



STATEMENT

OF

PAUL CELLUPICA, GENERAL COUNSEL  
INVESTMENT COMPANY INSTITUTE

BEFORE THE

SECURITIES AND EXCHANGE COMMISSION  
INVESTOR ADVISORY COMMITTEE

ON

FUND PROXY VOTING—CHALLENGES,  
COSTS, AND PATHWAYS TO MODERNIZATION

MARCH 12, 2026

My name is Paul Cellupica, and I am the General Counsel at the Investment Company Institute (ICI).<sup>1</sup> ICI is the leading association representing the asset management industry in service of individual investors. ICI's members include mutual funds, exchange-traded funds (ETFs), and closed-end funds (collectively, "funds"), among other investment vehicles in the United States and abroad.

As major participants in financial markets, acting on behalf of more than 125 million American investors, ICI members support policy measures that promote robust and resilient markets and efficient regulations that protect investors. Millions of American households count on their investments in funds to help them achieve their most important financial goals, such as saving for college, purchasing a home, or providing for a secure retirement.

Today's panel discussion ("Fund Proxy Voting — Challenges, Costs, and Pathways to Modernization") could not be more timely or welcome. Like publicly traded operating companies, funds periodically seek shareholder approval (via proxy) for a range of governance, contractual, and policy matters. These requirements are meant to serve as an investor protection mechanism. In practice, however, this system has become increasingly inefficient, costly, and misaligned with shareholder preferences and modern fund ownership arrangements.

Fund proxy campaigns differ fundamentally from those of operating companies because fund shareholder bases are highly diffuse, sometimes large, and overwhelmingly retail-oriented, and retail investors vote proxies at significantly lower rates than institutional investors. Proxy voting participation rates for retail investors have historically been around 30%, compared with around 80% for institutional investors.

At the same time, legal and other impediments—combined with the highly intermediated nature of fund ownership—significantly limit funds' ability to identify, reach, and communicate directly with their shareholders in a cost-effective manner. And investors' evolving communication preferences have made them less responsive once reached, as many fund shareholders view calls, texts, and emails from unknown entities such as proxy solicitors as scams or phishing attempts.

Finally, the proxy voting requirements of the Investment Company Act of 1940 (the "1940 Act") and its rules exacerbate these problems. Under the 1940 Act, a "vote of a majority of the outstanding voting securities" of a fund (a "1940 Act Majority") is required to approve certain

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<sup>1</sup> The [Investment Company Institute](https://www.ici.org) (ICI) is the leading association representing the asset management industry in service of individual investors. ICI's members include mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and UCITS and similar funds offered to investors in other jurisdictions. Its members manage \$44.7 trillion invested in funds registered under the US Investment Company Act of 1940, serving more than 125 million investors. Members manage an additional \$10.4 trillion in regulated fund assets managed outside the United States. ICI also represents its members in their capacity as investment advisers to collective investment trusts (CITs) and retail separately managed accounts (SMAs). ICI Associate Members include service providers to member firms and CIT trust companies. ICI has offices in Washington DC, Brussels, and London.

1940 Act-specified items, including among others: changes to fundamental investment policies; investment advisory agreements and sub-advisory agreements; and mergers of affiliated funds (collectively, “1940 Act Majority Items”). A successful 1940 Act Majority vote requires a fund to clear a high quorum hurdle: greater than 50% of outstanding votes must be present (in person or by proxy). While these requirements have good purposes, they reflect a very different world and fund marketplace.

Fund proxy reform has long been a top policy priority of ICI. In 2019, ICI carefully analyzed the fund proxy system through multiple conversations with members and extensive survey data, quantifying the costs and challenges of special fund proxy campaigns. Among other things, that survey included: detailed cost information; data showing the high frequency of meeting adjournments; responses illustrating how the system’s high costs and challenges adversely affected decisions related to fund policies, governance, and operations; and the high levels of support for fund proposals from voting shareholders.<sup>2</sup>

Has the fund proxy system improved since then? No—it is getting worse. Late in 2025, ICI conducted another extensive member survey to better understand funds’ proxy campaign experiences since 2020. We published the data and our analyses in a white paper earlier this month. Also included in the white paper are several recommendations for improving the fund proxy system. I will briefly highlight some notable findings in this recent paper and our recommendations for reform.

- We conservatively estimate that total costs for fund proxy campaigns—mutual funds, ETFs, and closed-end funds—since 2020 have ranged from \$675 million to \$1.14 billion.
  - Total estimated costs for the 362 special campaigns were between \$621 million and \$1.06 billion. Six campaigns each incurred total costs of \$25 million or more, with the most expensive campaign totaling \$111 million.
  - Including this recent survey data, we now know of three fund proxy campaigns that have exceeded \$100 million in the last 20 years, one of which would be \$207 million in today’s dollars. These numbers exceed those of the most newsworthy corporate proxy “fights” at operating companies, which are typically contested director elections.
- Survey respondents strongly indicated that special proxy campaigns have gotten harder and more expensive—many saying significantly so—since 2020. For these categories, almost no respondents indicated that their campaigns had become easier or cheaper.
  - A number of recent special proxy campaigns have involved funds seeking to change their 1940 Act sub-classifications from “diversified” to “non-diversified,” in many cases because of the growth in “Magnificent 7” stocks. We analyzed 73 funds that held such campaigns, and found that the total cost for these non-controversial proposals was \$66 million—averaging over \$900,000 per fund—with three funds incurring costs exceeding \$5 million – even though voting

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<sup>2</sup> See Analysis of Fund Proxy Campaigns: 2012–2019, ICI (Dec. 2019).

shareholders strongly favored them by wide margins, with an average of 85% of shares represented at meetings voting “for” these proposals. Further, more than one-third of the proposals required at least one adjournment to meet quorum, and six failed for lack of quorum.

Decades of experience demonstrate that these trends will not reverse on their own. The current system has multiple weak points—funds do not know the identities of all their shareholders and cannot easily reach them; communications with fund shareholders are expensive; when reached, fund shareholders often do not vote promptly in sufficiently large numbers; and the 1940 Act itself sets a high quorum requirement. Consequently, there is no single fix. To improve the fund proxy system, we recommend that the SEC and its staff explore a number of actions:

- First, create a new way for a fund to approve items for which the 1940 Act and its rules require a quorum of greater than 50%, for example, by coupling a lower quorum requirement, such as 33⅓%, with a higher affirmative vote requirement, such as 75%.
- Second, adopt alternatives to shareholder approval (e.g., board approval and advance notice to shareholders) for certain items, including fundamental policy changes.
- Third, permit fund boards to appoint a greater number of new independent directors.
- Fourth, permit funds to adopt retail voting programs similar to that which the SEC staff permitted Exxon Mobil Corporation to use, to boost retail investor participation in proxy campaigns.
- Fifth, revise processing fees and shareholder communication provisions to permit funds to select their own vendors and directly contact shareholders.
- Sixth, reduce the length of proxy statements by allowing greater use of links to improve shareholder engagement.

As one ICI member succinctly put it, “We’re spending a lot of money to irritate our shareholders.” The current fund proxy system is not serving the needs of funds or, most importantly, their shareholders. Our solutions would reconcile shareholder approval requirements with modern-day realities, including actual shareholder behavior and preferences and the highly intermediated nature of fund ownership. More broadly, they would realign the proxy process with its original purpose: protecting shareholders while enabling funds to efficiently serve them. The SEC has Congressional authority to implement these changes, and now is the time for action.

I look forward to discussing this topic with Investor Advisory Committee members and my fellow panelists.