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Proxy season preview 2025

What was old is new again: proxy voting coming full circle

Proxy voting has hopefully re-found its place as part of investment decision-making.

As proxy voting comes back full circle, stewardship for long-term sustainable value creation is coming of age.

SUMMARY

Proxy voting has long been a fundamental shareholder right, long before "ESG" became a mainstream investment topic. Over the last decade, proxy voting has been increasingly recognized as a powerful 'tool in the toolbox' to engage with portfolio companies. With this recognition, some investment managers have used proxy votes to prove their ESG conviction or advance a normative position on what should create long-term, sustainable value. However, with voting under a renewed spotlight, there has been higher scrutiny from different groups, contributing to conflicting views of proxy voting and its impacts.

What is interesting in this evolution of views is that **the activity itself of voting proxies has not changed.** Rather, **many in the industry tried to leverage proxy voting in pursuit of other aspirational goals** – whether commercial or outright political. Regardless of motives, it is likely that proxy voting will continue to be a tool in the toolbox but fail as an arrow in the quiver of greater ambitions.

Here, we state that "old" proxy voting is "new again" and coming back full circle because **proxy voting has (hopefully) shed its ancillary narratives and re-found its place as part of investment decision-making.** A proxy vote is not a bargaining chip investors deploy to gain corporate concessions nor a threat to control corporate behavior. A proxy vote is a valuable tool for long-term investors to signal a view on risks and opportunities while remaining invested in a company, but the vote itself is not intended to have an extrinsic value.

Proxy voting is an opportunity to express an opinion to the Board of Directors – sometimes in an advisory capacity and other times in a binding decision – on the risks and opportunities that will drive long-term, sustainable value of a company but where the vote itself is independent of the current stock price.

In this regard, we see stewardship for long-term sustainable value creation is coming of age. Nuveen has previously described different styles of stewardship in the marketplace and how those styles may – or may not – be connected to a firm/fund investment philosophy.

Nuveen also plans to provide commentary on stewardship outside of public equity where the current practices may be nascent relative to public equity but where the opportunity to educate and influence portfolio investments is often higher.

This proxy season preview provides some insights on the current state of proxy voting and the forces that are influencing vote outcomes. We offer some commentary on how corporates, clients, and market stakeholders can try to interpret the signals from 2025 proxy votes. Lastly, aside from the increased noise being introduced into proxy vote outcomes, we offer views on the issues that may nonetheless gain traction in financial markets in 2025 and beyond.

STATE OF THE CONFEDERATION OF PROXY VOTERS

An analysis by Morningstar compared asset manager voting records using a fund-level view versus a firm-level view and concluded that the two approaches yielded the same results. Even among asset managers with the highest proportion of split votes, the two different approaches of assessing votes had single digit percentage points of difference. This means that asset managers generally assess the items to be voted at annual meetings under a singular, house-lead view of voting in the best interests of clients to maintain long-term, sustainable value of the investments. Vote decisions are influenced by investors' stewardship styles, but they tend to be consistent and coherent.

However, this unified understanding of asset manager views is likely to be disrupted by the growing adoption of funds offering pass-through voting to clients. The roll-out of pass-through voting across funds – as well as the uptake of the client opportunity to direct the vote – is still in its early stages and unlikely to shift vote outcomes meaningfully for 2025. Nonetheless, vote choice menus that pick a few options from third-party recommendations are likely to lead to more power being assigned to proxy advisors. This resets the issuer-investor dynamics at a time when the market had almost reached an equilibrium on how to move engagement from a transaction exercise to a year-round advisory relationship.

Asset managers that invest in stewardship programs will **continue to seek to develop those ongoing relationships with companies and use proxy voting as a point-in-time signal of directional alignment and progress toward long-term outcomes.** However, companies may now be more strategic in when (and who) to engage in the market. Even the perception of disconnects between investment decision-making, engagement, and proxy voting may disincentivize companies from making initial or further investments into shareholder outreach. Companies that have been resistant to market feedback via proxy vote outcomes may revert to blaming vote outcomes on the influence of proxy advisor recommendations.

Over the long-term, perhaps pass-through voting will send a market signal based on the adoption rate of different third-party policies by clients, although interpreting vote results is already challenging. Or perhaps clients will increase investments with active asset managers who are aligned in terms of values, clients' preferences in proxy voting, and stewardship style.

HIGHER STAKES FOR STAKEHOLDERS

Notwithstanding the downshift by asset managers in using proxy voting as an investment signal, the most active stakeholders in the proxy voting process continue to press ahead with filing shareholder resolutions. It is possible that regulation and/or litigation may catalyze some level of proxy reform in terms of what is presented on the ballot. The economic – and to an extent commercial – benefits of filing shareholder proposals or soliciting vote-no or activist campaigns may also need a recalibration in light of the potential risk to lose access to certain markets – albeit that may be inevitable as certain US jurisdictions and EU jurisdictions set opposing table stakes.

Nonetheless, at least for 2025 proxy season, these forces are unlikely to materially change what is on the ballot given the ink of proxy statements is mostly dried – rebuttals to proxy advisor recommendations and the mudslinging of a few proxy contests notwithstanding.

There are a few frequent proponents of shareholder proposals that appear to be adapting to investor expectations and refile proposals of a similar theme but with an updated request year-over-year.

For example, the New York City Comptroller modified climate-related shareholder proposals targeting financial institutions. The request to adopt emissions reduction targets changed to asking for disclosure of the financing ratio between carbon intensive assets and carbon solutions. The shareholder proposals that went to vote did see an uptick in support year-over-year, although still not majority support. Perhaps more relevant than a few additional percentage points for 'FOR' is the fact that ongoing engagement – by the proponent as well as aligned institutional investors – resulted in the agreement by three leading financial firms to disclose the requested ratio. Going into the 2025 proxy season, there is now evidence of proof-of-concept in the request for a ratio disclosure. The market can now begin to assess whether – or how – such disclosure correlates to changes in long-term risks, opportunities, and valuations for the disclosing versus non-disclosing firms.

Unfortunately, this approach driven by market forces is the exception rather than the rule to the shareholder proposal submission process. Most proponents choose to double down on a low-supported proposal (so long as it meets the refiling threshold) or even ratchet up the expectations of the request to make a policy point (perhaps because they recognize a straight refile won't pass the higher resubmission thresholds a second time around). Even further, **some proponents believe votes should be cast against directors when the board does not respond to a low supported shareholder proposal.**

Here, proponents of both ideological views on ESG are using the same volume, prescriptiveness, and escalation tactics while blaming the other side for politicizing an investment activity that both sides agree should be used solely for the purpose of creating economic value. Where the two sides may differ, however, is on the solution to correct for the high volumes and lower vote results of the past few years. The ESG movement that found its foothold only a few years ago may look to wind back the clock a few years whereas the counter-movement that has popped up in response may look to wind back the clock to a few decades ago before investment stewardship was a profession and investment decisions – including proxy votes – could be settled over lunch.

The anti-ESG counter-movement has so far focused its efforts on curbing investors' activities and attention on material environmental and social issues perceived to be outside of investors' duties. We may see an expanded focus to now bring 'traditional' governance topics into the mix of issues that investors should refrain from actively engaging companies on – or be prepared to cope with increasing regulatory scrutiny and reporting requirements/burdens.

The impact of this development on stewardship remains to be seen. It is likely that committed investors who believe in the value of stewardship will continue to find ways to navigate unchartered waters, perhaps with renewed conviction and novel tools. It would not be surprising if some retreat along the way among headwinds and headaches. When the next crisis occurs, it will be challenging to hold investors accountable for not exercising their duties, if their ability to do so is curtailed by removing critical rights and tools.

HUGE VICTORIES – LITTLE MEANING

Nuveen's 2024 proxy season preview on stewardship styles noted that proxy vote signals are not always clear in terms of votes reflecting a view on long-term risks and opportunities that should be addressed by the board of directors in fulfilling their strategy and oversight responsibilities. Much less clear is how those views translate into a current valuation on the company.

Even if the issuer-investor (and corporate advisor) understanding of stewardship styles was starting to take hold, **the state and direction of proxy voting as noted above is going to challenge financial markets in understanding proxy vote outcomes as an investment signal.**

The most extreme outcome of the politicization of proxy voting is that it begins to look like election outcomes where 51% of the vote is considered a "huge" victory. But less extreme versions will still leave companies less clear on what to prioritize the day after the annual meeting votes are tabulated.

What does 90% investor support for a director mean next to 10% support for a shareholder proposal? Is the assumption that the 10% that supported the proposal also escalated the issue to votes against directors?

Does a 70% vote outcome for say-on-pay still warrant the board to carry out a shareholder feedback tour and disclose evidence of responsiveness if other proposals begin to get lower support levels?

How does a board know if certain vote outcomes are because the company did too little – or too much – in relation to a particular E, S or G topic?

Here is where we go back to our opening statement – stewardship for long-term sustainable value creation is coming of age and maturing. For boards to understand the views of their long-term shareholders, they are going to have to ask for them outside of the proxy approval process. For institutional investors to engage effectively through active ownership, they will need to develop engagement strategies that are constructive – and additive – for companies' calibrations of long-term risks and opportunities. For the market, it will be more time parsing carefully through stewardship reports and less quick benchmarking of proxy vote records.

This process is absolutely more work, but **corporate governance was not developed for efficiency, much less for marketing purposes.**

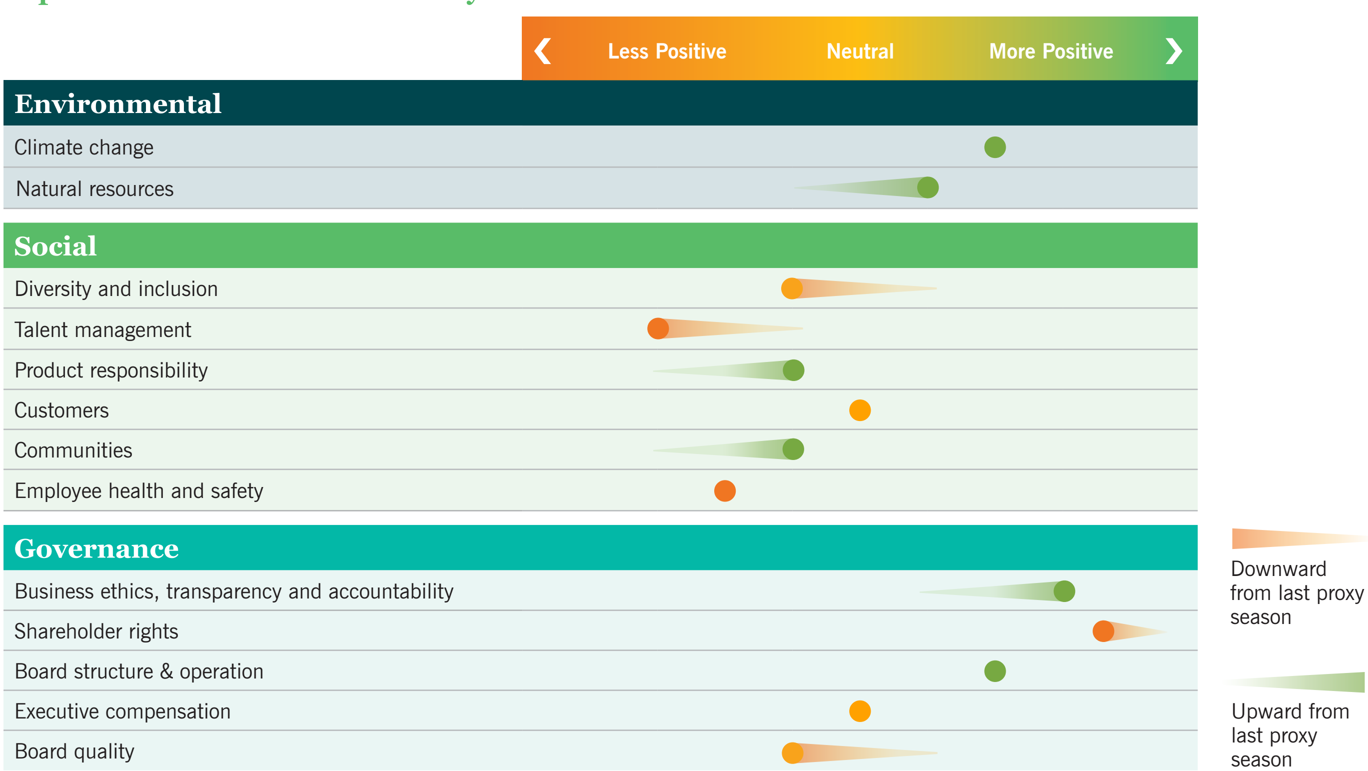
WHAT TO EXPECT IN 2025

Notwithstanding the evolving market dynamics of proxy voting, there is still a benefit in understanding what will be put to a vote in 2025.

Rather than trying to predict directional changes in aggregate vote outcomes, our chart below is intended to capture the expected market-level conviction – including Nuveen's – on different E, S and G themes carried over from the past proxy season and the likely upward/downward momentum for 2025.

Next, we offer some insights into what are likely to be the driving forces behind the upward and downward momentum on the key proposal themes.

Expected market conviction on key themes



The views above are for informational purposes only, and compare the expected market conviction on each theme based on the assessment of Nuveen's Stewardship Team. Upward and downward directions reflect year-on-year shifts in these views.

Climate change – strong but unchanged support

The majority of investors have established a thesis for the climate transition that drives the considerations behind most climate votes. There is not a majority consensus on the timing – let alone means – for addressing the transition.

Natural resources – increase in support, with variations

We anticipate more attention and support for proposals focused on shorter-term risks with tangible impacts such as pollution, plastic generation and recycling, PFAS and other hazardous chemicals. In select industries, water use and deforestation are likely to continue to attract investor support, albeit with more variation based on current company practices and commitments.

Diversity and inclusion – down amid pushback and regulatory interventions

The topic will be closely watched for case studies on companies adjusting their public statements and commitments in response to pressure. Past episodes have shown that companies, when dealing with pressures from groups with opposing views, often tend to ride out a negative news cycle rather than take more action and create more attention. While both groups may choose to "name and shame" select companies, investors are likely to prefer engagement and let the data (workforce demographics, pay equity, promotion/turnover parity, etc.) speak for itself.

Talent management – cyclical and secular elements will likely hamper investor support

The cyclical element is mostly policy-driven. Aside from political rhetoric focused on nationalism and job creation, actual policies are likely to favor less interventions on corporate-employee relations on minimum wage, freedom of association, and other human capital topics. The secular element is more tied to the uncertainty around future of work and interaction between human and artificial intelligence. Both forces will likely reduce investor support for requests of specific policies and actions.

Product responsibility – upwards through rapid evolution

The rise of artificial intelligence and its expanding set of use cases will create momentum for proposals focused on the development of AI models, how it is deployed within a corporate setting, and the ways it is sold to or interacts with customers. Beyond AI, growing direct-to-consumer business models coupled with oversight deregulation of consumer-focused practices may create an environment where investors see private-ordering or company self-policing as more necessary to protect brand reputation and avoid longer-term legal/regulatory liability.

Communities – increased support driven by a new spotlight

Proposals related to human rights and operations in high-risk countries have typically focused on social risks in upstream supply chains. Current geopolitical tensions have expanded the scope of products that are now considered a matter of national security. Add-in the threat of trade tariffs, and downstream corporate operations and value chains are under a new spotlight.

Business ethics, transparency and accountability – more support driven by higher political attention

For Nuveen, this theme includes proposals focused on general corporate political influence. While companies have generally tried to stay off the radar of new political administrations, investors are likely to want more transparency on spending, strategy and foundational principles that underpin the corporate political influence strategy.

Shareholder rights – downward support due to anticipated change of focus

The primary filers of these proposals tend to pick an issue-of-the-season. Early indications suggest that the main issue this proxy season will be adopting majority vote standards for director elections that would preclude a board from seating a director who received less than majority support. While investors expect accountability for vote outcomes, it is generally achieved already by companies adopting a resignation policy that is triggered based on lack of majority support. The unintended consequence of potential full-scale board turnover outweighs any benefit of ensuring the Board removes a low-supported director.

Board quality – lower support due to poorly designed proposals

The notion of single-issue directors generally was defeated last proxy season. Shareholder proponents may still request the adoption of a specific board committee or require directors with specific competencies on the board, but most institutional investors will generally prefer to engage rather than support a proposal that would codify a particular skillset or type of oversight.

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