



MUTUAL FUND DIRECTORS FORUM

The FORUM for FUND INDEPENDENT DIRECTORS

December 14, 2021

Ms. Vanessa Countryman
Secretary
United States Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Enhanced Reporting of Proxy Votes by Registered Management Investment Companies;
Reporting of Executive Compensation Votes by Institutional Investment Managers (File
No. S7-11-21)

Dear Ms. Countryman:

The Mutual Fund Directors Forum (“the Forum”)¹ welcomes the opportunity to comment on the Commission’s recent rule proposals regarding Enhanced Reporting of Proxy Votes.²

The Forum is an independent, non-profit organization for investment company independent directors and is dedicated to improving mutual fund governance by promoting the development of concerned and well-informed independent directors. Through education and other services, the Forum provides its members with opportunities to share ideas, experiences and information concerning critical issues facing investment company independent directors and also serves as an independent vehicle through which Forum members can express their views on matters of concern.

We agree with the Commission that the right to vote the proxies of the securities owned by a fund is an important asset of the fund. We further agree that the disclosure of how a fund votes the proxies of its portfolio securities serves important interests, including: creating an incentive for fund managers to take seriously the proxy voting process; providing information to fund shareholders and the market as a whole on how fund managers vote the proxies for their portfolio securities; and mitigating the risk that fund managers will vote proxies in their own interest or in the interests of companies in which the fund managers have both invested and with whom they have a business relationship. That said, while we understand the impetus to continue modernizing

¹ The Forum’s current membership includes over 871 independent directors, representing 123 mutual fund groups. Each member group selects a representative to serve on the Forum’s Steering Committee. This comment letter has been reviewed by the Steering Committee and approved by the Forum’s Board of Directors, although it does not necessarily represent the views of all members in every respect.

² Proposed Rulemaking: Enhanced Reporting of Proxy Votes by Registered Management Investment Companies; Reporting of Executive Compensation Votes by Institutional Investment Managers, Release Nos. 34-93169 & IC-34389, 86 Fed. Reg. 57478 (Oct. 15, 2021) (“Proposing Release”).

fund disclosure broadly, we believe that the proposed rule would impose significant costs on fund shareholders with few, if any, corresponding benefits.

First, the Commission provides no evidence that fund shareholders desire better disclosure of a fund's proxy votes. We believe that shareholders are most interested in the fund's investment strategy, its portfolio holdings, performance, the fees and expenses associated with investing in the fund and the risks inherent in the fund's investment strategy rather than in proxy voting. We believe that in most cases clear disclosure of the principles that funds use to vote proxies will provide shareholders with the information they desire regarding a fund's proxy voting.

We believe that there is little evidence to suggest that the typical fund shareholder regularly reviews fund proxy voting disclosures or would like better organized and more comprehensible information about how the fund votes on shares it owns. In recent years, when the Commission has sought to improve disclosure in key areas such as performance or risk, the Commission has performed significant research to understand the preferences of fund shareholders. For example, when the Commission proposed significant and far-reaching amendments to the fund disclosure rules in 2020, it clearly highlighted that “[o]ur understanding of investor preferences regarding fund disclosure is informed by many sources, including responses to the Fund Investor Experience RFC, prior investor testing and surveys, and past disclosure reform initiatives.”³ That is simply not the case here – not only has the Commission not undertaken to research investor preferences around proxy voting disclosure, but it also fails to cite any notable evidence that fund investors would prefer that proxy votes be disclosed in a different manner.

Second, it is not clear how the Commission's proposal will advance the systemic interests underlying the disclosure of proxy voting. Given the ability of data aggregators and other entities to use and assess proxy voting data under the existing disclosure regime, there is little reason to believe that the Commission's proposal will change the way fund managers vote proxies.

Third, the Commission's proposal is likely to impose significant costs on funds in return for little benefit. There is little reason to believe that the proposed rule will produce notable benefits for fund shareholders – and indeed, the Commission makes no effort to quantify what those benefits might be, stating only – and in various ways – that the proposal will increase the usability of information that is largely already available.⁴ The Commission likewise makes little effort to quantify the costs of implementing or maintaining a fundamentally different system for disclosing proxy votes. However, these costs are potentially significant, particularly for smaller fund complexes. These costs are likely ultimately to be borne not only by fund managers but also by fund shareholders. In particular, the relative impact is likely to be greater on smaller fund complexes, harming both competition and investors. As the Commission continues to consider this proposal, we urge it to carefully consider the costs of this rule in the context of the seemingly small benefits that it will produce.

³ See Tailored Shareholder Reports, Release Nos. 33-10814, 34-89478 & IC-33963, 85 FR 70716 (Aug. 5, 2020) at 18. The Commission's comments go on to note the extensive feedback it had received from various sources of investors' preferences regarding disclosure.

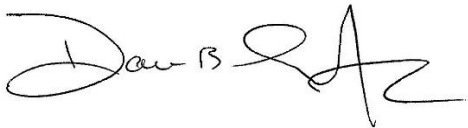
⁴ See generally Proposing Release at 105-110.

We are similarly unconvinced that requiring funds to disclose that they have chosen not to recall lent securities to vote proxies would produce any significant benefits for fund shareholders. While the Commission's proposal would increase the quantum of disclosure available to fund shareholders, the question of whether to recall a security to vote it is essentially an investment decision made by the fund's adviser. The fund manager weighs whether voting the proxy and thereby forgoing securities lending revenue is likely to produce more benefits for fund shareholders than allowing the security in question to remain on loan. But the impact of that decision on fund returns almost certainly pales in comparison with the effect of the fund's investment strategy and changes in value of the securities held in the fund's portfolio. As with the rule proposal as a whole, mandating disclosure of these decisions will impose costs on funds and their shareholders, and may also discourage funds from engaging in securities lending in the first place, thus causing fund shareholders to forgo a potential source of returns.

As a general matter, we support proposals that improve the clarity and transparency of fund disclosure. However, in this case, we are concerned that the rule imposes significant expenses on funds with only minor, if any, benefits to fund shareholders. At the very least, we urge the Commission carefully to analyze whether the benefits of this rule would justify its costs; if they do not, we urge the Commission to not proceed with this rulemaking.

We would welcome the opportunity to discuss these comments in further detail. Please feel free to contact David Smith, the Forum's General Counsel, at [REDACTED] or [REDACTED] or Carolyn McPhillips, the Forum's President, at [REDACTED] or [REDACTED].

Sincerely,

A handwritten signature in black ink that reads "David B. Smith, Jr." followed by a stylized flourish.

David B. Smith, Jr.
General Counsel