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How a proxy vote works.

How a proxy vote works - definition.

Publicly-traded companies report their activities to shareholders through their annual meetings. Before those meetings, shareholders receive information on topics to be voted on at the meeting, such as share ownership, the structure of the board of directors (BOD), and executive salary and benefits.

Investors who own applicable voting shares in the company as of the company's record date may be eligible to vote on these issues.

The company may make proxy materials available online, which typically includes an annual report, a proxy statement describing the issues to be voted on, and a proxy card with voting instructions. Materials may also be sent in the mail to investors who are eligible to vote at the annual general meeting (AGM).

Rather than physically attending the shareholder meeting, investors may elect someone else, such as a member of the company's management team, to vote in their place.

This person is designated as a proxy and will cast a proxy vote in line with the shareholder's directions as written on their proxy card. Proxy votes may be cast by mail, phone, or online before the cut-off time.

This is typically 24 hours before the shareholder meeting. Responses may include "For," "Against," "Abstain," or "Not Voted."

For issues involving topics other than electing directors, such as voting on shareholder proposals, a majority of the votes is what typically leads to approval of the issue.

Proxy voting guidelines

The internet also greatly assists shareholders in researching their decisions. Numerous institutional investors now post their voting decisions online prior to the meeting date, giving individual investors a chance to see where the large institutional shareholders stand on issues.

These same institutions may also provide extensive explanations of their decisions by posting their “proxy voting guidelines.” For example, institutions may cast their votes on criteria of long-term value, corporate accountability, responsibility, sustainability, and so on.

The most proactive of institutional investors play a sort of champion role in keeping directors accountable for the resolutions that are introduced at important meetings.

Not only will the institution establish its model proxy voting guidelines, but if a decision is initially unclear, it will seek additional information from the company itself.

For example, an institution might contact management directly to discuss a specific proposal, suggest modifications to the nature of the proposal, or in extreme cases, urge the withdrawal of the proposal in its entirety.

Such influence is generally held only by powerful institutional investors, making the institution’s role in the proxy voting process invaluable.

Proxy voting the bottom line

Proxy voting is often the sole means by which investors can have a say in the business operations and societal activities of their company or mutual fund.

Shareholders need not attend an important meeting in person, but they certainly must make the effort to read and understand legal resolutions and use all available resources to make an educated vote based on their best knowledge and information.

Key takeaways

A proxy vote is a ballot cast by one person or firm on behalf of a shareholder of a corporation who may not be able to attend a shareholder meeting, or who otherwise desires not to vote on an issue.

Prior to a company’s annual meeting, eligible shareholders may receive voting and proxy information in advance of their shareholder vote.

Rather than physically attending the shareholder meeting, investors may elect someone else–such as a member of the company’s management team–to vote in their place.

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