Control Rights or Wrongs?
Active versus Index Governance

March 2026

Abstract

The big indexers' big stakes raise the possibility that they learn and spread best governance practices, while also allowing them to take sides on issues that divide their own shareholders. We assess the significance to companies with a survey of company executives in which they compare index to active engagement along multiple dimensions. Respondents report that indexers are generally more perfunctory, engaging less frequently and for shorter durations, but not when they engage on governance, where they bring significantly more expertise and achieve results on board and workplace diversity. Indexers also bring climate concerns to the table, but this engagement produces almost no change beyond disclosure. Active investors engage more intensively and focus on operations and financial performance, yet once at the table they also address governance and E&S topics, making the two investor types complementary. Most responding companies consult proxy advisors, particularly on the governance topics that dominate ballots. The SEC's 2025 guidance broadening the definition of control under 13D raises the cost of standard index engagement practices and threatens the equilibrium we document. Our evidence suggests this penalty risks suppressing the informed governance engagement where indexers add value through unique cross-sectional access without limiting the uninformed engagement that already has little practical effect.

Keywords: Corporate Governance, Institutional Investors, Index Investing, Active Investing
JEL Codes: G23, G32

1 Introduction

The flow of investment from active to index management brings increasing attention to the influence of indexers over the companies they hold. The shareholdings of the Big Three indexers, i.e. BlackRock, Vanguard, and State Street, give them significant influence over voting outcomes at almost all US public companies, and this raises concerns about the substantive preparation they bring and the goals they set for their governance. The concern extends beyond the direct effect of their voting power on public votes to its indirect effect through private engagement. The votes themselves exert little direct control over companies but the threat of a big vote against management, for example against their director nominees, might nudge management toward the indexers' goals, whether or not these goals serve shareholders' interests. Accordingly, to assess how index-fund engagement differs from active-shareholder engagement, and with what consequences, we survey executives at U.S. public companies. The survey asks respondents to compare engagement by the Big Three with that of other shareholders. We contrast engagement triggers, topics, and perceived effectiveness, especially for climate and diversity issues. We further examine the resources shareholders bring to engagements and ask about executives' reliance on proxy advisors, whose influence has expanded alongside the rise of index investing.

A major reason the contrast between active and index engagement draws attention is the concern that scale economies leave index investors with more governance responsibilities than they can manage. Indexing brings market returns at low cost, and scale economies lower the cost further, feeding a spiral of concentration in a few big players such that an S&P 500 constituent now sees a quarter of its shares held by the Big Three (Hirst and Bebchuk, 2019). The big vote blocs held by them thus appear to be unintended consequences, and the small fees these houses charge mean small budgets for engagements. Indexers also have little of the firm-specific research that can inform active management and governance, and they can't intimidate companies by threatening to dump or increase their stakes. Securities and Exchange Commission (SEC) regulators have been skeptical of index governance, though not always in the same way, describing index funds as "asleep at the wheel" in 2019[1], but then as "passive-aggressive" in 2022.[2]

Despite these disadvantages and the skepticism, the big indexers have a potentially valuable governance advantage in their easy access to the decision-makers of almost every public company. This gives them low-cost visibility into the whole range of corporate governance practices, and thereby uniquely positions them to learn and spread what works. And while their inability to dump their stakes can be a tactical disadvantage, it can also be a strategic advantage since it focuses their governance on the long run (Fisch, Hamdani, and Solomon, 2019), and not just the long run of individual companies but of the whole economy, since indexers hold the whole market. Indexers benefit from long-run prosperity and may help achieve it with their unique potential to spread best governance practices.

The clients that indexers serve can agree with each other on the goal of engaging for long-run prosperity while disagreeing with each other on what this entails, and the survey targets several high-profile topics on which funds' clients may disagree. Environmental, Social and Governance, i.e. ESG, goals are frequent sources of disagreement,[3] especially goals for carbon dioxide emissions and workforce diversity. Disagreement over ESG goals figured prominently in the SEC's February, 2025 guidance[4] increasing the cost to the Big Three of trying to influence companies with their voting power. The guidance increases the cost for a five-percent owner by broadening the definition of "controlling" engagement requiring form 13D rather than the less onerous 13G that the Big Three have traditionally filed. To file 13G, an investor can not have "acquired the securities with any purpose, or with the effect of, changing or influencing the control of the issuer," and the examples offered by the new guidance of influence that may cross this line are where the filer endorses a governance change, or discusses a voting policy that the company does not meet,

[1]In 2019, the SEC issued guidance encouraging institutional investor proxy voting, "Release No. IA-5325". See also Harvard Law School Forum on Corporate Governance's post, "The Most Overpaid CEOs: Are Fund Managers Asleep at The Wheel?", and WSJ's article, "BlackRock Starts to Use Voting Power More Aggressively."

[2]See the remarks of then-Commissioner Mark Uyeda in 2022, "Remarks at the 2022 Cato Summit on Financial Regulation."

[3]For example, since 2020, 19 U.S. states have passed laws prohibiting state pension fund investments with asset managers that incorporate ESG considerations. See Morgan Lewis' report, "ESG Investing Update: Trends in Legislation, Litigation, and Market Response."

[4]See the new guidance, "U.S. Securities and Exchange Commission (2025)."

and says or implies that votes for the company's directors hinge on the filer getting what it wants. The new guidance makes impermissible, for example, BlackRock's prior strategy of voting against 5,100 directors based on diversity and environmental goals while filing 13G for thousands of 5% positions.[5] The magnitude of the guidance's potential impact on the Big Three is apparent in the post-guidance announcements by all three of disengagement and reorganization.[6]

The SEC guidance penalizes engagement that affects companies the same as engagement that does not. However, companies can already discount uninformed engagement, so this indiscriminate penalty risks imposing more cost than benefit. It could bring the potential costs of suppressing engagement that is effective because it is informative without the potential benefits of suppressing engagement that is effective without being informative. The incentives of the Big Three also make it unlikely that one of them would pay the penalty to maintain its engagement while the other two did not, since investors in the latter could free-ride on the efforts of the former. Assessing what is potentially deterred by the guidance, therefore, requires evidence on which types of engagement actually affect companies and how this differs between index and active owners. Our survey, completed shortly before the new guidance, is well suited to provide such evidence by identifying the engagement that did and did not affect companies in the pre-guidance era.

We survey U.S. public company executives about their engagement with index versus active investors. Respondents report how these investor types differ in the issues that motivate their engagement, the issues they engage on, who they engage with and how, and the ultimate consequences of the engagement. We survey companies rather than investors since only companies can contrast the engagement of different types of investors.

The survey needs to elicit well-defined comparisons of index versus active engagement, which in turn requires a simple and clear distinction between the two. Any such definition is approximate since index and active engagement are not perfectly delineated: engagement generally occurs at the institutional level (e.g. Vanguard, Fidelity) rather than the fund level (e.g. Vanguard S&P 500

[5] See BlackRock's Investment Stewardship Report in 2020, "Investment Stewardship Report by BlackRock."

[6] See Reuters' article on BlackRock, "BlackRock pauses corporate meetings in wake of new ESG rules". See also Reuters' article on Vanguard, "Vanguard pauses corporate meetings over new ESG guidance" and "State Street's Global Proxy Voting and Engagement Policy."

fund, Fidelity Contrafund)[7], and institutions often house both index and active products. The approximation we use follows academic and policy debates focused on the Big Three, and defines "index" investors as the Big Three, and "active" investors as all others. Respondents separately characterize their index and active engagement along several dimensions, including engagement resources, modes of engagement, topics raised and ultimate consequences, with particular attention to the role of Environmental and Social (E&S) factors. To maximize response, the survey is designed to be completed in ten minutes from active recall.

We find that the contrast between index and active engagement departs in two crucial ways from existing research. The results agree with existing research in several ways: compared to active investors, index investors engage with fewer companies, at a lower frequency and for less time, and are more likely to come across as going through the motions, i.e. box-checking, than seeking results. They engage on more governance and less on operations but with one big departure which is that they engage much more on E&S strategies. Engagement on strategy might sound like the influence over control that calls for filing 13D vs 13G, but when the engagement is on the central issue of climate strategy the influence appears to be small as it causes almost nothing besides disclosure. Only one company reported that index engagement changed a policy related to climate risks and no company reported that it changed climate-related business activities.

The other crucial departure is the extra effort indexers bring to their engagement on governance. They are much more likely than active investors to bring governance specialists to meetings and also more likely to meet not only with management but also with the board. And unlike the indexers' engagement on climate, their engagement on diversity gets results. The company insiders report that index engagement caused increased diversity on the board, in management and in the broader work force, and in some cases changed diversity policies. The survey does not elicit whether this causality is itself caused by greater expertise among indexers about diversity, but this is the sort of expertise they could gain at low cost simply through their engagement with many other companies.

[7] See, e.g., McNabb III, 2014 and Hshieh, Li, and Tang, 2021

Our findings suggest that index and active engagement are complementary. Companies rarely report that *only* indexers engaged on a topic. While active investors are primarily drawn to engagement by financial and operational concerns, once at the table they also engage on governance topics and E&S risks. Even on diversity, indexers are not advocating alone; active investors are present and achieving results as well.

Companies engaging with investors who engage with many other companies can be at an informational disadvantage, but they can narrow this knowledge gap by consulting the advisors who advise the investors, i.e. the proxy advisors. The governance role of proxy advisors has attracted attention, including a December 2025 Executive Order focusing on ESG-related advice,[8] but that attention has focused on advice to investors, not companies.[9] We find, however, that most of the responding companies consult proxy advisories, in particular about the issues most commonly on the ballot: director elections, executive compensation, and shareholder rights.

The survey highlights a potential downside of an indiscriminate penalty on large indexers trying to influence their portfolio companies: it can protect them from engagement they don't need protecting from while reducing their access to useful information. Indexers have a unique advantage to learn and spread best governance practices, which arguably includes practices involving diversity, and we find that companies are much more influenced by engagement on diversity than on climate, where their unique advantage is arguably less relevant. This result is consistent with companies benefiting through engagement from their investors' informational advantages, as opposed to companies being pushed around by uninformed investors with too many votes.

The rest of the paper is organized as follows. Section 2 reviews the relevant literature. Section 3 develops our hypotheses about engagement differences across investor types. Section 4 describes our survey methodology and data collection. Section 5 presents our results on engagement landscape, check-the-box governance practices, engagement resources, triggers, topics with particular attention to E&S engagement, and 13D filing implications. Section 6 concludes.

[8] "Protecting American Investors From Foreign-Owned and Politically-Motivated Proxy Advisors."

[9] On April 29, 2025, the House Financial Services Committee's subcommittee on capital markets held a hearing titled,"Exposing the Proxy Advisory Cartel: How ISS and Glass Lewis Influence Markets". See also Harvard Law School Forum on Corporate Governance's post, "Testimony in House Hearing."

2 Literature Review

The shift from active management to indexing (Wurgler, 2010; Cremers et al., 2016; Coles, Heath, and Ringgenberg, 2022) is transforming governance by institutional investors. Indexers' economies of scale are consolidating assets (Ben-David, Franzoni, and Moussawi, 2017) and thus voting power in a few fund families (Hirst and Bebchuk, 2019; Griffin, 2025).

Fund families cannot disregard the voting power that market forces hand to them, no matter how little they research the companies they hold. The SEC requires investment advisers to serve clients' best interests in their governance[10] so the big index investors must develop policies and implement procedures for exercising their voting power.

A growing theoretical literature argues that large index fund families can develop governance expertise at relatively low marginal cost due to economies of scope in observing market-wide practices (Kahan and Rock, 2020) and scale from repeated engagements across many portfolio companies (Fisch et al., 2019). However, the efficiency of the governance that results remains an important open question that has attracted significant attention from regulators and academics (Bebchuk, Cohen, and Hirst, 2017; Fisch, Hamdani, and Solomon, 2019; Brav, Malenko, and Malenko, 2022b; Brav, Lund, and Zhao, 2024b).

Attention to index governance focuses on a few big differences from active governance. One of these is the lower externalities from stock-specific research (Lund, 2017; Bebchuk, Cohen, and Hirst, 2017; Morley, 2019; Fisch, Hamdani, and Solomon, 2019). Many active funds research the stocks they buy (Kacperczyk, Sialm, and Zheng, 2005), and while governance may not have been the primary goal of the research it can still generate governance benefits. For example, an active fund's research may reveal that a company would create value by divesting a division, leading to targeted engagement on this issue. Index funds are much less likely to possess such firm-specific research insights, as Iliev, Kalodimos, and Lowry (2021) show empirically.

Proxy advisors remediate indexers' research deficit, providing governance-focused stock-

[10] See "SEC Rule 206(4)-6 under the Investment Advisers Act."

specific research and voting recommendations that significantly influence outcomes (Malenko and Shen, 2016; Larcker, McCall, and Ormazabal, 2015; Iliev and Lowry, 2015). However, their resulting influence over voting outcomes is sometimes viewed as excessive. The industry also risks conflicts of interest when advisors simultaneously consult with companies while advising investors (Li, 2018; Ma and Xiong, 2021).

These concerns have prompted regulatory responses, including the SEC's 2014 requirement that investment advisers not rely exclusively on proxy advisories.[11] The SEC later classified proxy advisory services as "solicitation" under Rule 14A subjecting them to additional regulation, including a rule that would have obliged advisories to allow companies to rebut their negative recommendations. [12] While the SEC withdrew many of these rules and courts invalidated the remaining parts, proxy advisories remain in the regulatory crosshairs.[13] Congressional hearings in 2025 have further explored the potentially negative effects of proxy advisors. However, this attention focuses primarily on advice provided to investors voting their proxies, rather than advice to the companies setting the proxies or otherwise reacting to engagement.

Beyond research capacity, another big difference between active and index is active funds' ability to sell,[14] for which the literature identifies positive and negative effects. Among the positive effects is leverage over resistant companies through the threat of exit. For example, an active fund pushing divestment might rationally sell upon learning that divestment will not happen, with the potential stock price effect helping convince management to act (Admati and Pfleiderer, 2009; Edmans, 2009; Bharath, Jayaraman, and Nagar, 2013). An active fund can pair this threat to sell with the threat to buy more, thereby increasing not only its voting power but also both its influence over other investors and the potential damage from future divestment.

[11] See, "SEC Staff Legal Bulletin No. 20 (2014)."

[12] See "Exemptions from the Proxy Rules for Proxy Voting Advice, 85 FR 55082, Sept. 3, 2020 (Release No. 34-89372, July 22, 2020)."

[13] See "Proxy Voting Advice, Exchange Act Release No. 34-95266, Investment Advisers Act Release No. 6068, 87 Fed. Reg. 43168 (July 19, 2022)"(to be codified at 17 C.F.R. pts. 240 & 276) (revoking parts of the 2020 rule); and "Institutional Shareholder Services, Inc. v. SEC, No. 24-5105, —F.4th —, 2025 WL 1802786 (D.C. Cir. July 1, 2025)" (affirming DC District Court holding that the SEC's definition of "solicit" as applied to proxy advisors exceeded Congress's intent with Section 14(a) of the Securities and Exchange Act of 1934).

[14] Some index investors have some discretion to adjust their weights; see Robertson and Molk (2024) for evidence of small weight adjustments by index funds.

The negative effects of the ability to sell include shorter investment horizons and the short-termism that could result (Cremers, 2017; Swanson, Young, and Yust, 2022). Active funds can benefit in the short run when they sell into markets that expect long-run value creation, whereas index funds benefit more from the long-run value actually being created.

Index funds' broad diversification, with popular S&P 500 funds holding close to the whole market by value, is the next big difference. Combined with long investment horizons, diversification aligns the funds' governance with long-term market value (Fisch, Hamdani, and Solomon, 2019; Kahan and Rock, 2020) and, by extension, long-term economic prosperity. This alignment is particularly attractive to the many consumers indexing for retirement. Hart and Zingales (2017) argue that such diversified shareholders should maximize portfolio-wide welfare rather than individual firm value, potentially supporting policies that impose costs on some companies while generating larger benefits across their holdings. This could attune index governance to externalities that harm society more than they help individual companies, such as pollution, acquisitions without synergies, or anticompetitive behavior. Azar et al. (2021) document a correlation between index ownership and subsequent reductions in corporate CO_2 emissions and attribute this pattern to portfolio-wide incentives. While such incentives are a natural consequence of broad diversification, the mechanism through which they translate into firm-level governance outcomes remains an open question, particularly for issues requiring specialized operational or technical expertise.

On emissions, for example, portfolio companies may have limited reason to view index stewards as experts on CO_2 management. They have more reason to believe that the stewards are experts at what they do, i.e. corporate governance, and in particular that they have the unusual expertise that only those with access to almost every public company's board can gain.[15] The credibility that comes with this access may explain the finding in Gormley et al. (2023) that the big index investors increased board gender diversity across their portfolios through coordinated diversity campaigns beginning in 2017.

[15]Figure OA.1 in the Online Appendix shows that the Big Three collectively hold approximately 20% of total market capitalization (Panel A) and appear among the top five institutional shareholders based on 13F filings in a majority of public companies (Panel B).

Research on active investors' engagement finds that their public campaigns can be effective, particularly when they target operational and strategic issues, and that effectiveness increases with concentration of holdings, resources dedicated to monitoring and credible threat of exit (Brav et al., 2008b; Brav, Jiang, and Kim, 2015; Morley, 2019; Brav, Jiang, and Li, 2022a). Research on index engagement finds more focus on governance (Fisch, Hamdani, and Solomon, 2019; Brav, Malenko, and Malenko, 2022b), but with conflicting evidence on effectiveness. Some research concludes that index investors have the incentives and resources to monitor firms effectively (Fisch, Hamdani, and Solomon, 2019; Kahan and Rock, 2020; Azar et al., 2021; Lewellen and Lewellen, 2022) while other research concludes that they do not (Bebchuk and Hirst, 2019; Gilje, Gormley, and Levit, 2020; Heath et al., 2022; Goshen and Hamdani, 2023).

The literature identifying the effect of index governance through index inclusions also reaches mixed findings. Some find improved governance outcomes through increased monitoring (Appel, Gormley, and Keim, 2016, 2019; Gormley and Kim, 2024), while others find neutral or negative effects (Schmidt and Fahlenbrach, 2017; Coles, Heath, and Ringgenberg, 2022).

Votes are another public window into active vs index governance. Iliev and Lowry (2015) find among active funds' votes that bigger and lower-turnover funds and larger fund families vote more independently and earn higher alphas. Comparing active to index fund voting, Bena and Wang (2021) find that index funds support management more than active funds do and argue that this disagreement destroys firm value. Brav et al. (2024a) find that index funds are more management friendly even in high-stakes proxy contests.

Concerns about index investors' governance extend beyond their votes to the intensity of their private engagement. Bebchuk and Hirst (2019) question the effectiveness of index investors' engagement, citing among other things the low fractions of portfolio companies engaged. For 2019, they observe, BlackRock, Vanguard and State Street report engagement with 13%, 6.6% and 5.6%, respectively, of their portfolio companies. Heath, Macciocchi, and Ringgenberg (2024) also conclude that index funds engage relatively less than active funds. The index providers frame their engagement differently, noting that their focus on larger holdings means that their engagements account for large fractions of assets under management. For 2024 BlackRock reports that the 2394 companies they engaged accounted for 75% of their assets under management,[16] and Vanguard reports that the 1603 companies they engaged accounted for 66%.[17]

To learn what happens outside the public eye, some studies have analyzed private engagement using proprietary data provided by individual money managers (Dimson, Karakaş, and Li, 2015; Becht, Franks, and Wagner, 2019).This research has provided valuable insights but does not shed light on how engagements or their consequences compare across investors or types of investors.

To run this comparison, the literature has turned to surveys. McCahery, Sautner, and Starks (2016) survey a wide range of institutional investors and find that private engagement greatly outweighs public engagement and varies in approach across investor types. Gatti, Strampelli, and Tonello (2022) survey companies on their boards' engagement with different shareholder types and find that most engagement is between large asset managers and large companies, and can be consequential. But these surveys group all active and index private-sector funds as one type so they leave open the question how index and active investors differ in their engagement and its results.

Our survey aims to answer this question by separately eliciting a company's appraisal of active and index engagement to identify differences in tactics, topics, and outcomes. Surveying brings us inside the room to learn not only how index and active engagement differ in private but also how, in the view of company insiders, they connect to what the companies do next.

Our survey addresses several other gaps in our understanding of corporate governance. To gauge the role of proxy advisors on the other side of the ballot, we ask companies about their consultation with them. To contribute to the debate over the role of E&S issues in index engagement (Azar et al., 2021; Gormley et al., 2023) and active (Krueger, Sautner, and Starks, 2020; Dimson, Karakaş, and Li, 2015), we devote a lot of the survey's time budget to this role and its consequences. Also, while our survey predates the recent lowering of the 13D control threshold, our results on index engagement and its consequences help us understand what is at stake as the big indexers change their practices in response.

[16] See Blackrock's report, "Stewardship Report."
[17] See Vanguard's report, "Stewardship Report."

3 Hypothesis Development

Index investors get very small fees to convey the returns of a set list of stocks. This puts index governance at several disadvantages. The very small fees mean little budget for governance. The set list also means they have little reason to generate the kind of research that would inform engagement and they have no threat to sell (Bebchuk and Hirst, 2019; Brav et al., 2022b; Goshen and Hamdani, 2023). Also, index funds tend to hold many stocks distributing proxies during just a few weeks of the year, straining a small staff even more. By contrast, active funds get bigger fees, do research, can sell and usually hold fewer stocks and are thus better positioned to exert governance on the operations of the firms they hold (Morley, 2019; Kahan and Rock, 2020; Iliev, Kalodimos, and Lowry, 2021). So compared to active investors' governance, index governance is more likely to be perfunctory, which we state as Hypothesis 1:

Hypothesis 1: Index governance is more"check-the-box" than active investors' governance.

Alongside these disadvantages is a potential advantage for the big index investors gleaned from their big stakes. Companies are generally eager to engage with their largest shareholders (Chapman et al., 2022) so this gives the big index investors wide access to the cross section of management and boards. Because stocks tend to remain in their indices for a long time, indexers see the time series as well. So for the cost of taking these meetings, big indexers get exposure that likely nobody else can get to the whole range of governance practices and their consequences. This implies two motives for index investors to engage on governance, both to gain governance expertise and to use it. Thus we have Hypothesis 2a:

Hypothesis 2a: Index investors engage more on governance practices, whereas active investors engage more on operational issues.

If companies agree that index investors are experts on internal governance and active investors are experts on operations then this difference in engagement should lead to a difference in results. This is our Hypothesis 2b:

Hypothesis 2b: Index investors' engagement gets more results on governance while active *investors' engagement gets more results on operations.*

The longer holding periods of index investors are likely to affect not only what they engage on but also how they engage. Active investors can go public with pressure and threats to leave (e.g. (Becht, Franks, and Wagner, 2019; Cvijanović, Dasgupta, and Zachariadis, 2022)) but index funds have long-term relationships that are more likely benefit from private discussion rather than public confrontation (Appel, Gormley, and Keim, 2019). This motivates Hypothesis 3:

Hypothesis 3: Index engagement is more private than active engagement.

The survey is designed to test these hypotheses on the responses of company insiders, where to maximize response, we limit the survey to questions they can answer without reference to documents or other time-consuming tasks.

4 Methodology

4.1 Survey Development and Implementation

The survey collects data to test the hypotheses by eliciting responses that contrast the firms' experiences with index and active engagement. The survey questions quantify engagement along several dimensions, including engagement landscape (investor types and AGM timing), company perceptions regarding check-the-box governance practices, investor and company resources for engagement, triggers for engagement, topics of engagement and E&S engagement (E&S reporting engagement, topics of E&S engagement, and outcomes of E&S engagement). The complete survey is provided in Part I and survey design details in Part II of the Online Appendix.

We define "engagement" as interaction between company representatives (e.g., members of management or board) and shareholders with the intent of exchanging perspectives or influencing the company. The survey compares investor types by asking identical questions about active and index investor engagement, where "index" means the Big Three. The big 3 are not entirely index but as Table OA.1 shows, their index funds constitute the bulk of their holdings in both respondent and non-respondent firms. Also, the passiveness of these holdings is apparent in their filing choices:

Table OA.2 shows that from 2019 to 2024 they almost always filed form 13G, intended for passive holdings, rather than 13D.

The survey targets all 3,214 U.S. companies that were publicly traded as of Fiscal Year 2020.[18] We focus on U.S. public companies because they face similar regulatory environments and disclosure requirements, enabling more precise comparisons of engagement practices across firms.

The email list for survey distribution came from multiple sources. One was the primary investor relations contact in each company as provided by an asset management company. We supplemented these contacts using ZoomInfo, CapitalIQ, SEC filings, and company websites. Of our 3,214 target companies, we successfully identified contact information for 3,187 (99.2%) as shown in Panel A of Table 1. Column 1 in Panel B reports the distribution of email sources, with the majority (64.4%) obtained through ZoomInfo, 17.5% from the asset management company, and the remainder from SEC filings, company websites, and CapitalIQ. Column 2 shows the corresponding distribution of respondents.

We collected data in two phases. After the initial rollout on October 24, 2023, we received 92 responses.[19] After the second rollout on July 26, 2024, we received 52 additional responses. Our final sample comprises 140 responses from 3,187 invitations, a response rate of 4.4%. This response rate is consistent with those reported in other finance surveys.[20] To address potential non-response bias, we compare respondent and non-respondent firm characteristics across multiple dimensions and examine industry representation patterns.

4.2 Other Data Sources

We use company identifiers to merge the survey responses with standard finance datasets. Accounting data for fiscal years 2019-2024 come from Compustat. From these data we construct financial variables including asset size, profitability measures (return on assets, cash flow to assets), investment activity (capital expenditures to assets) and Tobin's Q. Stock market data come from CRSP.

[18] We also exclude firms that were delisted as of September 2022.

[19] We excluded 4 of these responses because respondents did not answer the question about types of investors their firm engaged.

[20] For example, Brav et al. (2008a) report 5.3%; Dichev et al. (2013) report 5.4%; McCahery, Sautner, and Starks (2016) report 4.3%.

We calculate annualized stock returns and volatility for each fiscal year, measured over the 12-month period ending at each firm's fiscal year end. Governance data comes from BoardEx. We construct measures of board size, the percentage of non-executive directors, and an indicator for combined chairman/CEO roles.

Institutional ownership data comes from the 13F Holdings database available through WRDS. We compute annual ownership from December holdings.[21] We calculate index ownership as the combined ownership by the Big Three. Active ownership combines the holdings of all other 13F filers, and total institutional ownership is the sum of active and index ownership. Detailed variable definitions are in Table 0A.3 in the Online Appendix.[22]

4.3 Respondent Characteristics

Table 2 compares respondent and non-respondent firm characteristics averaged over 2019 to 2024 and finds broad similarity with a few notable differences. Responding firms are bigger though not with statistical significance. Their performance metrics are also higher, including significantly higher Tobin's Q and stock returns, consistent with better-performing firms being more willing to discuss their investor relations. Governance characteristics are similar across the two groups: board size, board independence, and the incidence of combined chairman/CEO roles show no statistically significant differences.

Respondents have somewhat more institutional ownership both by index and active investors, consistent with response increasing somewhat with engagement. Table 3 compares respondents and non-respondents by industry and finds no large or statistically significant differences.

Our sample's greater representation of bigger and better-performing companies and companies with more institutional ownership makes our findings more informative about such firms. Bigger and more institutionally-owned firms are more relevant to the debate over index-fund governance, so this over-representation is fortuitous for our survey. Poorly-performing firms are at

[21] Following Ben-David, Franzoni, Moussawi, and Sedunov (2021), we address reporting errors by capping ownership at 50% for any single registrant reporting more than that.

[22] Accounting, stock market, and governance data cover fiscal years 2019-2024, while ownership data cover calendar years 2019-2023 due to data availability.

least as relevant to the debate as better-performing firms, but a lower response from such firms is likely unavoidable in a voluntary survey.

5 Results

We sort the results by the engagement decisions they relate to, in each case contrasting the decisions by index and active investors. We start with the decision whether to engage at all, and then whether to engage perfunctorily, i.e. just checking boxes, or more thoughtfully. To broaden the scope of the responses beyond the respondents, and also to attenuate any self-reporting bias, we ask them about not only their own experiences with active and index investors but also their perception of those investors' engagement with peer companies. Next we address the resources investors and companies devote to meetings, including the staff and expertise they bring, the use of proxy advisories, how long the meetings last and the cadence through the year. We then change focus to the topics investors engage on, including the topics that trigger engagement, the topics that surface during engagement and the ultimate consequence of the engagement. Since E&S topics have attracted particular attention in recent years we address those separately.

5.1 Deciding Whether to Engage

Almost all respondents, 98%, report at least some investor engagement as shown in Table 4. Among these firms, all engaged with active investors while only 64% engaged with index investors. The indexers' reports associate engagement with portfolio weight so we calculate each stock's average weight in the overall Big Three portfolio and run a logistic model predicting selection with this weight. The results in Table OA.5 show that Big Three portfolio weight predicts index engagement, with a positive and significant coefficient ($p < 0.05$) and a marginal effect at means of 0.43.

The surveys bear out the connection between weight and engagement though the large variance not explained by the model indicates that other criteria are also at work.

5.2 Check-the-Box Governance Practices

Do investors engage just to say they engaged or do they try to accomplish something? The survey tests Hypothesis 1 by asking companies whether they experience "check-the-box" engagement and as Panel A of Table 5 reports, most respondents say they do. It follows up by asking how frequently the two investor types are just checking the box and finds that this is more likely from index than active investors by a 69% to 42% margin, significant at the 1% level. Asked instead about peers' engagement, they report a similar 68% vs 51%.

We thus conclude that the data support Hypothesis 1. Index investors do indeed engage more in check-the-box governance. We also find, however, a high incidence of perfunctory engagement by active investors as well.

5.3 Engagement Resources

The survey contrasts the intensity of index and active investors' private engagement along several dimensions. To make the index and active responses comparable, the survey tells respondents to consider only their biggest three active investors. This means that respondents compare three big index investors to three big active investors, as opposed to all their active investors put together.

The results, collected in Table 6, make three points. Panels A and C show that index investors engage less frequently. They are much more likely to engage just once a year (Panel A), whereas active investors are much more likely to engage more than five times a year (Panel C). Index engagements are also shorter, with 41% less than half an hour, compared to 16% that short for active engagements (Panel B). Panel D makes a negative point about Hypothesis 3: the responses do not bear out the prediction that index funds are significantly more likely to engage privately rather than publicly. The difference is in that direction, but is not statistically significant.

Index investors engage less, but when they do, they bring more governance expertise. Table 7 shows little difference between active and index in the size of their engagement teams (Panel A) but a large and statistically significant difference in the governance expertise they bring: most active investors bring no governance personnel at all to meetings, whereas *zero* index investors bring no governance experts and 45% bring more than one (Panel B). Thus, as predicted by Hypothesis 2a, governance is the distinct focus of index investors' engagement.

Index investors not only bring more governance expertise, they are also more likely to engage with the board. The survey asks who the investors approach, and Table 8 shows that almost all investors approach management, but index investors are significantly more likely to approach the board as well. Since governance, rather than operations, is the board's primary concern, this is further evidence of index investors' focus on governance.

Proxy advisors advise companies on their engagement and Panel A of Table 9 reports that most respondents boost their own expertise this way. The breakdown of topics they consult on skews toward governance issues—director votes, executive compensation and shareholder rights—as opposed to operational issues. So both index investors and companies bring governance expertise to their engagement. The survey does not ask whether companies consult proxy advisors because of index investors in particular but when we contrast the companies that do and do not consult advisors, in Table OA.7 in the Online Appendix, we find that the index investors own significantly more of the companies that consult than of the companies that do not.

To summarize, index investors engage less than active investors but when they do they bring more governance expertise and engage more with the board. Companies scale their own governance expertise by consulting with the same proxy advisors that advise investors when they vote, especially when index investors own more of their shares.

5.4 Engagement Triggers and Topics

What actually triggers engagement and what happens in the room? We address these questions by asking separately about engagement triggers and topics.

The survey asks for the top three triggers of index and active engagement and with one exception the responses in Table 10 agree with the previous tables. In general, governance topics trigger index engagement and operations trigger active engagement. Board composition and election of directors, executive compensation and shareholder proposals all trigger index investors significantly more than active investors, while corporate strategy and operations, poor financial performance, and capital structure all trigger active investors more, with all of these differences significant at the 1% level. Responses in Table OA.8 are similar when the survey asks instead about peers' engagement, the main difference being that engagement on risk management and/or oversight, which could be interpreted as either operations or governance, tilts significantly toward index investors. These results all agree with the index investors' focus on governance.

The exception to index investors' focus on governance is E&S strategies, which companies see as much more likely to trigger index than active investor engagement with themselves or their peers, both at the 1% significance level, even though they concern operations rather than governance.

Governance and E&S strategies trigger index more than active investors, but since active investors engage so much more, engagement even on these topics comes more from active investors. This is apparent in Table 11, which breaks out companies' engagement on each topic by reporting the fraction of respondents who engaged on that topic only with active investors, only with index or with both types. Every topic sees more active-only than index-only engagement, though the difference is generally smaller for governance and E&S.

In the view of the companies they own, index investors focus on governance rather than operations *except* when the operations raise E&S concerns. This focus notwithstanding, the higher intensity of active engagement means that companies engage more with active investors on every topic, including slightly more on governance and E&S.

5.5 Engagement on E&S Issues

E&S concerns fuel the debate over index investors' engagement, so the survey drills down with follow-up questions on engagement topics within E&S and the ultimate consequences of this engagement for the company.

We ask specifically about engaging on ESG disclosure since index funds have a special reason to do so, which is that index membership can hinge on ESG scores that depend on ESG disclosure. This dependence may explain why we learn in Panel A of Table 12 that index investors do indeed engage more frequently. But despite the indexers' greater interest in disclosure, when we ask about the whole range of E&S topics that come up in the meeting we find that of the three main topics for both investor types, active investors engage significantly more on climate-related risks ($p < 0.01$) and human capital management ($p < 0.01$), and about the same on diversity and inclusion.

Does this engagement alter the company's course? The survey follows up on two high-profile issues: climate and diversity. With respect to climate, there is almost no evidence that index engagement alters a company's course. Table 13 shows that, of the 42 companies responding about engagement results, only one changed climate policies due to index engagement and no company changed activities. The analogous numbers for active engagement are somewhat higher at six and four, respectively. The main consequence of index engagement, consistent with its role in index membership, is simply disclosure. Of those 42 respondents, 13 saw index engagement affect their disclosure of climate-related risks, and 10 saw it affect their disclosure of carbon emissions. Disclosure was also the main consequence of active engagement, where the analogous numbers were 18 and 15 companies. Smaller numbers reported that engagement increased knowledge on the board about climate-related risks, or reallocated climate-related risk responsibilities within management. So while climate issues figure prominently in the debate over index engagement, and do in fact trigger index engagement, the survey finds very little effect, besides disclosure, of this engagement on the company's course.

Disclosure is also the main effect of engagement on diversity but the survey finds more actual change as shown in Table 14. Of the 30 companies responding about diversity engagement, six increased board diversity, five increased broader workforce diversity and two increased management diversity due to index engagement, much more effect than for climate issues, though a little less effect than active investors had.

5.6 Policy Implications of Results

The survey was designed to test hypotheses about the differences between index and active engagement, in particular regarding the roles of governance, operations and E&S issues. After we designed and ran the survey, the SEC lowered the engagement threshold for filing 13D rather than the less onerous 13G. Thus, we interpret the results both to answer the questions they were designed to answer and also to gauge the potential costs of lowering the threshold for control and forcing a choice between less expensive, less result-oriented engagement permitted under 13G and the more expensive and more result-oriented 13D engagement above it.

Policymakers worry that overwhelmed and underfunded index investors engage to check the box and this is how most of our respondents characterize index engagement, though almost half say that about active engagement as well. This is consistent with capacity and resource constraints that limit the depth of stewardship across the industry (Gatti et al., 2022), though more so for index investors (Bebchuk and Hirst, 2019).

Recent regulatory initiatives focus on the role of E&S issues in index engagement and while we find that index investors focus particularly on governance we also find a strong role for E&S issues. This concurs with surveys of investors who list climate and other E&S risks as financially material and address them through engagement rather than divestment (Ilhan et al., 2023, Krueger, Sautner, and Starks, 2020).

The big indexers' access to the cross section of management and boards is an asset from which regulation could aim to get the biggest benefit. Indexers have the access but they have to use it to get the benefit and we find that indexers take few meetings with their smaller holdings. So while indexers can in principle spread best governance practices across all public firms, in practice their limited resources limit this spread to their bigger holdings.

We find that index engagement increases diversity on the board and elsewhere in the company. This is consistent with the indexers privately learning the value of diversity at some companies and encouraging it elsewhere, though since we cannot see what they learn privately we cannot know for sure. It is also consistent with indexers simply passing through public pressure to increase diversity, regardless of what they learned privately. However, there is likely even more public pressure on indexers to cause companies to reduce carbon emissions and we find that their engagement has almost no effect at that beyond disclosure. So while this evidence is only suggestive it is in the direction of index engagement having an effect only when it tells companies something they didn't already know. To the extent that is true, penalizing their engagement is counterproductive since the uninformed engagement has no effect anyhow.

The political salience of index investors' climate engagement may exceed its actual effects. In November 2025, New York City's Comptroller recommended terminating BlackRock's $42.3 billion mandate with city pension funds, citing inadequate climate engagement following the SEC's guidance change.[23] Our evidence indicates that indexers' clients looking to change companies' climate-related operations through engagement were not getting that anyhow, though the clients may get utility directly from the public posture of the managers they hire even without operational consequences. Pressure also comes from the opposite direction: in February 2026 Vanguard settled for $29.5 million a multistate lawsuit alleging that the Big Three colluded to pressure coal companies to reduce output.[24] Our evidence that index engagement on climate produced almost no change in business activities suggests that whatever engagement the Big Three undertook on energy issues, it did not translate into operational consequences at portfolio companies.

Proxy advisors have also drawn regulatory fire and we find that they advise most companies, particularly those with more index ownership and particularly on the governance issues that indexers prioritize: director elections, executive compensation, and shareholder rights. Advising both sides of the table threatens conflicts of interest and the industry is responding. In November 2025, Glass Lewis announced it would abandon uniform house recommendations in favor of client-specific voting advice, cease consulting for companies on which it issues recommendations, and register with the SEC as an investment adviser.[25] Whether these changes improve governance outcomes or simply shift the equilibrium remains to be seen.

In December 2025, proxy advisors faced further disruption when an executive order[26] targeted them for allegedly advancing 'politically-motivated agendas' on E&S. We find significant engagement on E&S topics but we also find little consequence of indexers' engagement on issues outside of their likely expertise. So even if proxy advisors are trying to push political agendas through the indexers' big stakes, it does not appear they are enacting those agendas.

[23] e.g. "NYC's Lander Recommends Dropping $42 Billion BlackRock Mandate."

[24] See Reuters' article, "In Texas, Vanguard settles antitrust suit for $29.5 million and renewed passivity pledges"

[25] e.g. "Glass Lewis Is Adapting to Customer Needs."

[26] See "Protecting American Investors From Foreign-Owned and Politically-Motivated Proxy Advisors."

5.7 13D Filing Requirements and Compliance Burdens

The SEC's new guidance on exemptions from filing 13D rather than 13G is likely to force indexers to choose between either scaled-back disengagement or a more costly filing regime. Indexers had long filed 13G under the prevailing view that their engagement fell short of seeking to "change or influence control" of their portfolio companies, but in February 2025, the SEC redefined "control" to include engagement topics and tactics that are routine, even for index investors. The SEC's examples of control—such as explicitly or impliedly conditioning board support on specific reforms like removing a poison pill, implementing ESG reporting, or aligning corporate policy with the investors' voting guidelines—capture engagement actions common among leading index investors. If such engagement now triggers 13D obligations, the regulatory classification of indexers may shift profoundly, and with it, their legal and economic calculus.

The indexers' legal calculus also includes the potential for tension between the restraint on engagement from the new guidance and the encouragement to engage from the 2003 SEC rules requiring them to use their voting power in their clients' best interest. Publicized voting policies such as the ones addressed in the revised 2025 SEC guidance are an outgrowth of this Sarbanes-Oxley era mandate. Since the 2003 rules still apply, disengaging too much could bring legal costs of its own.

If indexers choose to engage at a level that now requires 13D then they will have to pay its direct and indirect costs. The direct costs are the cost of providing the extra information on 13D and the cost of the additional filings that 13D can require. The extra information includes, among other things, a statement of the investor's intentions in holding the securities and the internal processes required to collect all the data on 13D. A filer that cuts corners risks the liability that a careless answer could bring, especially to investors as visible and scrutinized as the Big Three, so their answers are likely to be highly lawyered and thus expensive. The SEC estimates the extra cost of 13D vs 13G at just 2.1 hours, so $840 for lawyers billing $400/hour, but even that modest lawyering amounts to approximately $1,800,000 per year for BlackRock, $1,700,000 for Vanguard, and $210,000 for State Street, assuming only one filing per year for each holding that exceeds five percent (see Table 15). If they file more than annually, which they easily can because every one percent change requires a new filing, then the cost is considerably higher.

The indirect cost is the liability remaining after filing. This includes litigation risk from enforcement actions[27] and class-action lawsuits, as well as any new legislation that could harm or destroy the Big Three's business models. They are exposed not only to ex post scrutiny of their filings but also to other judgment calls they have to make, such as what kind of ownership constitutes "beneficial ownership" and what kind of interaction with other investors constitutes acting "as a group." It is difficult at best to quantify this indirect cost, but it could easily be much larger than the direct cost of the initial filing costs.

The Big Three can likely absorb the extra direct costs, but this may be strategically unsustainable in their intensely fee-sensitive market. By 2025 the average index mutual fund expense ratio had been competed down to just 5 basis points.[28] If funds pass new engagement costs on to investors then those filing 13D to maintain engagement may lose to those that disengage to file 13G instead.

There is already evidence of indexers choosing to disengage. Following the new guidance, both Vanguard and BlackRock suspended corporate engagement meetings,[29] and soon thereafter the Big Three reorganized engagement teams, broke up advisory services largely along index/active lines (Vanguard & BlackRock), and expressly limited the scope of engagement to stay outside of control (State Street).[30]

6 Conclusion

The big index funds face multiple challenges when they wield their considerable governance rights. They have thousands of large stakes but are paid little to steward them and get little of the stock-specific research that informs active engagement. They have to govern in their shareholders'

[27] See, e.g., "SEC Charges HG Vora for Disclosure Failures.", and also Kim (2025)

[28] "Trends in the Expenses and Fees of Funds, 2024."

[29] e.g. "BlackRock and Vanguard halt meetings with companies after SEC cracks down on ESG."

[30] See "State Street's Global Proxy Voting and Engagement Policy" and "State Street's Sustainability Stewardship Service Proxy Voting and Engagement Policy."

best interests, but their shareholders want different things. The public wants to know how indexers engage, but their engagement is mostly private. Along with these challenges, indexers enjoy a potential advantage in their easy access to the cross-section of management and boards. How indexers navigate these challenges, and how they leverage their information advantage are first-order questions for corporate governance, which we address by surveying company insiders about index vs. active engagement.

The survey bears out the indexers' challenges. We find evidence of their small budgets in the low incidence and short duration of their engagements and evidence of their lack of stock-specific research in their box-checking and general silence on operations. The conflicting preferences of their shareholders is apparent in the political sensitivity of the E&S issues they do engage on, and all this engagement is overwhelmingly private.

The survey also shows the indexers' advantage at work and why the SEC's new filing guidance risks the value indexers add. We find that indexers bring more expertise and focus more on governance than active investors do, and that their engagement on board and workplace diversity has real consequences. In contrast, their engagement on climate issues does not. While we cannot know what the indexers learn privately, this disparity is consistent with the expertise they likely can and can't gain from meeting with the cross section of boards and management. The new guidance makes it more costly for indexers to try to influence the companies they hold, but our evidence suggests that their actual influence already aligns with the expertise that comes from their unique advantage. The US economy has just a few institutions positioned to spread best governance practices and this new guidance could limit that distribution without limiting anything else of practical significance.

Proxy advisors also address corporate governance economy-wide, and our survey demonstrates their importance not just to the investors voting their proxies but to the companies setting them as well. Companies routinely consult proxy advisors on the governance topics that come up the most. Recent governmental efforts to restrain proxy advisors focus on their E&S advice, but our evidence shows that companies prioritize advice that can tell them something they don't already know. Regulators should be cautious about impeding advice from any source, but especially from sources like proxy advisors with distinctive expertise.

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A Appendix

Table 1: Email Data Collection: Availability and Sources

Panel A shows if the email of the publicly traded firm is available. Panel B shows the sources of emails for our target population and for the respondents.

Panel A: Email Availability		
	Frequency	Percentage (%)
	(1)	(2)
Yes	3187	99.16
No	27	0.84
N	3214	100.00

Panel B: Email Source Distribution		
	All Emails (%)	Respondents (%)
	(1)	(2)
Asset Management Company	17.45	20.00
ZoomInfo	64.36	70.00
SEC	3.14	2.86
Company Website	6.68	4.29
Capital IQ	8.38	2.86
N	3187	140

Table 2: Firm Characteristics

This table shows the characteristics of respondent and non-respondent firms. Column (1) shows the mean for respondent firms for each variable and Column (2) shows it for non-respondent firms. Column (3) presents the results of a t-test for the null hypothesis that the means of respondents and non-respondents are equal. Firms without available email addresses are also classified as non-respondents. Accounting, stock market, and governance variables for each firm are averaged over fiscal years 2019-2024, while ownership variables for each firm are averaged over calendar years 2019-2023 due to data availability. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

	Respondent (1)	Non-Respondent (2)	t-stat (3)	N(Respondent) (4)	N(Non-Respondent) (5)
Accounting Variables					
Log(Total Assets)	7.28	7.06	1.18 (0.241)	140	3074
Tobin's Q(End of Year)	2.73	2.34	1.94* (0.054)	140	3074
Return on Assets	0.02	-0.05	1.61 (0.110)	140	3067
Cash Flow/Assets	-0.00	-0.09	2.03** (0.044)	139	3045
CapEx/Assets	0.03	0.03	0.24 (0.812)	140	3071
Stock Market Variables					
Annualized Stock Return	0.20	0.13	2.38** (0.018)	140	3074
Annualized Volatility	0.52	0.53	-0.58 (0.563)	140	3074
MV(in millions)	22337.26	12441.93	0.67 (0.507)	140	3074
Governance Variables					
Board size	8.73	8.73	-0.03 (0.977)	138	2996
% of Non-Executive Directors	85.25	84.56	1.18 (0.239)	138	2996
Chairman/CEO	0.33	0.27	1.48 (0.141)	138	2996
Ownership Variables					
BlackRock %	7.90	6.61	3.22*** (0.002)	140	3074
Vanguard %	7.09	6.18	3.18*** (0.002)	140	3074
State Street %	2.58	2.24	2.46** (0.015)	140	3074
Active %	54.17	48.30	3.12*** (0.002)	140	3074
Index %	17.57	15.04	3.35*** (0.001)	140	3074
Institutional %	71.74	63.33	3.55*** (0.001)	140	3074

Table 3: Industry Comparison

This table shows the results of t-tests comparing the industry classifications of respondent and non-respondent firms in 2020, based on the Fama-French 12 industry equivalents of SIC codes. Column (1) reports the percentage of respondents in each industry. Column (2) reports the percentage of non-respondents in each industry. Column (3) presents the results of a t-test for the null hypothesis that the proportions of respondents and non-respondents are equal within each industry. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

Industry	Respondent (%) (1)	Non-Respondent (%) (2)	t-stat (3)
Healthcare, Medical Equipment, and Drugs	18.57	22.41	-1.07
			(0.285)
Finance	12.86	18.64	-1.73*
			(0.084)
Business Equipment – Computers, Software, and Electronic Equipment	15.00	15.81	-0.26
			(0.797)
Other – Mines, Constr, BldMt, Trans, Hotels, Bus Serv, Entertainment	16.43	10.96	2.01**
			(0.045)
Manufacturing – Machinery, Trucks, Planes, Off Furn, Paper, Com Printing	12.14	8.46	1.52
			(0.129)
Wholesale, Retail, and Some Services (Laundries, Repair Shops)	5.71	8.13	-1.03
			(0.303)
Consumer NonDurables – Food, Tobacco, Textiles, Apparel, Leather, Toys	4.29	3.87	0.25
			(0.804)
Oil, Gas, and Coal Extraction and Products	5.00	3.06	1.29
			(0.198)
Consumer Durables – Cars, TV's, Furniture, Household Appliances	2.86	2.50	0.26
			(0.795)
Utilities	3.57	2.31	0.96
			(0.337)
Chemicals and Allied Products	3.57	2.24	1.02
			(0.306)
Telephone and Television Transmission	0.00	1.59	-1.51
			(0.132)
N	140	3074	

Table 4: Investor Types

This table reports the types of investors that respondents' firms engaged with in the past two calendar years. Column (1) shows the frequency and Column (2) shows the percentage of respondents selecting each investor type.

	Frequency (1)	Percentage (%) (2)
Active only	48	34.29
Both active and index	89	63.57
Did not engage	3	2.14
Total	140	100.00

Table 5: Check-the-Box Governance Practices

In Panel A, respondents were asked if investors engaged in "check-the-box" governance practices at their own companies and at peer companies. Columns (1) and (2) report the frequency and percentage of responses for own companies. Columns (3) and (4) report the frequency and percentage of responses for peer companies. In Panel B, respondents were asked how frequently active and index investors engage in "check-the-box" governance at their own companies and at peer companies. Columns (1) and (2) show the percentage of respondents reporting each frequency for active and index investors at their own companies. Column (3) reports the results of t-tests for the null hypothesis that the proportions are equal across investor types. Columns (4) and (5) show the percentage of respondents reporting each frequency for active and index investors at peer companies. Column (6) reports the results of t-tests for peer companies. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Response Distribution

Response	Companies		Peer Companies	
	Frequency	Percentage	Frequency	Percentage
	(1)	(2)	(3)	(4)
Yes	57	54.81	52	52.53
No	47	45.19	47	47.47
N	104	100.00	99	100.00

Panel B: Frequency Comparison by Investor Type

Frequency	Companies			Peer Companies		
	Active (%)	Index (%)	t-test	Active (%)	Index (%)	t-test
	(1)	(2)	(3)	(4)	(5)	(6)
High frequency/Common	41.82	68.52	-2.88*** (0.005)	51.16	68.29	-1.60 (0.113)
Low frequency/None	58.18	31.48		48.84	31.71	
N	55	54		43	41	

Table 6: Engagement Resources

In Panel A, respondents were asked how frequently active and index investors engage in each calendar year. In Panel B, respondents were asked the duration of a typical engagement. In Panel C, respondents were asked the number of engagements in a calendar year. In Panel D, respondents were asked to indicate the percentage of engagements conducted privately by active and index investors during each calendar year. For all panels, Column (1) shows the percentage of respondents reporting each category for active investors. Column (2) shows the corresponding percentages for index investors. Column (3) reports the results of t-tests for the null hypothesis that the proportions are equal across investor types for each response category. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Frequency of Engagement

Frequency	Active (%) (1)	Index (%) (2)	t-stat (3)
More than annually	70.59	19.30	7.09*** (0.000)
Annually	27.45	77.19	-6.84*** (0.000)
No conversations	1.96	3.51	-0.59 (0.553)
N	102	57	

Panel B: Duration of Engagement

Duration	Active (%) (1)	Index (%) (2)	t-stat (3)
60+ minutes	3.96	1.69	0.79 (0.430)
30-60 minutes	80.20	57.63	3.14*** (0.002)
<30 minutes	15.84	40.68	-3.62*** (0.000)
N	101	59	

Panel C: Number of Engagements

Number of Engagements	Active (%) (1)	Index (%) (2)	t-stat (3)
6+	22.00	5.88	2.56** (0.012)
1-5	78.00	94.12	
N	100	51	

Panel D: Yearly Comparison

Year	Active (Mean) (1)	Index (Mean) (2)	t-stat (3)
2021	81.49	84.91	-0.80 (0.425)
2022	80.77	87.11	-1.63 (0.105)
Count (2021)	96	53	
Count (2022)	98	54	

Table 7: Engagement Teams

In Panel A, respondents were asked about the typical size of the engagement team for active and index investors. In Panel B, respondents were asked about the typical number of governance personnel in the engagement team for active and index investors. In both panels, Column (1) shows the percentage of respondents reporting each number for active investors. Column (2) shows the corresponding percentages for index investors. Column (3) reports the results of t-tests for the null hypothesis that the proportion of respondents reporting each number of personnel is equal between active and index investors. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

A: Size of Engagement Team

Number	Active (%) (1)	Index (%) (2)	t-stat (3)
5 or more	1.92	5.00	-1.10 (0.272)
4	6.73	1.67	1.45 (0.149)
3	30.77	28.33	0.33 (0.745)
2	48.08	48.33	-0.03 (0.975)
1	12.50	16.67	-0.74 (0.462)
N	104	60	

B: Number of Governance Personnel

Number	Active (%) (1)	Index (%) (2)	t-stat (3)
5 or more	1.23	0.00	1.00 (0.320)
4	1.23	0.00	1.00 (0.320)
3	9.88	8.51	0.25 (0.800)
2	11.11	36.17	-3.53*** (0.001)
1	22.22	55.32	-4.00*** (0.000)
0	54.32	0.00	9.75*** (0.000)
N	81	47	

Table 8: Engagement Parties: Active versus Index Investors

Respondents were asked to indicate which party at their firm was typically approached by active and index investors during engagements. Column (1) shows the percentage of respondents indicating each contact type for active investor engagements. Column (2) shows the corresponding percentages for index investor engagements. Column (3) reports the results of t-tests for the null hypothesis that the proportion of respondents reporting each contact party is equal between active and index investors. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Engagement Contact	Active (%) (1)	Index (%) (2)	t-stat (3)
Management	98.08	96.61	0.58 (0.564)
Board	29.81	45.76	-2.06** (0.041)
Consultant	7.69	8.47	-0.18 (0.860)
Other	7.69	8.47	-0.18 (0.860)
N	104	59	

Table 9: Use of Proxy Advisory Services

Panel A shows if the respondents use the services of proxy advisory firms. In Panel B, respondents were asked to indicate the topics of consultation if they use proxy advisory services. Column (1) reports the percentage of respondents who consulted on each topic. Column (2) presents the results of pairwise t-tests for the null hypothesis that the percentage of respondents consulting on a given topic is equal to the percentage for each of the other topics. Only differences significant at the 5% and 1% levels are reported.

Panel A: Consultation Response Distribution

Response	Frequency (1)	Percentage (2)
Yes	54	55.10
No	44	44.90
Total	98	100.00

Panel B: Topics of Consultation

Topics of Consultation	Percentage (1)	Significant Differences in Mean Response versus Rows (2)
Governance		
(1) Votes on directors	70.37	4, 5, 6, 7, 8, 9
(2) Executive compensation	68.52	4, 5, 6, 7, 8, 9
(3) Shareholder rights	55.56	4, 5, 6, 7, 8, 9
Operations		
(4) Public disclosures	27.78	1, 2, 3, 5, 6, 8, 9
(5) Corporate strategy and operations	7.41	1, 2, 3, 4, 6, 7
(6) Corporate financial performance	0.00	1, 2, 3, 4, 5, 7, 8
Governance & Operations		
(7) Environmental and/or social strategies	25.93	1, 2, 3, 5, 6, 9
(8) Risk management and/or oversight	12.96	1, 2, 3, 4, 6
Other		
(9) Other	5.56	1, 2, 3, 4, 7
N = 54		

Table 10: T-Tests for Triggers by Active versus Index Investors

Respondents were asked to indicate the top three triggers that would prompt engagement by active and index investors. Column (1) shows the percentage of respondents reporting each trigger for active investors. Column (2) shows the corresponding percentages for index investors. Column (3) reports the results of t-tests for the null hypothesis that the proportion of respondents selecting each trigger is equal between active and index investors. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Active (%) (1)	Index (%) (2)	T-Test Result (3)
Governance			
Board composition/election of directors	19.05	66.10	-6.79*** (0.000)
Executive compensation	17.14	42.37	-3.64*** (0.000)
Shareholder proposal(s)	3.81	16.95	-2.95*** (0.004)
Activist involvement and/or proxy contest	2.86	6.78	-1.19 (0.236)
Threat of exit and/or exit by another major shareholder	1.90	0.00	1.42 (0.158)
Operations			
Corporate strategy and operations	88.57	35.59	8.43*** (0.000)
Poor financial performance	47.62	13.56	4.63*** (0.000)
Capital structure-related issues	28.57	3.39	4.08*** (0.000)
Merger or acquisition	28.57	16.95	1.67* (0.097)
Unresponsive management	3.81	3.39	0.14 (0.892)
Earnings restatement	1.90	0.00	1.42 (0.158)
Governance & Operations			
E&S Strategies	17.14	59.32	-6.11*** (0.000)
Risk management and/or oversight	17.14	25.42	-1.27 (0.207)
Other			
Other	21.90	10.17	1.90* (0.059)
N	105	59	

Table 11: Engagement Topics

Respondents were asked to indicate which type of investors engaged with them on each of the topics listed below. Column (1) reports the percentage of respondents who indicated engagement by active investors only. Column (2) reports the percentage who indicated engagement by index investors only. Column (3) reports the percentage who indicated engagement by both active and index investors. Column (4) reports the percentage who indicated no engagement on the given topic.

	Active Only (%)	Index Only (%)	Both (%)	None (%)
	(1)	(2)	(3)	(4)
Governance				
Board composition/membership	26.67	9.17	30.00	34.17
Executive compensation	20.00	3.33	30.83	45.83
Votes against directors/management	17.50	9.17	26.67	46.67
Shareholder rights	12.50	5.00	20.83	61.67
Operations				
Corporate strategy and operations	55.83	0.00	30.00	14.17
Corporate financial performance	55.83	1.67	25.83	16.67
Governance & Operations				
Risk management and/or oversight	20.83	6.67	23.33	49.17
E&S Strategies	20.00	13.33	31.67	35.00
N = 120				

Table 12: Environmental and Social (E&S) Engagement

In Panel A, respondents were asked how frequently active and index investors engage regarding environmental and social (E&S) reporting. Respondents were asked to indicate which ES topics active and/or index investors engaged with. Column (1) reports the percentages of respondents for each choice for active investors. Column (2) reports the percentages for index investors. Column (3) reports the results of t-tests for the null hypothesis that the proportions are equal across investor types for each choice. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Frequency of E&S Reporting Engagement

Frequency	Active (%)	Index (%)	t-stat
Annually or more	25.96	35.79	-1.50 (0.134)
Less than annually	26.92	14.74	2.12** (0.035)
No conversations	47.12	49.47	-0.33 (0.741)
N	104	95	

Panel B: Engagement Topics

Engagement Topic	Active (%)	Index (%)	t-stat
Climate-related risks	51.28	32.05	3.71*** (0.000)
Diversity and inclusion	33.33	26.92	1.40 (0.167)
Human capital management	30.77	16.67	3.23*** (0.002)
Human rights	6.41	6.41	0.00 (1.000)
Political spending and/or lobbying	5.13	6.41	-0.44 (0.658)
Other	8.97	6.41	0.81 (0.418)
N = 78			

Table 13: Climate Change Engagement Outcomes

Respondents were asked to indicate whether specific outcomes occurred as a result of engagement on climate change by active or index investors. Columns (1) and (3) report the number of respondents, while columns (2) and (4) report the corresponding percentages, attributing each outcome to active and index investors respectively. Column (5) presents the results of a t-test for the null hypothesis that the percentages for active and index investors are equal for each outcome. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

Outcome	Active (N) (1)	Active (%) (2)	Index (N) (3)	Index (%) (4)	t-stat (5)
Disclose activities associated with climate-related risks	18	42.86	13	30.95	1.70* (0.096)
Disclose GHG (carbon) emissions	15	35.71	10	23.81	1.95* (0.058)
No change	13	30.95	8	19.05	1.53 (0.133)
Increase knowledge about climate-related risks on the board	9	21.43	9	21.43	0.00 (1.000)
Allocate climate-related risk responsibilities within management	8	19.05	5	11.90	1.14 (0.262)
Change policies pertaining to climate-related risks	6	14.29	1	2.38	1.95* (0.058)
Change business activities due to climate-related risks	4	9.52	0	0.00	2.08** (0.044)
Other	1	2.38	1	2.38	— (—)
N = 42					

Table 14: Diversity Engagement Outcomes

Respondents were asked to indicate whether specific outcomes occurred as a result of engagement on diversity by active or index investors. Columns (1) and (3) report the number of respondents, while columns (2) and (4) report the corresponding percentages, attributing each outcome to active and index investors respectively. Column (5) presents the results of a t-test for the null hypothesis that the percentages for active and index investors are equal for each outcome. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

Outcome	Active (N) (1)	Active (%) (2)	Index (N) (3)	Index (%) (4)	t-stat (5)
Enhance disclosure on diversity	12	40.00	11	36.67	0.44 (0.662)
No change	9	30.00	6	20.00	1.80* (0.083)
Increase in diversity on board	7	23.33	6	20.00	0.37 (0.712)
Increase in diversity within broader work force	7	23.33	5	16.67	0.81 (0.423)
Increase in diversity within management	5	16.67	2	6.67	1.36 (0.184)
Change diversity policies	1	3.33	3	10.00	-1.44 (0.161)
Other	2	6.67	1	3.33	1.00 (0.326)
N = 30					

Table 15: 5% or More Ownership by Index Investors

This table presents the number of U.S. public companies in which each of the Big Three asset managers holds at least 5% of shares outstanding. Ownership data are from the SEC 13F Holdings database available through WRDS. For each firm, ownership is measured at year-end using December 13F filings. A position of 5 percent or more represents a reporting threshold under SEC Schedule 13D/13G, which requires institutional investors to disclose holdings of a company's outstanding shares.

Year	BlackRock	Vanguard	State Street
2019	2,084	1,813	190
2020	2,145	1,874	180
2021	2,131	1,908	243
2022	2,077	1,968	282
2023	2,177	2,035	248

Online Appendix

Part I: Survey

Preamble

This survey will drive original research from the (redacted to maintain anonymity) about the impact of specific engagement by active and index investors. Your responses are greatly appreciated, but not required. Your decision whether to respond and your responses will not affect your standing with your company. Any response you provide will be anonymized and not attributable to you or to your company in our published research. We will store your anonymized data for this study only. We will not use the data in any other future research.

In order for us to get the most accurate measures of your opinions, it is important that you thoughtfully provide the best answers to each question in this survey and ask that you commit to doing so. This survey should take no more than 9 minutes of your time, and at the end, you can optionally have a report of your answers sent to you, if desired.

Principal Investigator

Redacted to maintain anonymity

Office of the Institutional Review Board

Redacted to maintain anonymity

Definitions

For purposes of this survey, we use the following definitions:

Engagement: An interaction between company representatives (e.g., members of management or board) and shareholders with the intent of exchanging perspectives or influencing the company.

Private Engagement: An engagement that is not viewable by parties other than those participating in the engagement.

Index investor: BlackRock, Vanguard, State Street.

Active Investor: Any shareholder that is not an index investor (e.g., T. Rowe Price, Fidelity), which also includes hedge funds such as Starboard, Elliott etc.

Calendar Year: The time period between January 1 through December 31.

Survey Questions

Q. Please indicate what types of investors your firm has engaged with in the past two calendar years (2021 and 2022).

- ☐ Active only
- ☐ Index only
- ☐ Both active and index
- ☐ Did not engage in the past two calendar years (2021 and 2022)

Q. Please indicate the quarter when your annual general meeting (AGM) usually occurs:

- ☐ Q1 (January–March)
- ☐ Q2 (April–June)
- ☐ Q3 (July–September)
- ☐ Q4 (October–December)

Q. Which of the following topics did active and/or index investors engage on with your company in the past two calendar years (2021 and 2022)? (Please check all that apply)

Topic	**Active Only**	**Index Only**	**Both**	**Did Not Engage**
Board composition/membership	☐	☐	☐	☐
Votes against directors/management	☐	☐	☐	☐
Corporate strategy and operations	☐	☐	☐	☐
Risk management and/or oversight	☐	☐	☐	☐
Executive compensation	☐	☐	☐	☐
Shareholder rights (e.g., proxy access, right to call special meeting, vote standards)	☐	☐	☐	☐
Corporate financial performance	☐	☐	☐	☐
Environmental and/or social (E&S) strategy(ies)	☐	☐	☐	☐

Q4. Are there any other topics that active and/or index investors engaged on with your company in the past two calendar years (2021 and 2022), not listed above? Please note this question is optional.

Survey Questions for Active Investors

Q. Which of the following do you view as the top three reasons an active investor seeks out an engagement with your company:

☐ Board composition/election of directors

☐ Corporate strategy and operations

☐ Risk management and/or oversight

☐ Executive compensation

☐ Environmental and/or social (E&S) strategy(ies)

☐ Merger or acquisition

☐ Shareholder proposal(s)

☐ Perception that management is unresponsive to shareholder feedback

☐ Threat of exit and/or exit (i.e. complete or substantial reduction in holding) by another major shareholder

☐ Poor financial performance (absolute and/or relative to peers)

☐ Earnings restatement

☐ Capital structure-related issues

☐ Activist involvement and/or proxy contest

☐ Other: _______________

Q. Which of the following corporate events or policies do you view as the top three reasons an active investor seeks out an engagement with one of your peer companies?

☐ Board composition/election of directors

☐ Corporate strategy and operations

☐ Risk management and/or oversight

☐ Executive compensation

☐ Environmental and/or social (E&S) strategy(ies)

☐ Merger or acquisition

☐ Shareholder proposal(s)

☐ Perception that management is unresponsive to shareholder feedback

☐ Threat of exit and/or exit (i.e. complete or substantial reduction in holding) by another major shareholder

☐ Poor financial performance (absolute and/or relative to peers)

☐ Earnings restatement

☐ Capital structure-related issues

☐ Activist involvement and/or proxy contest

☐ Other: ______________

Q. Who from your company participates in engagements with active investors? (check all that apply)

☐ Members of management

☐ Members of the Board

☐ Corporate governance consultants (e.g., proxy solicitor, compensation consultant, sustainability consultant)

☐ Other: ______________

Q. In a typical engagement with one of your company's largest three active investors based on the size of their shareholdings in your company, how many staff members from the investor's firm typically participate?

☐ 1

☐ 2

☐ 3

☐ 4

☐ 5 or more

Q. Among those staff members, how many of them are stewardship/governance staff?

☐ 0

☐ 1

☐ 2

☐ 3

☐ 4

☐ 5 or more

Q. How long does a typical engagement last with one of your largest three active investors based on the size of their shareholdings in your company?

☐ <30 minutes

☐ 30–60 minutes

☐ 60+ minutes

Q. In the 2021 and 2022 calendar years, with what frequency did your company meet or communicate with your company's largest three active investors based on the size of their shareholdings in your company?

☐ No conversations

☐ Annually

☐ Quarterly

☐ More than quarterly

Q. What is the typical number of engagements you have had on average with each of your largest three active investors based on the size of their shareholdings in your company each calendar year?

☐ 1–5

☐ 6–10

☐ 11–15

☐ 16+

Q. In the 2021 calendar year, approximately what percentage of your engagements with active investors occurred through private channels (i.e., the interactions were not observable by outside participants)?

__________% Engagements

Q. In the 2022 calendar year, approximately what percentage of your engagements with active investors occurred through private channels (i.e., the interactions were not observable by outside participants)?

__________% Engagements

Q. What are your main topics of environmental and social engagement with active investors?

☐ Diversity and inclusion

☐ Climate-related risks

☐ Political spending and/or lobbying

☐ Human capital management

☐ Human rights

☐ Other: _______________

Q. Based on your engagement with active investors on diversity, what changes, if any, resulted?

☐ Company action to increase diversity on the board

☐ Company action to increase diversity within management

☐ Company action to increase diversity within broader workforce

☐ Company action to change diversity policies

☐ Company action to enhance public reporting/disclosure on diversity

☐ Other: _______________

☐ No company changes were made as a result of engagement

Q. Based on your engagement with active investors on climate-related risks, what changes, if any, resulted?

☐ Increase knowledge about climate-related risks on the board

☐ Allocate climate-related risk responsibilities within management team

☐ Change policies pertaining to climate-related risks

☐ Change business activities due to climate-related risks

☐ Disclose activities associated with climate-related risks

☐ Disclose GHG (carbon) emissions

☐ Other: _______________

☐ No company changes were made as a result of engagement

Survey Questions for Index Investors

Q. Which of the following do you view as the top three reasons an index investor seeks out an engagement with your company:

☐ Board composition/election of directors

☐ Corporate strategy and operations

☐ Risk management and/or oversight

☐ Executive compensation

☐ Environmental and/or social (E&S) strategy(ies)

☐ Merger or acquisition

☐ Shareholder proposal(s)

☐ Perception that management is unresponsive to shareholder feedback

☐ Threat of exit and/or exit (i.e. complete or substantial reduction in holding) by another major shareholder

☐ Poor financial performance (absolute and/or relative to peers)

☐ Earnings restatement

☐ Capital structure-related issues

☐ Activist involvement and/or proxy contest

☐ Other: _______________

Q. Which of the following corporate events or policies do you view as the top three reasons an index investor seeks out an engagement with one of your peer companies?

☐ Board composition/election of directors

☐ Corporate strategy and operations

☐ Risk management and/or oversight

☐ Executive compensation

☐ Environmental and/or social (E&S) strategy(ies)

☐ Merger or acquisition

☐ Shareholder proposal(s)

☐ Perception that management is unresponsive to shareholder feedback

☐ Threat of exit and/or exit (i.e. complete or substantial reduction in holding) by another major shareholder

☐ Poor financial performance (absolute and/or relative to peers)

☐ Earnings restatement

☐ Capital structure-related issues

☐ Activist involvement and/or proxy contest

☐ Other: _______________

Q. Who from your company participates in engagements with index investors? (check all that apply)

☐ Members of management

☐ Members of the Board

☐ Corporate governance consultants (e.g., proxy solicitor, compensation consultant, sustainability consultant)

☐ Other: _______________

Q. In a typical engagement with one of the index investors, how many staff members from the investor's firm typically participate?

☐ 1

☐ 2

☐ 3

☐ 4

☐ 5 or more

Q. Among those staff members, how many of them are stewardship/governance staff?

☐ 0

☐ 1

☐ 2

☐ 3

☐ 4

☐ 5 or more

Q. How long does a typical engagement last with with one of the index investors in your company?

☐ <30 minutes

☐ 30–60 minutes

☐ 60+ minutes

Q. In the 2021 and 2022 calendar years, with what frequency did your company meet or communicate with with one of the index investors?

☐ No conversations

☐ Annually

☐ Quarterly

☐ More than quarterly

Q. What is the typical number of engagements you have had on average with one of the index investors each calendar year?

☐ 1–5

☐ 6–10

☐ 11–15

☐ 16+

Q. In the 2021 calendar year, approximately what percentage of your engagements with index investors occurred through private channels (i.e., the interactions were not observable by outside participants)?

__________% Engagements

Q. In the 2022 calendar year, approximately what percentage of your engagements with index investors occurred through private channels (i.e., the interactions were not observable by outside participants)?

__________% Engagements

Q. What are your main topics of environmental and social engagement with index investors?

☐ Diversity and inclusion

☐ Climate-related risks

☐ Political spending and/or lobbying

☐ Human capital management

☐ Human rights

☐ Other: _______________

Q. Based on your engagement with index investors on diversity, what changes, if any, resulted?

☐ Company action to increase diversity on the board

☐ Company action to increase diversity within management

☐ Company action to increase diversity within broader workforce

☐ Company action to change diversity policies

☐ Company action to enhance public reporting/disclosure on diversity

☐ Other: _______________

☐ No company changes were made as a result of engagement

Q. Based on your engagement with index investors on climate-related risks, what changes, if any, resulted?

☐ Increase knowledge about climate-related risks on the board

☐ Allocate climate-related risk responsibilities within management team

☐ Change policies pertaining to climate-related risks

☐ Change business activities due to climate-related risks

☐ Disclose activities associated with climate-related risks

☐ Disclose GHG (carbon) emissions

☐ Other: _______________

☐ No company changes were made as a result of engagement

ESG/Sustainability Reporting

Q. Do you disclose sustainability or ESG information such as publication of corporate social responsibility (CSR) reports, sustainability reports, integrated reports, or disclosures required by third parties, foreign jurisdictions, or listing exchanges, etc.?

☐ Yes

☐ No

Q. With what frequency does your company publish its sustainability/ESG reporting?

☐ Less frequently than annually/ad hoc

☐ Approximately annually

☐ More than once a year

Q. How frequently did the index and/or your company's largest three active investors engage with your company on the contents of your ESG/sustainability reports/disclosure in the past two calendar years (2021 and 2022)? [Select one option per column]

Frequency	Index	Active
No conversations	☐	☐
Less than annually/ad hoc	☐	☐
Approximately annually	☐	☐
More than once a year	☐	☐

Check-the-Box Governance

Q. One observation of shareholder engagement is that it follows a standard checklist of governance issues that can be evaluated and satisfied in a "check-the-box"-like fashion instead of deciding on the individual governance needs of each company by evaluating firm-specific information.

Q. Have you observed any of your company's investors participate in "check-the-box" governance activities?

☐ Yes

☐ No

Q. How prevalent is check-the-box governance among the company's investors?

Investor Type	Not observed	Low frequency	Common	High frequency
Active	☐	☐	☐	☐
Index	☐	☐	☐	☐

Q. Do you observe that investors employ a "check-the-box" governance approach in peer firms?

☐ Yes

☐ No

Q. How prevalent is check-the-box governance among the investors in peer firms?

Investor Type	Not observed	Low frequency	Common	High frequency
Active	☐	☐	☐	☐
Index	☐	☐	☐	☐

Proxy Advisory Services

Q. Does your company use consulting services of proxy advisory firms (e.g., Institutional Shareholder Services or Glass Lewis)?

☐ Yes

☐ No

Q. What topics does the proxy advisory firm consult with your company on (check all that apply)?

☐ Votes on directors

☐ Corporate strategy and operations

☐ Risk management and/or oversight

☐ Executive compensation

☐ Shareholder rights (e.g., proxy access, right to call a special meeting, voting standards, etc.)

☐ Environmental and/or social strategy(ies)

☐ Corporate financial performance

☐ Public disclosures

☐ Other: ________________

Q. What prompted the decision to initiate proxy advisory services (e.g., Institutional Shareholder Services or Glass Lewis) (check all that apply)?

☐ In response to investor pressure

☐ In response to perceived market trends

☐ Other: ________________

☐ Uncertain

Demographics

What is your current role or position?

____

How much time have you spent in this role at your current organization?

○ Less than 1 year

○ 1–2 years

○ 2–4 years

○ More than 4 years

Follow-up

Do you want a report of your responses sent to you?

○ Yes

○ No

Would you be okay with a follow-up survey next year?

○ Yes

○ No

Part II: Survey Design

We developed an initial survey inquiring about the differences between active and index investor engagement with their portfolio companies. After designing the initial survey, we solicited feedback from practitioners including corporate governance specialists, company executives, and stewardship personnel. We also obtained feedback from a survey research expert on the design, wording, and execution of the survey. Following this feedback, we revised the survey and launched it on October 24, 2023.

After the initial rollout, we streamlined the survey by removing dynamically generated loop questions that created separate sections for each engagement topic selected by respondents. These conditional questions about specific engagement parties, modes, and perceived effectiveness for each individual topic received low response rates. We launched the revised version on July 26, 2024 until December 6, 2024. Throughout this period, we sent monthly reminder emails to encourage survey completion.

The analysis in this paper is based on responses to the final version of the survey, which is provided in Part 1 of the Appendix.

The survey was designed to test our central hypothesis that active and index investors divide the labor of governance according to their comparative advantages. Specifically, we hypothesize that index investors focus on corporate governance topics due to their wide experience and long-term horizon, while active investors focus on corporate strategy and performance issues due to their deep research capabilities and discretionary investment horizon.

The survey covers multiple dimensions of investor engagement: the engagement landscape (investor types and AGM timing), check-the-box governance practices, investor and company resources, engagement triggers, engagement topics, environmental and social (E&S) reporting practices, and outcomes of E&S engagement. To mitigate self-reporting bias (Jo, 1997), we included parallel questions about peer firms in the check-the-box governance and engagement triggers sections. The survey concludes with company demographic information.

We used Qualtrics as our survey platform, implementing a 9-minute online survey distributed to company executives and investor relations personnel at US-incorporated public companies. We chose this target population because they serve as the focal point for investor communication and engagement. Our data collection targeted the entire population of US public companies, though recipients could forward the survey to colleagues with relevant knowledge. We required only that respondents be sufficiently familiar with investor relations to provide informed responses. Our universe included 3,187 public companies.

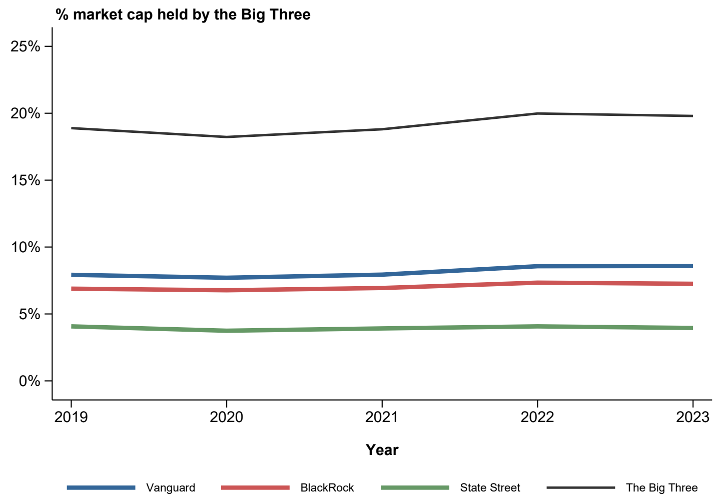
The survey employs a parallel architecture with identical question sets for active and index investor engagement to enable direct comparison. We define index investors as BlackRock, Vanguard, and State Street, while all other shareholders (including T. Rowe Price, Fidelity, and hedge funds such as Starboard and Elliott) are classified as active investors. This classification reflects the distinction between index-tracking strategies and active investment strategies.

We implemented several quality control measures to ensure data reliability. First, we included progress indicators showing completion percentage and section breaks to manage respondent fatigue. Second, we provided clear definitions of key terms (engagement, private public engagement, investor types) at the beginning of the survey and reiterated them where relevant. Third, we made most questions optional to reduce forced responses.

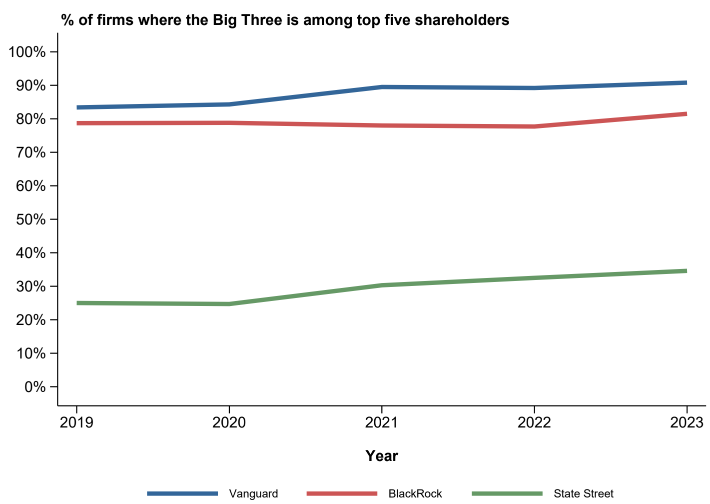
To encourage participation, we provided respondents with the option to receive a summary report of anonymized survey findings. We also emphasized the academic nature of the research and assured participants of complete confidentiality and anonymization in any published results.

Part III: Figures and Tables

A.Figures



(a) Percentage of market cap held by the Big Three



(b) Percentage of public firms where the Big Three is among top five shareholders

Figure OA.1: Ownership by the Big Three

B.Tables

Table OA.1: Mutual Fund Ownership by the Big Three

This table presents the average mutual fund ownership by the Big Three for respondent and non-respondent firms. Ownership data are calculated using CRSP's Survivorship-Bias-Free Mutual Fund database. For each firm, ownership is measured at year-end using the most recent Q4 mutual fund filings and averaged over 2019-2023. Index funds are identified using CRSP's index fund flag and fund name patterns, while active funds comprise all other equity mutual funds. To address potential data quality issues, mutual fund family ownership is capped at 50% of shares outstanding, with any excess proportionally scaled down across the family's funds while preserving the active/index composition. Results are robust to excluding the 50% cap and to identifying index funds using only CRSP's index fund flag without name pattern matching.

	Respondent (N = 140)		Non-Respondent (N = 3074)	
	Index (%) (1)	Active (%) (2)	Index (%) (3)	Active (%) (4)
BlackRock	5.41	0.98	4.38	0.87
Vanguard	6.78	0.63	5.93	0.54
State Street	1.19	0.55	0.98	0.48

Table OA.2: Filings by the Big Three

This table presents the number of unique firms with Schedule 13D and 13G filings by the Big Three for respondent and non-respondent firms. Filing data are obtained from WRDS SEC Analytics Suite. Schedule 13D filings indicate activist intent with beneficial ownership exceeding 5%, while Schedule 13G filings represent passive ownership disclosures. Filing counts include both initial filings and amendments (13D/A and 13G/A). Each panel presents data for a single year. Within each panel, the "13G" column reports the count of unique firms with at least one 13G filing, the "13D" column reports the count of unique firms with at least one 13D filing, and the "None" column reports the count of unique firms with no filings from the respective asset manager during that year.

	Respondent			Non-Respondent		
	13G (1)	13D (2)	None (3)	13G (4)	13D (5)	None (6)
2019						
BlackRock	90	0	50	1630	0	1444
Vanguard	79	0	61	1463	0	1611
State Street	9	0	131	175	0	2899
2020						
BlackRock	95	1	44	1745	0	1329
Vanguard	87	0	53	1574	0	1500
State Street	9	0	131	197	0	2877
2021						
BlackRock	103	0	37	1890	1	1184
Vanguard	92	0	48	1708	0	1366
State Street	9	0	131	226	0	2848
2022						
BlackRock	101	0	39	1936	1	1138
Vanguard	94	0	46	1794	0	1280
State Street	13	0	127	259	0	2815
2023						
BlackRock	100	0	40	1852	0	1222
Vanguard	94	0	46	1801	0	1273
State Street	24	0	116	315	0	2759
2024						
BlackRock	115	0	25	1977	2	1096
Vanguard	110	0	30	1883	0	1191
State Street	27	0	113	348	0	2726

Table OA.3: Variable Definitions

Accounting Variables

Asset size: The natural logarithm of the book value of total assets.

Tobin's Q: The ratio of (total assets plus market value of equity minus book equity) to total assets.

Return on Assets: The ratio of operating income before depreciation to lagged book value of total assets.

Cash flow: The ratio of net income plus depreciation to lagged total assets.

CAPEX: Capital expenditures scaled by lagged total assets.

Stock Market Variables

Annualized stock return: The continuously compounded stock return over the 12-month period ending at fiscal year end.

Annualized volatility: Volatility of the stock return over the 12-month period ending at fiscal year end.

Market value: The number of shares outstanding multiplied by the stock price at fiscal year end.

Governance Variables

Board size: The number of directors on the board.

% of Non-Executive Directors: The percentage of board members who are non-executive directors.

Chairman/CEO: An indicator variable equal to one if the CEO also serves as chairman of the board.

Ownership Variables

BlackRock ownership: Total ownership by BlackRock as a fraction of total shares outstanding.

Vanguard ownership: Total ownership by Vanguard as a fraction of total shares outstanding.

State Street ownership: Total ownership by State Street as a fraction of total shares outstanding.

Active ownership: The percentage of total shares outstanding held by institutional investors excluding the three major index investors (BlackRock, Vanguard, and State Street).

Index ownership: Total ownership by BlackRock, Vanguard, and State Street as a fraction of total shares outstanding.

Institutional ownership: Total institutional ownership as a fraction of total shares outstanding.

Table OA.4: AGM Timing

Respondents indicated the quarter in which their AGMs usually occur. Column (1) reports the frequency and Column (2) reports the percentage.

Quarter	Frequency (1)	Percentage (%) (2)
Q1 (January -March)	11	7.97
Q2 (April-June)	111	80.43
Q3 (July-September)	8	5.80
Q4 (October-December)	8	5.80
Total	138	100.00

Table OA.5: Index Engagement

This table reports estimates of the logistic regression: $\Pr(\textit{IndexEngagement} = 1 \mid \mathbf{X}) = \Lambda(\mathbf{X}\boldsymbol{\beta})$, where the dependent variable $IndexEngagement$ is a dummy variable equal to one if the firm reported engagement with index investors, Λ is the logistic cumulative distribution function, $\mathbf{X}$ is a vector of covariates. Column (1) reports logit coefficients, Column (2) reports marginal effects at means (MEM), and Column (3) reports z-statistics. MEM represents the change in the probability of index engagement evaluated at the mean values of all covariates. "Avg Big3 Weight" is the average portfolio weight that Big3 index investors hold in a firm. "% Active Ownership" is the percentage of shares held by active investors. Both variables are standardized using the full sample of U.S. public firms. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Portfolio Weights and Active Ownership			
	Coefficient	MEM	z-stat
Avg Big3 Weight	10.304**	0.4278	2.47
% Active Ownership	-0.305	-0.0126	-1.41
Constant	1.964		
Observations	135		
Pseudo R^2	0.089		

Table OA.6: Engagement Parties

Respondents were asked to indicate which party at their firm was typically approached by active investors during engagements. Column (1) shows the percentage of respondents indicating each contact type. Column (2) presents the results of pairwise t-tests for the null hypothesis that the proportion for a given contact type equals the proportion for each of the other contact types. Only differences significant at the 5% and 1% levels are reported.

Panel A: Active Investors

Engagement Contacts	Percentage (1)	Significant Differences in Mean Response versus Rows (2)
(1) Management	98.08	2, 3, 4
(2) Board	29.81	1, 3, 4
(3) Consultant	7.69	1, 2
(4) Other	7.69	1, 2
N = 104		

Panel B: Index Investors

Engagement Contacts	Percentage (1)	Significant Differences in Mean Response versus Rows (2)
(1) Management	96.61	2, 3, 4
(2) Board	45.76	1, 3, 4
(3) Consultant	8.47	1, 2
(4) Other	8.47	1, 2
N = 59		

Table OA.7: T-test on Firms that Use Proxy Advisors or Not

This table reports the results of t-tests of characteristics of firms that use proxy advisors and others. Accounting and stock return variables for each firm are averaged over fiscal years 2019-2024, while ownership variables for each firm are averaged over calendar years 2019-2023 due to data availability. *, **, and *** represent significance at the 10%, 5%, and 1% levels, respectively.

	Advisor (1)	No Advisor (2)	t-stat (3)	N(Advisor) (4)	N(No Advisor) (5)
Accounting Variables					
Tobin's Q (End of Year)	2.45	2.84	-0.89 (0.374)	54	44
Return on Assets	0.04	0.08	-0.35 (0.729)	54	44
Stock Returns					
Annualized Stock Return	0.16	0.28	-1.51 (0.137)	54	44
Annualized Volatility	0.50	0.54	-0.67 (0.507)	54	44
MV(in millions)	44697.13	11382.44	0.86 (0.391)	54	44
Ownership Variables					
BlackRock %	9.18	7.03	2.24** (0.027)	54	44
Vanguard %	8.19	6.23	3.10*** (0.003)	54	44
State Street %	3.12	2.11	3.16*** (0.002)	54	44
Active %	56.18	50.62	1.23 (0.222)	54	44
Index %	20.48	15.38	2.93*** (0.004)	54	44

Table OA.8: T-Tests for Triggers by Active versus Index Investors Peers

Respondents were asked to indicate the top three triggers that would prompt engagement by active and index investors at peer firms. Column (1) shows the percentage of respondents reporting each trigger for active investors. Column (2) shows the corresponding percentages for index investors. Column (3) reports the results of t-tests for the null hypothesis that the proportion of respondents selecting each trigger is equal between active and index investors at peer firms. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Active (%) (1)	Index (%) (2)	T-Test Result (3)
Governance			
Board composition/election of directors	10.78	52.73	-6.44*** (0.000)
Executive compensation	10.78	36.36	-4.01*** (0.000)
Shareholder proposal(s)	7.84	18.18	-1.95* (0.053)
Activist involvement and/or proxy contest	5.88	7.27	-0.34 (0.736)
Threat of exit and/or exit by another major shareholder	0.98	0.00	1.00 (0.320)
Operations			
Corporate strategy and operations	86.27	40.00	6.85*** (0.000)
Poor financial performance	50.98	16.36	4.48*** (0.000)
Merger or acquisition	44.12	18.18	3.34*** (0.001)
Capital structure-related issues	24.51	5.45	3.04*** (0.003)
Unresponsive management	11.76	5.45	1.28 (0.202)
Earnings restatement	0.98	0.00	1.00 (0.320)
Governance & Operations			
Risk management and/or oversight	16.67	34.55	-2.58** (0.011)
E&S Strategies	14.71	58.18	-6.32*** (0.000)
Other			
Other	13.73	7.27	1.21 (0.229)
N	102	55	

Table OA.9: T-Tests for Triggers by Active versus Active Peers

Respondents were asked to indicate the top three triggers that would prompt engagement by active investors at their own firm and at peer firms. Column (1) shows the percentage of respondents reporting each trigger for active investors at their own firm. Column (2) shows the corresponding percentages for active investors at peer firms. Column (3) reports the results of t-tests for the null hypothesis that the proportion of respondents selecting each trigger is equal between their own firm and peer firms. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Active (%) (1)	Peer Active (%) (2)	T-Test Result (3)
Governance			
Board composition/election of directors	19.05	10.78	1.67* (0.097)
Executive compensation	17.14	10.78	1.32 (0.189)
Shareholder proposal(s)	3.81	7.84	-1.24 (0.216)
Activist involvement and/or proxy contest	2.86	5.88	-1.06 (0.288)
Threat of exit and/or exit by another major shareholder	1.90	0.98	0.55 (0.580)
Operations			
Corporate strategy and operations	88.57	86.27	0.50 (0.620)
Poor financial performance	47.62	50.98	-0.48 (0.631)
Capital structure-related issues	28.57	24.51	0.66 (0.511)
Merger or acquisition	28.57	44.12	-2.35** (0.020)
Unresponsive management	3.81	11.76	-2.16** (0.032)
Earnings restatement	1.90	0.98	0.55 (0.580)
Governance & Operations			
E&S Strategies	17.14	14.71	0.48 (0.634)
Risk management and/or oversight	17.14	16.67	0.09 (0.928)
Other			
Other	21.90	13.73	1.54 (0.126)
N	105	102	

Table OA.10: T-Tests for Triggers by Index versus Index Peers

Respondents were asked to indicate the top three triggers that would prompt engagement by index investors at their own firm and at peer firms. Column (1) shows the percentage of respondents reporting each trigger for index investors at their own firm. Column (2) shows the corresponding percentages for index investors at peer firms. Column (3) reports the results of t-tests for the null hypothesis that the proportion of respondents selecting each trigger is equal between their own firm and peer firms. t-statistics are reported with p-values in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	Index (%) (1)	Peer Index (%) (2)	T-Test Result (3)
Governance			
Board composition/election of directors	66.10	52.73	1.46 (0.148)
Executive compensation	42.37	36.36	0.65 (0.516)
Shareholder proposal(s)	16.95	18.18	-0.17 (0.864)
Activist involvement and/or proxy contest	6.78	7.27	-0.10 (0.919)
Threat of exit and/or exit by another major shareholder	0.00	0.00	— (—)
Operations			
Corporate strategy and operations	35.59	40.00	-0.48 (0.631)
Merger or acquisition	16.95	18.18	-0.17 (0.864)
Poor financial performance	13.56	16.36	-0.42 (0.678)
Capital structure-related issues	3.39	5.45	-0.53 (0.594)
Unresponsive management	3.39	5.45	-0.53 (0.594)
Earnings restatement	0.00	0.00	— (—)
Governance & Operations			
E&S Strategies	59.32	58.18	0.12 (0.903)
Risk management and/or oversight	25.42	34.55	-1.06 (0.292)
Other			
Other	10.17	7.27	0.54 (0.589)
N	59	55	

Table OA.11: Pairwise T-Tests Results of ES Topics Engagement

In Panel A (B), respondents were asked to indicate which ES topics active (index) investors engaged with. In both panels, Column (1) reports the percentage of respondents who indicated engagement on a given ES topic. Column (2) presents the results of pairwise t-tests for the null hypothesis that the percentage of respondents consulting on a given topic is equal to the percentage for each of the other topics. Only differences significant at the 5% and 1% levels are reported.

Panel A: Active Investors

ES Engagement Topics	Percentage (1)	Significant Differences in Mean Response versus Rows (2)
(1) Climate risks	51.28	2, 3, 4, 5, 6
(2) Diversity and inclusion	33.33	1, 4, 5, 6
(3) Human capital	30.77	1, 4, 5, 6
(4) Human rights	6.41	1, 2, 3
(5) Political spending	5.13	1, 2, 3
(6) Other	8.97	1, 2, 3
N = 78		

Panel B: Index Investors

ES Engagement Topics	Percentage (1)	Significant Differences in Mean Response versus Rows (2)
(1) Climate risks	32.05	3, 4, 5, 6
(2) Diversity and inclusion	26.92	3, 4, 5, 6
(3) Human capital	16.67	2, 4, 5, 6, 1
(4) Political spending	6.41	3, 1, 2
(5) Human rights	6.41	3, 1, 2
(6) Other	6.41	3, 1, 2
N = 78		

Part IV: Reporting Significant Holdings

This part outlines the legal framework that governs institutional investors' reporting obligations under Sections 13(d) and 13(g) of the Securities Exchange Act of 1934.[31]

A. SEC 2025 Guidance on "Control" 13D Reporting

Index investors have long declared their 5% ownership stakes in public companies using the short-form 13G exception to the 13D filing. The exception hinged on their certification that "the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect, other than activities solely in connection with a nomination under § 240.14a-11."[32]

In February 2025, the SEC's Division of Corporation Finance Staff issued new Compliance and Disclosure Interpretations that disrupted the standard index exception.[33] New guidance redefined "control" to include routine forms of shareholder engagement. Engaging on topics like director elections, executive pay, and ESG issues may now push indexers into 13D reporting—especially if an investor exerts pressure to implement specific measures or changes to a policy. The SEC gave two examples of shareholder pressure that could constitute control: conditioning support for directors on (1) specific actions like removing a poison pill or ESG reforms, or (2) policy changes aligning with the investor's voting policies. For instance, BlackRock's 2020 announcement that it voted against 5,100 directors for failures on strategy, diversity, or environmental goals could be viewed as exerting control under the SEC's new standard.

The new interpretation expands 13D-triggering control to include the following forms of direct and indirect pressure:

- "engages with the issuer's management to specifically call for the sale of the issuer or a

[31] See "Securities Exchange Act of 1934"

[32] See, for example, 13G filing by Vanguard.

[33] The Staff revised Question 103.11 and issued a new Question 103.12 under "Exchange Act Sections 13(d) and 13(g) and Regulation 13D-G Beneficial Ownership Reporting. See "Questions #103.11 and #103.12".

significant amount of the issuer's assets, the restructuring of the issuer, or the election of director nominees other than the issuer's nominees."

• recommendations that "the issuer remove its staggered board... eliminate its poison pill plan, change its executive compensation practices, or undertake specific actions on a social, environmental, or political policy and, as a means of pressuring the issuer to adopt the recommendation, explicitly or **implicitly** conditions its support of one or more of the issuer's director nominees at the next director election on the issuer's adoption of its recommendation."

• discussions with management about "its voting policy on a particular topic and how the issuer fails to meet the shareholder's expectations on such topic, and, to apply pressure on management, states or **implies** during any such discussions that it will not support one or more of the issuer's director nominees at the next director election unless management makes changes to align with the shareholder's expectations."

Prior SEC guidance stated the opposite.[34]

The transition from Schedule 13G to 13D filing status presents acute operational and legal challenges for large asset managers, as discussed more below. Early reactions describe the new guidance as underscoring the SEC's "increasing scrutiny of institutional investors' corporate governance stewardship activities, particularly in the context of environmental, social, and governance matters."[35]

B. Schedule 13D vs. 13G: Scope and Filing Burden

Schedule 13D, compared to Schedule 13G, imposes significantly more burdensome disclosure and updating requirements. A Schedule 13D must be filed within five days of crossing the 5% ownership threshold, and amended within 2 days of material changes.[36][37] Index investors file their initial Schedule 13Gs within 45 days of the quarter end in which they crossed the 5% threshold, and update the filing quarterly for material changes or annually for non-material changes.

[34] See "New Guidance on Engagement".

[35] See "Interpretive Guidance on Schedule 13G Eligibility" and "New Guidance on Passive Investor Status for 13G".

[36] See "17 C.F.R. § 240.13d-2(a) (2023)".

[37] See "17 C.F.R. § 240.13d-101, item 5(c).".

Moreover, Schedule 13D mandates extensive narrative disclosures, including all trades made 60 days prior to the initial filing or amendment and a discussion of the investor's intentions for its shares. [38] These requirements are not present under the short-form Schedule 13G regime.

We reviewed a BlackRock[39] and a Vanguard[40] 13G filing from 2023 for the same company (Cheesecake Factory). The filings were sparse, coming in under 8 pages, and replete with fill-in-the-blank, stock language such as "By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities."

The 13G filings are in stark contrast to 13D filings of activist investors in the same company. One example was 32 pages, included beneficial ownership reports across all related funds, described engagement in narrative text, and included 60-days of trading transaction history for all related funds. For example, 13D filed by Starboard Value for Darden Restaurants[41] included the following engagement description:

"Depending on various factors including, without limitation, the Issuer's financial position and investment strategy, the price levels of the Common Stock, conditions in the securities markets and general economic and industry conditions, the Reporting Persons may in the future take such actions with respect to their investment in the Issuer as they deem appropriate including, without limitation, engaging in communications with management and the board of directors of the Issuer (the "Board"), engaging in discussions with stockholders of the Issuer or other third parties about the Issuer and the Reporting Persons' investment, including potential business combinations or dispositions involving the Issuer or certain of its businesses, making recommendations or proposals to the Issuer concerning changes to the capitalization of the Issuer, ownership structure, Board structure (including Board composition), potential business combinations or dispositions involving the Issuer or certain of its businesses, or suggestions for improving the Issuer's financial and/or

[38]See "17 C.F.R. § 240.13d-101, item 4"; see also "17 C.F.R. § 240.13d-101, item 5(c).".
[39]See BlackRock's filing, "13G filing for Cheesecake Factory by BlackRock (2025)".
[40]See Vanguard's filing, "13G filing for Cheesecake Factory by Vanguard (2023)".
[41]See the filing, "13D filing by Starboard Value (2024)."

operational performance, purchasing additional shares of Common Stock, selling some or all of their shares of Common Stock, engaging in short selling of or any hedging or similar transaction with respect to the Common Stock, including swaps and other derivative instruments, or changing their intention with respect to any and all matters referred to in Item 4."

In speaking with industry professionals, we learned anecdotally that investors devote considerable resources to tracking engagements for purposes of reporting in 13D. Failure to comprehensively report engagement strategies risks running afoul of the 13D guidelines.

C. Compliance Risks for Large Institutional Investors

The transition from Schedule 13G to 13D status presents acute operational and legal challenges for large asset managers due to beneficial and group ownership concepts. 13D reporting burdens scale with the complexity and dynamism of a manager's client base. For example, a manager overseeing a large S&P 500 index fund, an activist hedge fund, and thousands of individual accounts could easily experience ownership fluctuations of more than 1% in a single issuer—on a daily basis. Each fluctuation would trigger a new amendment obligation under 13D rules, resulting in a potential need to update filings daily. We explain why below.

C1. Beneficial Ownership

Under Rule 13d-3(a), the term "beneficial owner" of a security includes any person who has either the "power to vote" or the "power to dispose" of the security.[42] This rule is interpreted to apply to investment managers because the core of a standard investment management agreement is the delegation of discretionary authority to vote and dispose of a client's securities (Morley, 2019). As a result, asset managers are considered the beneficial owners of securities held across client accounts, and as the size of the manager's client base increases, the likelihood of exceeding the 5% ownership threshold likewise increases.

Importantly, beneficial ownership also plays a central role in determining whether an investor is deemed to exercise "control" over an issuer. Regardless of how "control" is interpreted under

[42] See "17 C.F.R. § 240.13d-3(a) (2023)."

SEC rules, the analysis is conducted at the level of the beneficial owner. For investment managers, this means that the manager—as well as the entirety of its client base—is subject to scrutiny. In order to qualify for the more lenient Schedule 13G filing, neither the manager nor any of its clients may engage in conduct that constitutes "control."

C2. Group Status and Coordinated Investment Activity

Separate from the concept of beneficial ownership, Section 13(d)(3) of the Exchange Act extends the 5% threshold to holdings acquired by a "group."[43] If two or more investors agree to act together for the purpose of acquiring, holding, or disposing of securities, their holdings are aggregated for reporting purposes. In practice, if two clients have delegated portfolio discretion to the same investment manager and that manager causes both to acquire shares in the same company, the clients—and the manager—may be at serious risk of being treated as a group under the statute.

D. Legal & Regulatory Risks

The consequences are not merely administrative. Professionals in the investment management industry consistently report that the distinction between Schedule 13G and 13D is an important problem they face when considering whether to engage with a portfolio company. The technical burdens—especially the 2-day amendment window and 60-day trade disclosure requirements—are "exceedingly costly" for large managers. These burdens multiply exponentially with the number and diversity of client accounts, many of which experience constant inflows and outflows that alter position sizes in real time (Kim, 2025).

Morley (2019) reported that one practitioner noted, "[a] fall from 13G to 13D status would do major damage to the manager and its various clients." Beyond compliance costs, the risk of inadvertent violations, regulatory enforcement, and reputational harm raises the stakes of Schedule 13D classification and may deter institutional investors from any engagement that could be construed as "control." For example, Kim (2025) shows that the reputational risk is particularly salient for mutual fund families, where clients can easily substitute among competitors and past

[43] See "15 U.S.C. § 78m(d)(3)."

compliance issues have proven devastating to fund businesses.

Although Section 13(d) itself does not provide a direct private right of action for damages, courts and commentators have recognized that violations of Schedule 13D can nonetheless support private lawsuits under other statutory provisions—most notably Section 10(b)/Rule 10b-5 or Section 18(a). For example, a Second Circuit decision (*In Seagoing Uniform Corp. v. Texaco*, 705 F. Supp. 918 (S.D.N.Y. 1989)) and other cases have permitted implied claims for failure to file or false statements in Schedule 13D under the general antifraud provision of Section 10(b), so long as plaintiffs allege the required elements of reliance and material misstatement.[44] More recently, a New York district court in *Puddu v. 6D Global Technologies* held that a failure to file a Schedule 13D when disclosure is expressly required "is enough to adequately plead a material omission for purposes of Plaintiffs' 10(b) claim."[45]

Furthermore, in 2024, the SEC settled a suit against advisory firm HG Vora for failing to timely change its 13G passive filing to a 13D control-triggered disclosure. Non-compliance cost HG Vora $950,000 in the SEC fines plus the litigation and reputational costs.[46]

[44] See Insights' report, "When an Acquisition Plan or Proposal Requires a Schedule 13D Amendment."

[45] *Puddu v. 6D Glob. Techs., Inc.* ("*Puddu I*"), 742 Fed. App'x 553, 555-56 (2d Cir. 2018) (summary order); *Puddu II*, No. 14-CV-8061 (AJN), 2021 WL 1198566, at *6 (S.D.N.Y. Mar. 30, 2021).

[46] See "Press Release bu the SEC."