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Mellon Proxy Voting: An Interview with John Bailer

John Bailer, CFA | Senior Portfolio Manager

As of April 1, 2020 Mellon instated its own Proxy Voting Committee. Previously, Mellon participated alongside other member firms in BNY Mellon's Proxy Voting and Governance Committee. We sat down with Chair John Bailer to discuss these changes and Mellon's approach to proxy voting.

Why did you choose to lead the Mellon Proxy Voting Committee?

I'm a big believer that understanding, specifically the governance side of ESG, has a real impact on the ultimate alpha generation of the stocks we invest in. There are several reasons for this. First, over the course of my close to 30-year investment career, I have gained an appreciation for how compensation drives CEO's and senior management's behavior. Understanding how management is compensated is a key part of the Mellon Proxy Voting Committee and, as investors, it helps us understand their motivations.

Second, I am a strong believer in engagement. In engaging with company management, CEOs and boards of directors, we seek to change their behavior for the better. I also believe that, as investors, we increase

shareholder value by taking a long-term view. That view differs significantly from companies with a shorter-term mindset. For instance, some companies are primarily interested in the next quarter's results. They may have a positive view on company layoffs if it improves profitability and cuts costs in the short term. In my view, that type of action may help the next quarter's earnings, but it could hurt the long-term value of the company.

Finally, if you take a long-term view, all stakeholders, not just shareholders, will benefit. Proxy voting is an important way to reinforce that businesses should not focus on shareholders alone. Employees, customers, suppliers and the environment are all stakeholders. I believe that a company's value ultimately benefits if it considers and treats all stakeholders well. But the key component, the link to all of that, is that you must have a long-term view.

What changes are expected now that Mellon has its own independent Proxy Voting Committee? How were the members chosen?

We plan to further increase company engagement with portfolio managers and analysts. We fundamentally believe that engagement is an important part of the value that we offer our clients. The Committee members reflect that passion and must have investment decision-making authority over client accounts.

Bringing proxy voting in-house allows us to provide greater transparency around our voting and better demonstrate alignment with our ESG principles. Importantly, we are now able to have a larger committee. This allows for greater diversity of thought and more intensive discussions for each vote. The larger committee provides us with a deep bench and demonstrates a commitment of resources to an area we consider key. The Committee was carefully selected to represent our entire business.

Do you see it increasing company access?

Absolutely. Industry-wide, investment managers have been increasingly reliant upon proxy voting engagement for company access. The Proxy Voting Committee is a vital platform for direct discussions with management teams and board members. In addition, we aim to continue partnering with investment professionals across the firm to stay apprised of company fundamentals. Their participation is critical to broadening the conversation. As one of the largest investment managers in the US, our size allows us access to address company-specific issues that our analysts are uncovering.

What's the importance of voting on passive shares?

As one of the largest index managers in the US, we have tremendous scale from a passive standpoint. It's an important responsibility because, in my view, Index shareholders are the longest-term investors and should be focused on all stakeholders.

With both passive and active expertise, we are able to share a significant amount of insight amongst disciplines and those insights inform how we vote passive shares. Active managers who frequently meet with these companies have an intimate understanding of their business and there's a deliberate mix of expertise reflected in the Committee members. Of our 7-person Committee, two of the members are from the Index side of the business.

That collaboration is reflective of what's taking place at the firm overall. It's just one more piece of the work we're doing to ensure Mellon has the right platforms in place to maximize the value we provide to our clients. Our multi-asset lens and expertise is a key input to our proxy voting process.

How does the Committee determine how to vote on specific issues?

Starting April 1, our 7-person Committee, chaired by myself, votes as one Mellon.

Armed with vetted guidelines that we review on a regular basis, the Committee meets at least weekly to review the analysis provided by our Proxy Research Group. We also review recommendations from Glass Lewis and ISS. We are not beholden to those recommendations but they serve as key inputs. After considering all these variables, we agree to a recommendation as a team. Many votes are obvious but as engaged participants we are not afraid to question each other to ensure our votes are consistent with our holistic view of a company.

How will the Committee help empower portfolio managers address extra-financial issues?

We strongly support portfolio managers' participation and there are a lot of opportunities for them to advocate for certain votes. We believe that people who own the shares should have the biggest voice. It's important for us to get as much active management insight as we possibly can. I think we are doing that but we are continually looking to improve upon our communication.

How do you view stewardship? Where does that fall in your role as a responsible fiduciary?

This gets back to the importance of a long-term view. I think that companies should be good stewards of everything they do. Encouraging companies to do the right thing for their employees and customers, as well as their shareholders ultimately creates the most value. If you take a long-term view, all those things do not have to be in conflict. In the long-term, stakeholders' and shareholders' interests align. Our number one goal is to create shareholder wealth for our clients. My belief is, we can do that and still be a good steward if we take this long-term approach.



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John is the lead portfolio manager for the dividend-focused Large Cap Value strategies. In this role, he was responsible for creating our Income Stock strategy to meet demand from clients seeking attractively valued higher dividend income while not sacrificing dividend growth. He has managed the team's dividend strategies since 2005 and is the lead portfolio manager for the Equity Income strategy which emphasizes dividend growth stocks. He is also a senior research analyst on the Dynamic Large Cap Value strategy, responsible for the Consumer, Technology and Communication Services sectors. John also is the chair of the Mellon Proxy Voting Committee. Previously, John was a senior research analyst on the Large Cap Value team and joined the firm in 1992.

John received a BS in accounting and information management systems, with distinction, from Babson College and an MS in finance from Boston College. John holds the CFA® designation and is a member of the CFA Institute and the CFA Society Boston.

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