

14 November 2018

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

File Number 4-725 [SEC Staff Roundtable on the Proxy Process]

Dear Mr. Fields,

The Principles for Responsible Investment (PRI) welcomes the opportunity to submit comments in advance of the SEC Staff Roundtable on the Proxy Process.

The PRI is the world's leading initiative on responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Launched in New York in 2006, the PRI has grown to over 2,100 signatories, managing over \$82 trillion AUM and is still growing.¹ The U.S. is the PRI's largest market, with 407 signatories investing over \$45 trillion AUM.²

Integrating environmental, social and governance (ESG) factors has become a necessary part of investment. In the context of market volatility, climate change and regulatory intervention, ESG factors offer an expanded set of tools to address unmet investment industry needs in accordance with fiduciary duties. U.S. investors are increasingly acknowledging that fiduciary duties require the consideration of economically-relevant ESG factors into their investment decision-making processes.³

The roundtable will discuss topics including proposed changes to SEC policies on shareholder proposals and proxy advisory firms. We welcome the opportunity to comment on these topics.⁴

SUMMARY OF THE PRI'S POSITION

¹ As of 01 October 2018

² As of 30 October 2018

³ <https://www.fiduciaryduty21.org/>

⁴ Read more on these topics in PRI's U.S. Policy briefing: the shareholder voting process, ESG integration and proxy advice in the US <https://www.unpri.org/sustainable-markets/the-shareholder-voting-process-esg-integration-and-proxy-advice-in-the-us/3789.article>

The shareholder proposal process is critical to the functioning of the investment intermediation chain. The PRI believes that the current ownership requirements and resubmission thresholds are set at the appropriate levels and should not be changed.

Proxy advisory firms play an important role in the shareholder voting process, providing investors with high quality, impartial analysis of corporations. The PRI believes that the current proxy advisory process should not be changed.

OWNERSHIP AND RESUBMISSION THRESHOLDS

SEC rules require that a shareholder owns at least \$2,000 worth of stock or 1 percent of the company's stock for at least one year to be eligible to submit a proposal for a vote at a company's annual meeting. The current resubmission thresholds for a corporation to exclude a resubmitted proposal are set at 3 percent (since the last time it was voted on), 6 percent (if it was voted on in the last five years), and 10 percent (if it was voted on three or more times in the last five years).⁵ The SEC states it will consider whether minimum ownership thresholds need to change and whether resubmission thresholds are fair.⁶

The shareholder proposal process is critical to the functioning of the investment intermediation chain. It is a core characteristic of the rights of investors, and the savers on whose behalf they invest, to enable investors to engage the companies they own on issues such as shareholder rights, corporate disclosure and other ESG issues, such as climate change. Significant increases in ownership or resubmission thresholds would make it difficult, and in some cases prevent investors, on behalf of savers, from raising these issues with companies and holding companies to account. These are issues that materially impact corporate performance.

For example, a 2018 GAO literature review⁷ cited a 2017 study commissioned by the Department of Labor⁸ that reported that, while some investors may believe integrating ESG issues will lead to lower returns, the GAO found in its literature review that integrating ESG issues, which includes participating in the shareholder proposal process, typically leads to similar or improved performance compared to traditional strategies.

The shareholder proposal process allows investors to reduce risk and build long-term shareholder value. Indeed, a growing number of shareholder proposals are withdrawn due to corporate management developing workable solutions with investors.

The shareholder proposal process is critical to the functioning of the investment intermediation chain. The PRI believes that the current ownership requirements and resubmission thresholds are set at appropriate levels and should not be changed.

⁵ <https://www.unpri.org/sustainable-markets/the-shareholder-voting-process-esg-integration-and-proxy-advice-in-the-us/3789.article>

⁶ https://www.sec.gov/news/public-statement/statement-announcing-sec-staff-roundtable-proxy-process#_ftnref6

⁷ <https://www.gao.gov/assets/700/691930.pdf> page 8

⁸ <https://www.gao.gov/assets/700/691930.pdf> page 14

PROXY ADVISORY FIRMS

The SEC roundtable will discuss the role of proxy advisory firms, and whether proxy advisory firms should be required to provide more public information about their voting policies and procedures, and whether proxy advisory firms appropriately manage, mitigate and disclose potential conflicts of interest, such as those that arise from consulting services provided by proxy advisory firms.

Proxy advisory firms conduct the important and necessary work of providing high quality, impartial analysis of corporations, including their management of ESG issues, and link this analysis to voting recommendations based on institutional investors' stated priorities. Proxy advisory firms help investors keep up with what their companies are doing and fulfill their ownership obligations at a manageable cost. Companies' ability to access low cost capital through open capital markets depends, to some extent, on investors' ability to rely on mechanisms that enable them to fulfill their voting obligations on everything from re-electing board members, to accepting audit reports, to more nuanced issues such as casting votes on shareholder proposals.

Shareholders use proxy advisory firms' recommendations to supplement their research and understanding of multiple, detailed and sometimes dense, proxies for their portfolio. Without proxy advisory firms, most shareholders would lack the capacity required to synthesize information to vote proxies, and therefore, would have difficulty performing their fiduciary duty to their clients.

In addition, requiring proxy advisory firms to share voting recommendations with corporations in advance would allow corporations to intercept recommendations critical of the corporation or its management. This would undermine the checks and balances necessary for functioning markets.

The existing process allows shareholders to engage on issues that affect their portfolio and potentially the company's reputation. Changes to the current process, such as those proposed by the Chamber of Commerce's 2018 Proxy Season Survey⁹, would make it harder for investors to access and receive impartial advice necessary to participate in the proxy process.

Proxy advisory firms play an important role in the shareholder proposal process, providing investors with high quality, impartial analysis of corporations. The PRI opposes changes to the current proxy advisory process that would undermine the proxy advisory firms' ability to provide impartial analysis of corporations.

Thank you for the opportunity to comment and share our views on the SEC Staff Roundtable on the Proxy Process. For further conversation and follow up, please contact our Washington, DC based team:

- Heather Slavkin Corzo, Head of U.S. Policy: [REDACTED]
- Colleen Orr, U.S. Policy Analyst: [REDACTED]

⁹https://www.centerforcapitalmarkets.com/wp-content/uploads/2018/10/ProxySeasonSurvey_v3_Digital.pdf

Yours sincerely,

A handwritten signature in black ink, appearing to read "Fiona Reynolds". The signature is fluid and cursive, with the first name "Fiona" being more prominent than the last name "Reynolds".

Fiona Reynolds
Chief Executive Officer
Principles for Responsible Investment

cc. The Honorable Jay Clayton, Chairman
The Honorable Kara M. Stein
The Honorable Michael Piwowar
The Honorable Robert J. Jackson, Jr.
The Honorable Hester M. Peirce