

Proxy Advisor Competition Proposal

I am pleased to be working with [James McRitchie](#) again on a shareowner proposal for improving corporate governance. In 1999 we drafted, and Jim submitted, the first in a [series of proposals](#) for shareowners to vote corporate funds to pay competing proxy advisors. We have recently drafted the latest in this series, which Jim plans to submit to Costco soon. Compared to our earlier proposals, this new version would support four advisors instead of just one; it would take two years to implement instead of three years; and shareowners would vote *after* seeing the proxy advice instead of before. These changes are based on successful test implementations at the University of British Columbia -- see "[Experiments in Voter Funded Media](#)" at votermedia.org/publications.

Here is our new proposal draft:

PROXY ADVISOR COMPETITION

WHEREAS many shareowners lack the time and expertise to make the best voting decisions, yet prefer not to always follow directors' recommendations;

WHEREAS shareowners could benefit from greater competition in the market for professional proxy voting advice;

THEREFORE BE IT RESOLVED that Costco (Wholesale Corporation) shareowners request the Board of Directors, consistent with their fiduciary duties and state law, to hold a competition for giving public advice on the voting items in the proxy filing for the Costco 2014 annual general meeting, with the following features:

- The competition will be announced and open for entries no later than six months after the Costco 2013 annual general meeting. To insulate advisor selection from influence by Costco's management, any person or organization can enter by paying an entry fee of \$2,000, and providing their name and website address. Each entry will be announced publicly, promptly after it is received. Entries' names and website addresses (linked) will be shown promptly on a publicly accessible Costco website page, in chronological order of entry. Entry deadline will be a reasonably brief time before Costco begins to print and send its 2014 proxy materials.
- The competition will offer a first prize of \$20,000, a second prize of \$15,000, a third prize of \$10,000, and a fourth prize of \$5,000.
- Winners will be determined by shareowner vote on the Costco 2014 proxy. The proxy will show this question: "Which of the following proxy advisors do you think deserve cash awards for how they have been informing Costco shareowners? (You may vote for as many advisors as you like. See each advisor's website for their information for Costco shareowners.)" Then the name and website address of each advisor entered will be listed in chronological order of entry, with a check-box next to each. The advisor receiving the most votes will get first prize, and so on.
- It is expected that each proxy advisor will publish advice on its website regarding the Costco 2014 proxy, but there will be no formal requirement to do so. The incentive to win shareowner voting support and to maintain the advisor's reputation will be considered sufficient motivation for giving quality advice.
- The Costco filing that reports the final 2014 proxy voting results will show the total number of shares voted for each proxy advisor.

- The competition will continue annually with the same terms, except that competitors who renew their entries for a subsequent year, by paying the entry fee within 30 days after the Costco filing of voting results, will have their names listed on the website page and on the subsequent proxy in the order of their voted ranking in the most recent year. New competitors can enter at any time before the entry deadline, and will be listed after renewed entries, in chronological order of entry.

(Further information on proxy advisor competitions: "Proxy Voting Brand Competition," *Journal of Investment Management*, First Quarter 2007; free download at <http://votermedia.org/publications>.)

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The idea is that we shareowners can use our voting power to hold boards accountable more effectively if we have high quality professional voting advice. Although many institutional investors pay for proxy advice from the two major U.S. advisors, ISS and Glass Lewis, there is not enough economic incentive to pay for more than a minimal amount of proxy research, as explained on page 82 of "[Proxy Voting Brand Competition](#)". The result: complaints about lack of insight, and insufficient competition.

From the [March 2011 Altman Group Report on Proxy Advisory Firms](#):

"... one of the primary complaints from corporate issuers is that proxy advisory firms rely heavily on a 'cookie cutter' or 'one-size-fits-all' approach, and may base recommendations on inaccurate and unreliable information in particular cases." [page 9]

"The investment manager for one of the world's largest sovereign wealth funds indicated that it would like to see measures taken to promote competition among proxy advisory firms." [page 31]

The above Proxy Advisor Competition Proposal would increase competition among proxy advisors, and pay them enough to provide higher quality advice, tailored to the specific corporation. The proposal organizes a corporation's shareowners as a group, pays for proxy advice once, and shares the advice with the whole group. This "advice consumers' union" approach may well get better analysis for lower cost than the current system of paying for advice one (institutional) investor at a time. It would also make the advice available to *all* Costco shareowners, including retail investors who typically do not get professional voting advice now. This proposal is designed as a template to improve the governance of any publicly traded corporation.

We welcome your comments. How can we improve this proposal? If it is implemented, what results would you expect?

-- Mark Latham; 2012-07-23