

**manifest**  
the proxy voting agency

# Canadian Society of Corporate Secretaries Shareholder Democracy Summit 2011

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## Good New, Bad News

### The Bad News:

- The market for trading has taken primacy over the market for ownership
- Tinkering with the proxy plumbing by inexperienced plumbers has made the system dysfunctional

### The Good News:

- Canada is not alone
- Excellent ground work has been laid for reform
  - ✓ Carol Hansell, "The Quality of the Shareholder Vote in Canada" (2010)
  - ✓ Heart Of Darkness: The Problem At The Core Of The U.S. Proxy System And Its Solution David C. Donald (2011)

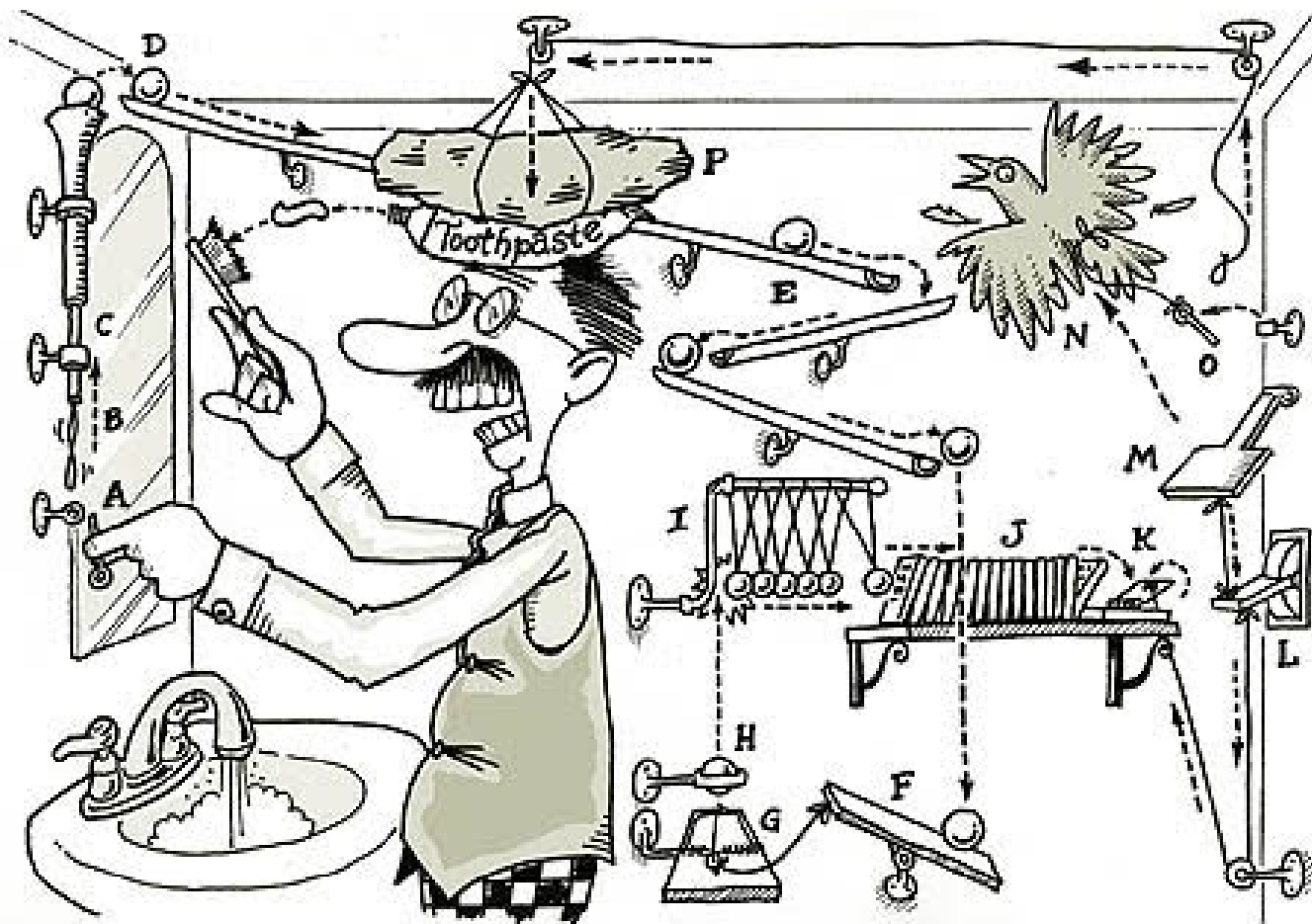


## About Manifest

- Founded Dec 1995
- We work for shareholders alone
- To facilitate client ownership in the clients' name, not Manifest's name
- Integrated proxy research and vote agency
- Approx £3 trillion assets under advice
- Independent, objective and conflict free
- Created first open ISO format electronic vote message
- Straight through voting model



# Proxy: A Rube Goldberg Machine?



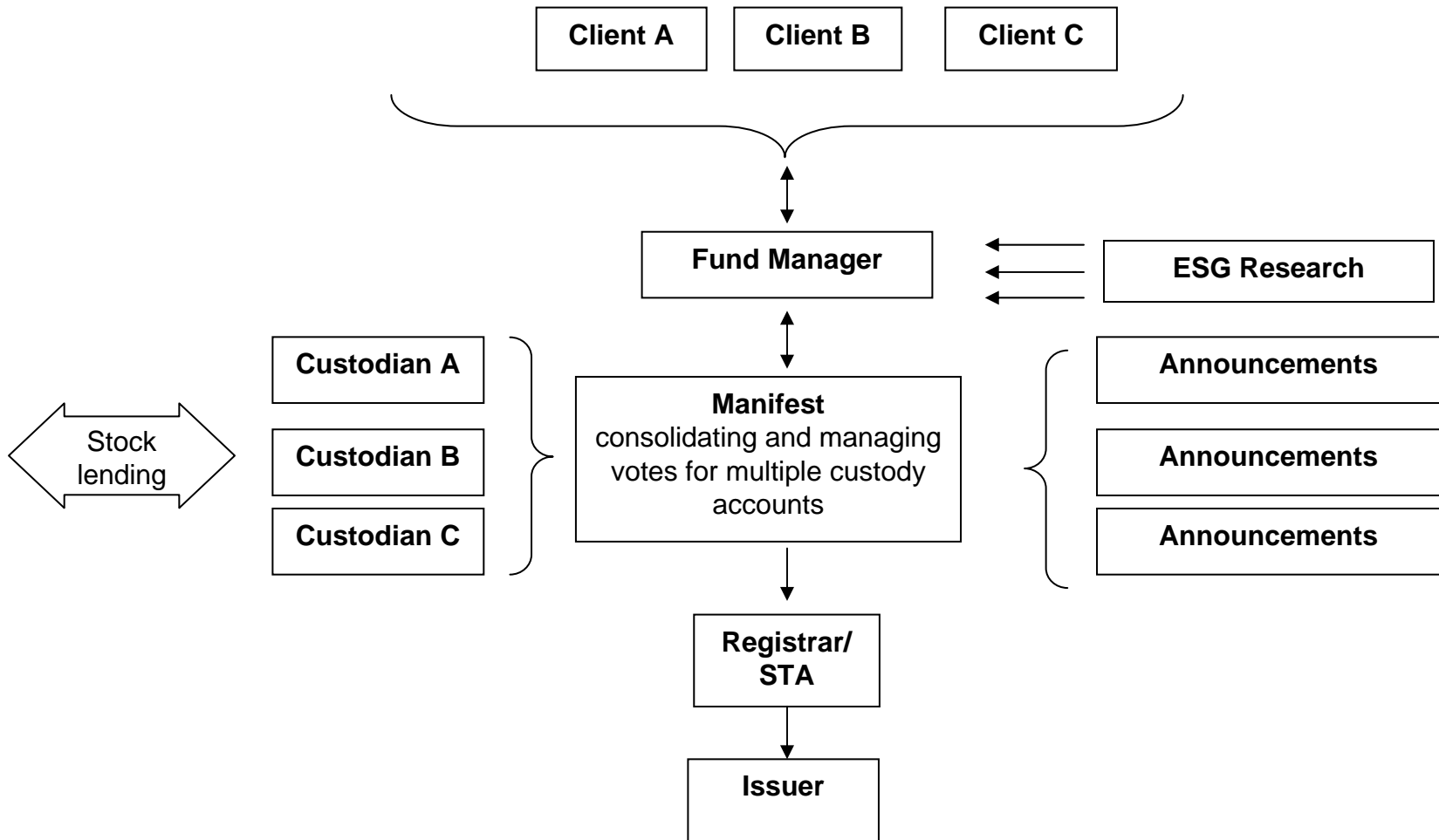


## What is straight-through voting?

- Connecting companies and their owners in the shortest number of steps
- Using corporate law as it was intended
- Bypassing unnecessary intermediaries
- Not about breaking legal systems to fit with the “market” systems
- There is no Manifest copyright on this model, it is an open model



# Straight-through Voting Model





## Why straight-through voting?

- Client maintains closer control of vote
- Accurate vote entitlements
- Accurate, timely lodgement
- Accurate, complete audit trails
- Ensures no unauthorised monetisation of client assets
- Reduces risks over over/empty voting
- Improves dialogue between issuers and owners
- Complies with corporate law model



## Why improve shareholder communications?

- Active engaged shareholders want dialogue with issuers
- Issuers want dialogue with shareholders
- Disintermediation of shareholder/issuer servicing improves market transparency and accountability
- “Open systems” encourage healthy competition and innovation



## EEA Situation

- Company law in EEA is extremely varied
  - See Manifest research for details
- Domestic investor home bias
  - Physical attendance at meetings
  - Re-registration  $\neq$  share blocking
  - Shareholder ID poor
  - Much less cross border experience both in time and # issuers
- Shareholder Rights Directive
  - Haphazard implementation
  - Local 'oddities' remain
  - Situation is improving, more Directives to follow (Securities Law Directive aka Post-Lehmans Directive)



## UK Key Features

- UK investors global in outlook
- Stewardship Code, UNPRI underpinning activity
- UK is registered but dematerialised ownership
- Positive company law environment
  - Good notice periods (21+ days)
  - Excellent record date (2 days)
  - Good vote cut offs (2 days)
  - Potentially good shareholder ID
  - Technology, format agnostic
  - Healthy share registrar market fosters innovation



## Where does it go wrong?

- The interface between “trading” and “ownership”
- Intermediation by global custodians
  - Pooled nominee accounts - “The heart of darkness”
  - Hidden monetization of inefficiencies
  - Lack of transparency, lack of understanding
  - Breaking company law structures to meet market trading practices
  - Anti-competitive behaviours e.g. forced use of custodian-nominated vote provider



## Where does it go wrong?

- When commercial services become “soft regulators”
  - Stock Exchange listing rules subvert company law
  - Vendor expediency rides rough-shod over company law
- Competition/Anti-Trust Issues
  - Unlike tech sector financial services is a hostile environment for open standards
  - Forced bundling reduces choice
- Market participants **in denial** as to the extent of harm



## Stagnating Custody Model

*“The chance to play with idle client cash was once one of the principal arguments for being in the custody business. At the height of the boom, the rewards were so generous that custodians convinced themselves it was commercially sensible to turn their core product into a loss leader.*

*Clients were complicit in this. They knew all of the tasks custodians are worst at - corporate actions, proxy voting and tax reclaims - were the least automated, and the most dependent on third parties for information or processing, but the prices charged were hard to argue with.”*

Source: Dominic Hobson, Editor in Chief, Global Custodian Magazine (2010)



## Examples of Issues

- Vote deadlines become 7-10 days or worse
- Vote entitlements not accurately calculated
- Missing accounts, missing ballots
- Missing/obscure agenda items
- Mangled instructions in local markets e.g.
  - No designation in local account
  - Treating re-registration as blocking
  - Treating a whole market as blocking when case by case
- Client voting data sold to issuers pre-deadline - “vote tapping”



# Issues for EU investors in Canada

## Real Life Case Study:

- Manifest client owns a significant % of an UK Aim-listed, Canadian incorporated company, Eastern Platinum Ltd.
- Running close to deadline, no Broadridge ballot available.
- When queried: “your client is an OBO, we are not paid by the issuer to solicit votes for OBOs” .
- Manifest: “You are paid by the custodian to deliver these votes and we have no choice but to use your platform” .
- Broadridge: “see our earlier comment” .
- Result: Computershare facilitates votes based on our Powers of Attorney for UK-registered securities. Shareholder ID and legal entitlement proven; shares voted electronically via Bristol; votes counted and accepted.
- Client happy(ish), issuer happy(ish). Manifest not happy.



## The Trouble With Reform

- Has any system got it “right” yet?
- Are we asking the right people the right questions and truly understanding the answers?
- Regulators are being misdirected, things are not under control.
- Where are the conflicts of interest?
  - Understand the conflicts
  - Understand the real reasons for the lobbying
  - Follow the money trail
  - Understand the LAW rather than market received ‘wisdom’
- How has shareholder communications technology escaped the Darwinian model?
- What would Adam Smith say about the chartered monopoly status of proxy voting and the damage inflicted on consumers?



## In Summary

- Long-term, long only investors have a crucial role to play in efficient, healthy capital markets
  - They are the 'enforcers' of good governance
- Governments have high expectations of investor stewardship
  - But they fight a battle with one hand tied behind their back
- Please do not let this opportunity for reform pass you by
  - Global shareholders are encouraging you to do the right thing

Thank you and Good Luck!