

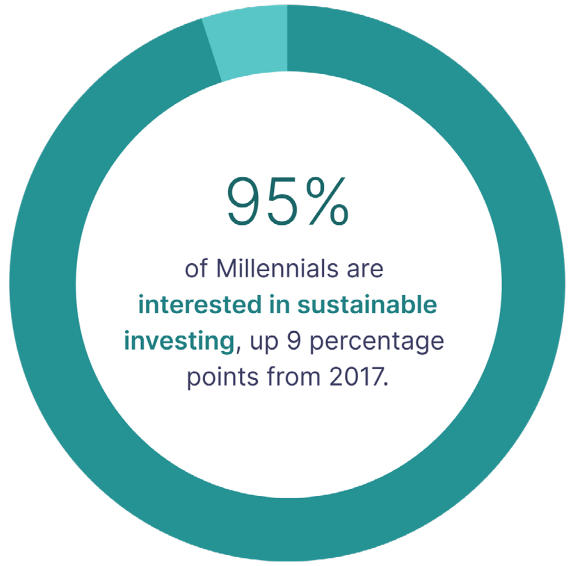
"53.2% of participants are prepared to change their broker / bank in order to be able to vote in upcoming proxy votes."

Three | Expecting customisation

You've only to look at reports from Deloitte (The Future of Wealth in the United States)[26] and Accenture (Wealth Management Consumer Report: The New State of Advice)[27] to identify a growing demand for personalised investment options, driven by millennial's' and Gen Z's preferences for flexibility, impact investing, and ESG-focused strategies.

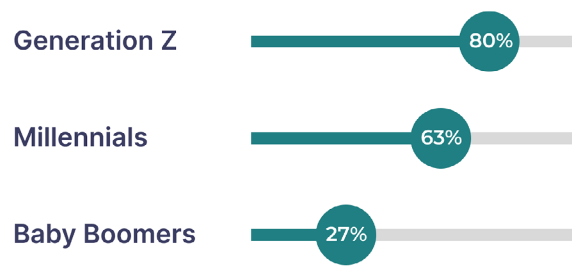
Research by Schroders[28] and Morgan Stanley[29] underscores this trend, showing that a significant majority of younger investors are keen to align their investments with their personal values, particularly in the area of sustainability, prompting many to seek out tailored investment strategies.

The rise of robo-advisors and fintech platforms like Robinhood, Betterment, and Wealthfront, has empowered investors, particularly younger generations, to tailor their portfolios to their specific goals, risk tolerance, and values. Being able to customise and influence their proxy-voting preferences feels like the likely next step.



Accenture Wealth Manager Consumer Report: The New State of Advice.

Generation Z and Millennial investors were more than twice as likely as Baby Boomers to have asked their advisor about ESG investments (80% and 63%, respectively, versus 27%).



From Morgan Stanley, Institute for sustainable investing: Sustainable Signals: Individual Investor Interest Driven by Impact, Conviction and Choice.

Chapter two

The growing demand for customised stewardship

From the UK's Local Government Pension Schemes to forward-thinking wealth managers, the push for pass-through voting reflects a broader desire to ensure that investor voices are heard clearly and consistently, even within pooled-fund structures. The following section, focused on the European market, looks at the motivations, trends, and case studies that show this growing movement.

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Institutional investors

UK Pension funds

Local Government Pension Schemes

> *"Since 1996, we have voted equities in segregated mandates with our bespoke vote policy. Yet, for pooled funds we have always been forced to accept the fund managers' policies, which are different to our own. This has led to misalignment of voting across our portfolio and sometimes with our own responsible-investment beliefs"*
>
> Rishi Madlani, Camden Pension Fund, LGPS

The LGPS collectively represents assets in excess of £350 billion, with over 2 million members currently in accumulation. The LGPS comprises 89 individual pension funds, some of which have wholly or partially consolidated into "pools" with a central team controlling investments and stewardship, while others remain standalone.

Many LGPS funds are deeply committed to stewardship and have longstanding voting policies in place, often being signatories of the UK Stewardship Code. The majority are also members of the Local Authority Pension Fund Forum (LAPFF), which leverages the collective power of invested assets and conducts company engagements on behalf of members. LAPFF provides "Voting Alerts," consisting of approximately 50-70 vote recommendations per voting season. Tumelo, LAPFF, and LGIM now offer a service where these alerts are automatically voted on within pooled-fund structures, allowing LAPFF members to align voting across both segregated and pooled mandates for specific votes and companies.

The Camden Pension Fund was the first LGPS to adopt pass-through voting, utilising a bespoke voting policy across almost all global equities. Camden seeks to align voting across its portfolio to ensure vote parity when a stock is held in different investment vehicles, as well as to maximise its stewardship impact, particularly on issues such as climate change and executive remuneration. Camden is now pressuring other managers to offer the same functionality as LGIM.

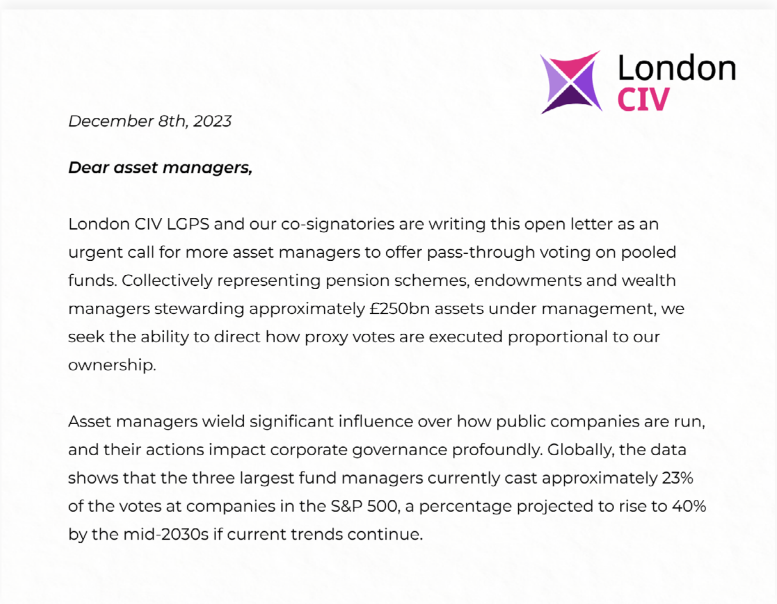
During the 2024 voting season, we have seen the rapid adoption of pass-through voting across both single-client funds (including Greater Manchester Pension Fund, £30bn AUM) and pooled funds (including Brunel Pension Fund, £30.8bn AUM).

UK Open Letter

On the 8th December, 2023, a coalition of asset owners issued an *"urgent call for more asset managers to offer pass-through voting on pooled funds."* Collectively representing assets of $300bn+ the coalition stipulated that *"more asset managers should offer flexibility, ensuring capital owned by investors is voted in accordance with their stated values."*[31]

Signatories represented investors across the asset owner spectrum, including:

- **Insurance & Pensions:** Scottish Widows
- **Local Government:** London CIV, Merseyside Pension Fund
- **Master Trust:** Smart Pension
- **DC/DB Trust:** Superannuation Arrangements of the University of London (SAUL)
- **Wealth manager:** EQ Investors, Tribe Impact Capital
- **Endowments & Foundations:** Guy's & St Thomas' Foundation



London CIV

December 8th, 2023

Dear asset managers,

London CIV LGPS and our co-signatories are writing this open letter as an urgent call for more asset managers to offer pass-through voting on pooled funds. Collectively representing pension schemes, endowments and wealth managers stewarding approximately £250bn assets under management, we seek the ability to direct how proxy votes are executed proportional to our ownership.

Asset managers wield significant influence over how public companies are run, and their actions impact corporate governance profoundly. Globally, the data shows that the three largest fund managers currently cast approximately 23% of the votes at companies in the S&P 500, a percentage projected to rise to 40% by the mid-2030s if current trends continue.

UK asset-owner open letter calling for pass-through voting on pooled funds.

Own Rules Trusts (DB/DC)

> *"By adopting this technology, The Superannuation Arrangements of the University of London SAUL can uniformly apply its voting policy across its segregated and pooled funds for both DC and DB plans, enhancing its overall stewardship impact."*

Kevin Wade, CIO, SAUL.

The UK has a highly fragmented pension system, with a small number of very significant funds (USS, RailPen, BTPS) that typically invest using segregated mandates, alongside a long tail of thousands of smaller schemes, which are more likely to use pooled funds. Consolidation of these schemes is being encouraged through increasing regulation into Master Trusts, but many retain autonomy and are likely to continue operating independently.

The UK Asset Owner Stewardship review, published in 2023, sparked increased interest in pass-through voting among many of these schemes.[32] The report highlighted a growing divergence between the voting records of UK asset owners and their investment managers:

> *"Specifically, UK asset owners have been concerned that despite unequivocal warnings from the United Nations and the IPCC of the risks of delayed action on climate change, the short-term interests of asset managers may be trumping the long-term interests of pension funds. Delayed action on climate increases the chances of a disorderly climate transition and missing the goals of the Paris Agreement. This, in turn, increases the risks to pension funds' long-term financial sustainability."*

For SAUL, pass-through voting allows the scheme to directly influence decisions on key issues, such as climate change, by voting in line with its responsible investment values. They are particularly focused on voting for resolutions at Climate Action 100+, as well as their top 500 holdings, where they can have the most influence. Others may focus on specific issues (executive pay, biodiversity), industry sectors, or segments of investments (e.g., top 10 holdings).

Resources at these trust-based schemes are often limited, and we have seen multiple examples of clients relying on their investment consultants for advice on implementing voting strategies. Importantly, not all asset owners are implementing voting due to environmental concerns; some are worried about the anti-ESG backlash and are seeking to distance themselves from shareholder resolutions, choosing instead to vote based solely on pecuniary considerations.

Master Trusts and OCIO

> *"It's the right thing to do. As an asset owner, as a fiduciary, that's probably the biggest driver of adopting client-directed voting."*

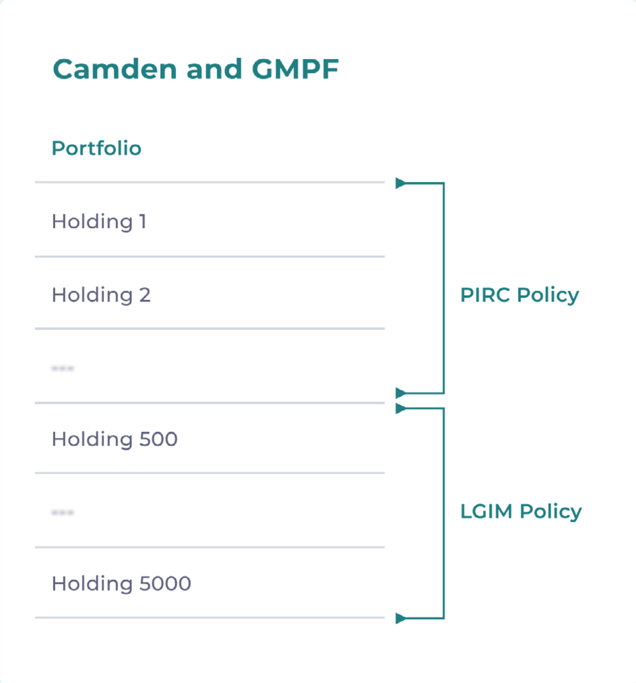
James Lawrence, Director of Investment Proposition, Smart Pension.

As assets increasingly flow into master trusts and further consolidation occurs among existing providers, each will face heightened scrutiny from investors and advocacy groups. We have seen stewardship and ESG ranking charts from organisations like Make My Money Matter, Pensions for Purpose, and ShareAction, highlighting firms' voting records and broader stewardship policies. Specifically, trustees are being questioned on how they will vote ahead of significant decisions (such as the Follow This resolutions at Shell). When this responsibility is delegated to third-party managers, trustees are being encouraged — by ESG proponents, regulators, and the UK Stewardship Code — to take more ownership rather than passing the voting responsibility to others.[33]

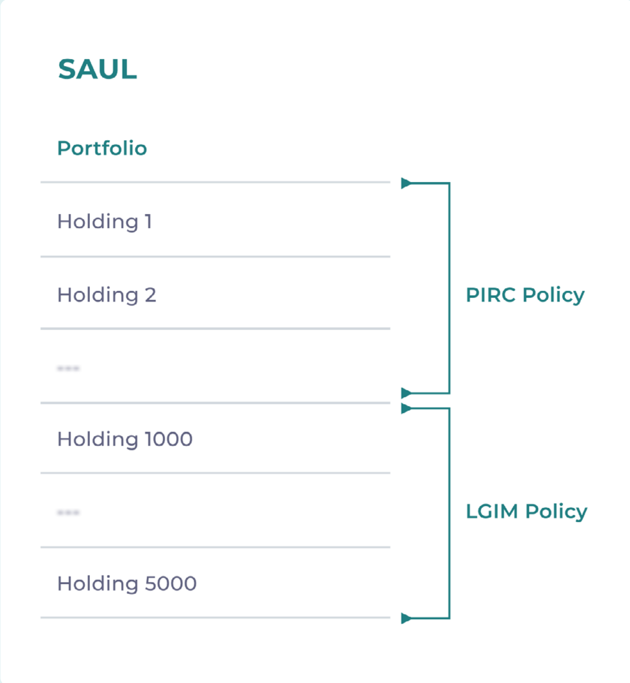
Similarly, as assets under management (AUM) grow, so does the ability to resource stewardship and investment teams to support the board of trustees.

Case study

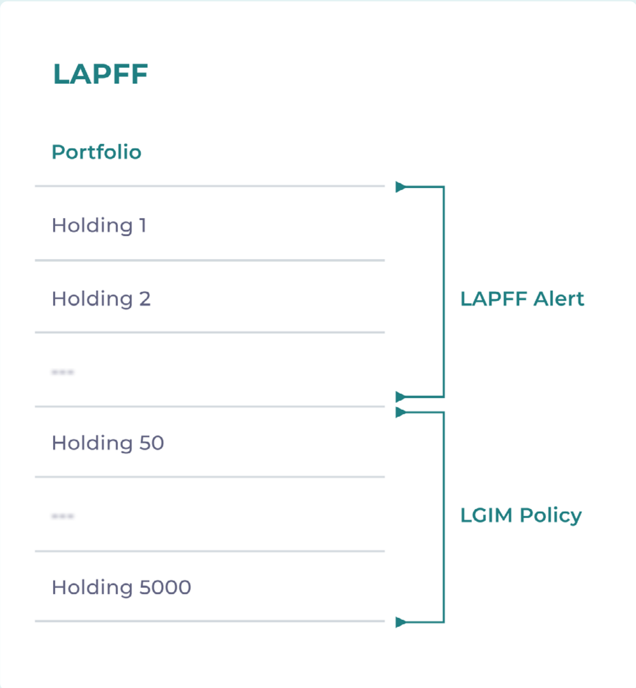
How asset owners have leveraged pass-through voting to customise their stewardship



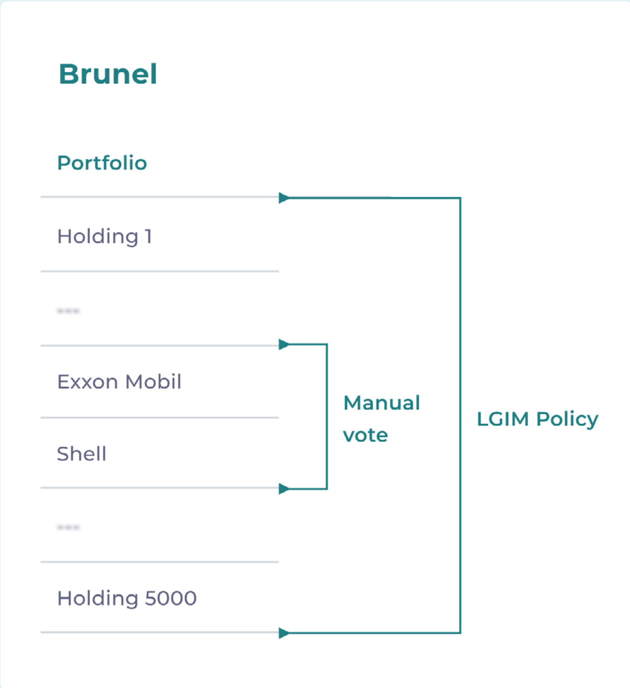
Camden and GMPF aligning the voting across their portfolio with a custom PIRC policy that matches their investment strategy.



SAUL using a PIRC policy on their top 1000 holdings, actively appointing their fund manager for the remaining.



LAPFF members can now receive voting alerts on specific resolutions, appointing their fund manager for all other voting.



Future project: Brunel is looking to override on specific votes and actively appoint their fund manager for the remaining.

Wholesale investors

Wealth managers (UK and Europe)

> *"This is a hot topic for us because we have started to notice misalignment with some of our managers. For us, taking back the vote gives us the ability to influence in a much faster and more powerful way."*
>
> Siobhan Archer, LGT Wealth Management

Wealth managers, particularly those offering discretionary services, have long controlled proxy voting on behalf of their clients, focusing primarily on traditional corporate governance. However, as shareholder resolutions increasingly address environmental and social issues, firms are reassessing their positions. Many now leverage their stewardship or responsible-investment credentials as a unique selling point, with some expanding their stewardship teams and bringing in expertise from NGOs.

These managers — who have historically voted only on shares they directly hold — are now broadening their efforts to include voting across entire portfolios to ensure alignment across their clients' values and investment strategies. This is because most discretionary portfolios now allocate to third-party funds, which often leads to voting misalignment and confusing messages for clients. For example, wealth manager X may hold shares in Shell directly, but also through fund managers 1 and 2, who may vote in opposing directions.

The European trend of wealth managers seeking greater control over voting can also be attributed to the disconnect between the approaches to ESG and systemic risks taken by EU investors and US asset managers.

Also, unlike pension funds which face slow and complex asset allocation, wealth managers can quickly shift assets to those offering the most compelling solutions. Pass-through voting could become a key factor in this process.

How wealth managers are using pass-through voting

For three top wealth managers speaking to Tumelo at time of writing, a policy is already in place for stocks held directly (and in segregated accounts), and they are seeking to create alignment across their portfolios — initially on those sub-set of stocks but potentially more extensively.

This trend mirrors the typical implementation we have seen across UK clients, rather than a wholesale shift of voting policy from asset manager to proxy advisor, clients want the ability to demonstrate ownership of voting on a sub-set of their portfolio. This is true on direct stocks, but we have also seen implementation on other sub sets, including: Climate Action 100+, top holdings by AUM and where the client has co-filed shareholder proposals.

This aligns well with the recent findings from the UK regulator on how trustees are complying with their ESG duties, they suggest: trustees are failing to demonstrate proper oversight of fund managers' environmental, social and governance activities. The regulator has therefore urged trustees to *"take ownership of the scheme's policies in relation to ESG"*, adding: *"It is not enough for trustees to report that they have delegated these matters to asset managers."*

Chapter three

How the process works

The proxy voting system is widely recognised as being complex and based on antiquated technology that already struggles to meet the basic needs of modern corporate governance. How then does the introduction of pass-through voting impact the current system, and what is required for an asset manager to be able to offer such flexible stewardship options to their clients?

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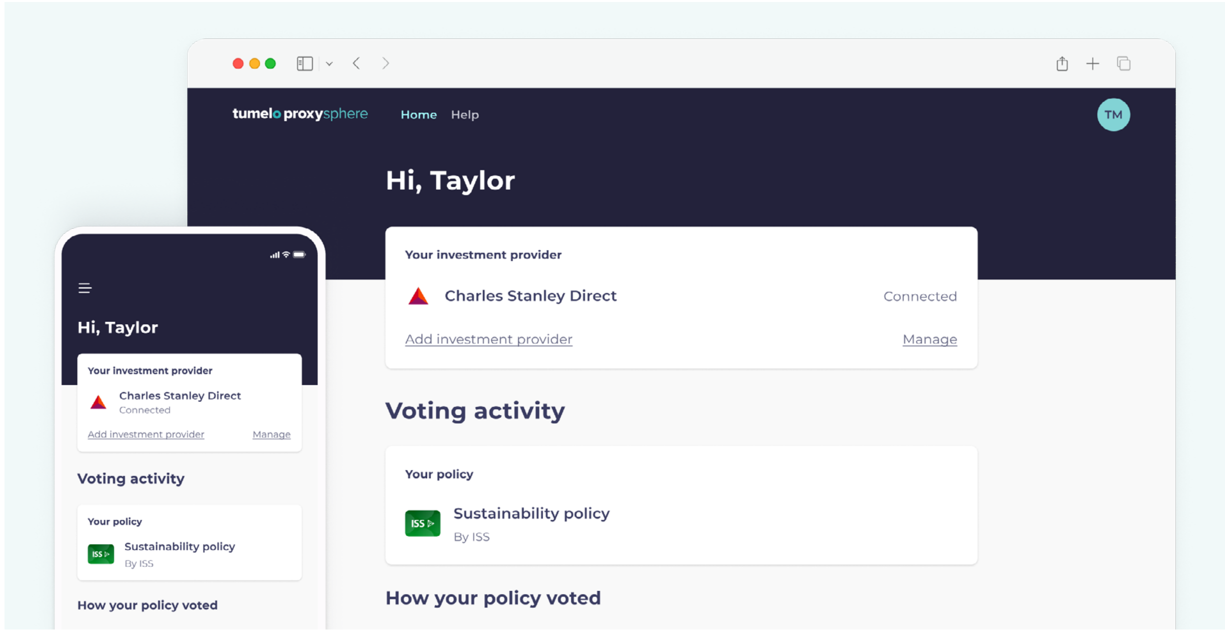
Pass-through voting allows the holder of some kind of collective investment vehicle to exercise their own vote instructions at shareholder meetings, independent of the voting instructions of the fund manager's own.



We use the generic term fund here to refer to any type of collective investment vehicle that wishes to offer pass-through voting, and we refer to the retail or institutional investor who holds a position in the fund for which pass-through voting is being offered by the fund manager as the voting party. A critical part of the pass-through voting process is that the voting party must be allocated a voting entitlement based on the proportion of the fund their position represents. So for example, if an institutional investor's position in a fund accounts for 5% of the total value of the fund, they would be allocated 5% of the votes at a given shareholder meeting. **In fact, relatively little information is required in order to drive the process for a given fund:**

- An understanding of the nature of the fund itself, including valuations and available share classes where relevant.
- Knowing how much of the fund the voting party holds on the relevant date.
- Access to the fund's existing proxy voting infrastructure.

Once we understand what proportion of the fund the voting party's holding represents, they will be allocated the same proportion of the number of votable shares the fund manager holds. For our above example, if a voting party's position in the fund represents 5% of the fund, and the fund manager holds 100,000 shares in an issuer whose annual general meeting is open for proxy voting, the voting party's vote instructions would be applied to 5,000 shares, and the fund manager's own voting instructions would be applied to 95,000 shares.

Although some of the details of what information needs to be processed, and where the information is available from, can vary — the same basic principle can be applied to any form of fund.

Setting up pass-through voting

In this section we look at how it's possible to acquire the three essential bits of information that drive the pass-through voting process — as implemented by Tumelo — in a bit more detail, taking an ETF as an example fund. As noted above, the same basic principles apply equally to other types of fund.

Fund information

In order to determine how much of a fund an investor's position represents, we need to understand some details of the fund, including its overall fund value.

In the case of an ETF, there may be multiple share classes available, where different share classes offer different fees and expenses or different dividend distribution policies and each class may have a different number of shares available at different prices. These factors must all be taken into consideration, however such data is generally readily available from the fund administrator. In establishing pass-through voting on a fund, Tumelo works closely with the fund manager and fund administrator to ensure reliable daily updates are available for all relevant fund information.

Tumelo's pass-though voting solution also supports complex, multi-level fund structures where required, a feature which allowed LGIM to make pass-through voting available to their pension customers in Sept 2023 (LGIM offers pass-through voting to pension funds).[34]

Verify the holdings of voting parties

In order to pass votes through from the legal owners to the desired voting party, we must first establish that the voting party holds a verifiable position in the fund.

In the case of retail investors who are not directly listed on the shareholder register, once an investor has registered their desire to participate in pass-through voting in a supported fund, after the relevant verification processes are completed, we subsequently determine their position in the ETF using various methods dependant on the type of investor and the intermediary they use. Their daily holdings information is acquired either through direct connections with brokers and intermediaries or via the data aggregators that we work with. This ensures we have up-to-date and precise information on the retail investors' ETF holdings.

For institutional investors, we typically receive a daily feed of holdings data from custodians, transfer agents, or intermediary platforms. This data allows us to accurately track and report the amount of the ETF that each institutional investor holds.

Proxy voting infrastructure

Lastly, Tumelo works closely with the fund manager and fund custodian to establish access to the fund's existing proxy voting infrastructure.

Fund managers have well-established systems and processes for managing their proxy-voting activities which often involve the services of a proxy-advisor partner such as ISS or Glass Lewis.

Tumelo's pass-through voting system allows a fund manager's existing proxy voting process, with or without a proxy advisory partner, to remain unaltered. Having access to the existing proxy voting infrastructure, Tumelo can ensure that the voting instructions of both the fund manager and all other voting parties are taken into account in to votes submitted to the proxy network, and onward to the issuer in question.

The voting process

Whenever an issuer announces a new shareholder meeting, a series of events is triggered, ultimately resulting in that issuer receiving back through the proxy voting network, vote instructions from their shareholders. In this section, we examine how the voting process is modified in order to support pass-through voting on a fund. Tumelo's pass-through voting system builds upon the capabilities of the existing infrastructure, without having to change or replace any of the well-established systems and processes.

Distribute ballots

Tumelo's pass-through voting process starts when the fund manager receives a ballot for a given issuer from their existing proxy voting provider. At this point, based on the knowledge of each of the voting parties verified positions in any supported fund, Tumelo distributes ballots for that meeting to each relevant voting party.

Collect vote instructions

Having received their Tumelo ballot, all voting parties (retail and/or institutional investors) may then vote according to their own preferences, independent of the fund manager's policy. For convenience, Tumelo allows each voting party to select a voting policy from a wide range of different proxy advisors. This allows investors to tailor their voting instructions exactly as they wish, for example a large institutional investor may wish to align their voting in the pooled funds with their voting in the segregated mandates they also hold. Tumelo also supports the ability of a voting party to manually override any vote on any proposal.

Submit the vote instructions to the proxy network

Tumelo allocates each investor a voting entitlement based on their pro-rated ownership of the fund as described above. Once the voting parties have submitted their voting instructions, Tumelo collects and aggregates the instructions from all parties, and taking the fund manager's own voting instructions into account, submits the appropriate vote instructions to the fund's existing proxy provider.

Conclusion

Although the proxy voting system is complicated and often based on out-dated technology, Tumelo's pass-through voting solution allows a funds manager to provide flexible stewardship services to their retail and institutional investors, with minimal disruption to their existing processes or systems.

Chapter four

Regulatory focus: Launching with a UK wealth manager

Tumelo has proactively worked with legal firm Addleshaw Goddard, to understand the nuances of European regulations around pass-through voting. This is our best interpretation of the current requirements.

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Overview

Regulation concerning voting rights, especially pass-through voting, is relatively limited. The Shareholder Rights Directives I (2007) and II (2017) aim to facilitate the exercise of voting rights and enhance the transparency of voting strategies by certain institutional investors, including fund managers. SRD mandates intermediaries to disclose shareholder details to investee companies within the EU.

However, these obligations have not been incorporated into UK regulation for UK-based investee entities, and the requirements specifically pertain to the exercise of voting rights by the shareholder registered in the company's books—i.e., the legal titleholder.

Consequently, SRD does not impose any additional obligations on managers concerning the pass-through of voting rights to fund investors. Furthermore, managers of regulated funds in the UK, governed by the FCA's Collective Investment Scheme sourcebook (COLL), are not required to facilitate the pass-through of voting rights in fund investee companies. The Individual Savings Account Regulations 1998 (ISA Regs) also place obligations on the ISA manager rather than the fund manager and do not extend to arrangements in relation to investments which are held by a pooled Fund.

Case study

Implementing pass-through voting for a UK wealth manager

Overview

For wealth manager A (WMA)*, the rationale to implement pass-through voting is largely driven by alignment between fund holdings and stocks that they own directly, and thus already vote on. Not unlike the pension section, pass-through voting is particularly important for wealth managers (on their discretionary portfolios) who increasingly invest time and effort researching these votes, joining collaborative groups, co-filling shareholder resolutions, etc.

There are a selection of funds from European Fund Manager (EFM)* on which WMA wants to utilise pass-through voting. A comparison of their direct equity holdings with these EFM funds found that the overlap is on circa 80 stocks, which WMA considers material. Thus, WMA wants to move forward with pass-through voting and has articulated that this could lead to increased allocation to EFM's funds vs. competitors.

* Fictional names for discretion.

How to implement

Scope

To deliver pass-through voting for the funds, it's recommended that EFM initially provides the service to entities listed on the fund unitholder register, primarily consisting of intermediaries such as wealth managers, brokers, banks, and other nominee services. This approach is straightforward, compliant, and meets the demand from EFM's direct customers like WMA. Based on legal guidance from Addleshaw Goddard there is no regulatory requirement for fund managers to extend support or actively engage individual investors directly.

Communication requirements

Where EFM opts to facilitate pass-through voting, it is adequate to do so through existing fund communications and commercial relationships. Fund managers are not required to proactively engage individual investors. This aligns with FCA guidance in FG 22/5 on Consumer Duty, which states that:

"It may be that some manufacturers have no knowledge of the end distributor or end customers. Some fund managers for example, selling via platforms, will not know if other distributors are involved or if their funds are being sold outside the target market. Unless they have an oversight role, manufacturers are not responsible for the activities of distributors".[35]

However, fund managers must comply with the FCA's new Consumer Duty regime (Duty). In demonstrating compliance with the Duty, it is important that fund managers can evidence that they have considered how they will deliver good outcomes for investors and that they

i) document their approach; and

ii) monitor the outcomes achieved and adjust as necessary.

This will require the fund manager, EFM, to maintain ongoing communications with those listed on the Fund unitholder Register such as WMA.

The report of the Taskforce on Pension Scheme Voting Implementation, published on 20 September 2021, addresses the FCA's Principle of "Treating Customers Fairly" (Principle 6, the predecessor of the Duty for retail investors). The report clarifies that providing different services to various types of investors, such as services to occupational pension scheme trustees and not to individual retail investors, does not violate this fairness principle. It emphasises that this is a high-level principle not specifically directed at voting services.[36] Moreover, COLL6.6A.2 does not prevent offering different levels of service to different clients, as variations can exist in many aspects such as costs or reporting.

Fund managers typically do not maintain direct relationships with investors. The primary responsibility to meet the needs of individual investors, especially those who are vulnerable, lies with the end distributor intermediary. This role is crucial within the distribution chain, requiring intermediaries to clearly communicate product features, including the facilitation of voting rights. The rights of investors in relation to the Fund and the underlying shares are generally realised through multiple layers of intermediaries. In this structure, the rights to vote, where applicable, are conveyed through a chain of contractual obligations that pass from one intermediary to another, ensuring that each layer fulfils its responsibility to communicate and implement based on the agreements established at previous levels.

Regulatory checklist

Communicate with intermediaries

The fund manager, EFM, should draft and distribute a formal notice to all intermediaries involved with the four specific funds, informing them of EFM's new capability to support pass-through voting. This notice should clearly state that intermediaries can enable this feature, and provide a brief overview of the benefits and operational details of pass-through voting to ensure clear understanding.

The intermediary registered with the fund manager may, in some instances, be another intermediary, who provides administrative and distribution capabilities to the investor, such as wealth managers. In this case, a Tumelo - Allfunds connection [for example] will enable Allfunds to communicate this capability and for those clients to verify fund holdings for accurate ballot distribution from EFM.

Update fund documentation (optional)

Typically, we would suggest that EFM reviews and revises the fund prospectuses to reflect the new pass-through voting capabilities and ensure that all sections discussing stewardship and investor engagement are updated to include information about how pass-through voting supports these principles. This may extend to the Key Investor Information Documents (KIIDs). However, we do not believe either of these documents make any reference to stewardship or voting practices today and therefore we do not believe there is any amendment required.

Ensure compliance with Consumer Duty

Continue to comply with the FCA's Consumer Duty guidelines, which emphasise the need for fund managers to act to support good outcomes for all investors. Document your strategic approach to implementing pass-through voting and routinely monitor its impact to ensure that it meets the anticipated outcomes.

Maintain communication channels with both direct investors and intermediaries, providing them with timely updates and support to understand and utilise the new voting features effectively.

Chapter five

Conclusion

In a mere few years, pass-through voting has moved from an ambitious idea to a powerful reality. What was once deemed too complex has now proven not only feasible but essential, with asset owners keen to align voting power with their investment values. As large pension schemes and the wholesale market embrace this model, the scalability of pass-through voting is evident, paving the way for expansion into Exchange-Traded Funds (ETFs) and beyond.

The technology to facilitate this shift, as explained by Tumelo's CEO Georgia Stewart in a recent Wall Street Journal article, is ready and capable of empowering individual investors. *"This could be a glimpse into the future,"* writes Jon Sindreau in the WSJ's Heard on the Street Column. *"ETF holders may soon be able to choose from an extensive menu of proxy-voting policies tailored to their political preferences, and then cast specific votes on the issues they strongly care about. Generative artificial intelligence could dramatically lower the cost of designing policies that appeal to different groups."*[37]

Indeed, with tools like generative AI, it will become more feasible for asset managers to offer their asset owners customisable proxy-voting policies in the future. This will allow investors to align their voting choices with their own stewardship preferences, choosing how to vote on specific issues like executive pay or climate policies. This seems like a step in the right direction for an industry where transparency is often under scrutiny.

As the momentum behind pass-through voting continues to grow, the future of corporate governance will increasingly hinge on this ability to personalise stewardship. Asset managers who fail to adapt may soon find themselves outpaced by those offering the flexibility investors now demand. In short, pass-through voting is no longer a feature of future stewardship — it is a defining feature of today's.

Acknowledgements

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About Tumelo

Tumelo builds technology to make stewardship more impactful.

Our products enable pass-through voting for fund managers, institutions, and retail investors. Our customers win through cost savings, simple integrations, and access to third-party voting policies.

Learn more

To hear more about Tumelo's voting solutions, speak to our Head of Global Sales, Charlie Barlow charlie.barlow@tumelo.com or head to: www.tumelo.com/contact

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