



## Walden Asset Management

*Advancing sustainable business practices since 1975*

December 13, 2018

Mr. Brent J. Fields  
Secretary  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Via email to [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

Re: Comments for the Securities and Exchange Commission (SEC) –  
File Number 4-725

On November 7, 2018, Walden Asset Management sent a letter to the Securities and Exchange Commission providing input to the Securities and Exchange Commissions' November 15<sup>th</sup> Roundtable.

In our letter we highlighted the ways in which National Manufacturers of America (NAM) attacked the credibility and motives of shareholder resolution proponents.

We believe this is an obvious attempt to discredit the issues being raised though the shareholder resolution process by villainizing the sponsors.

Unfortunately, this is similar to tactics we see in the political process where candidates' reputations are smeared in an attempt to gain political points. And in the process the accuracy and validity of the charges are seen irrelevant.

These attacks represent a simplistic and inaccurate portrayal of the motives and actions of investors and shareholder proponents who believe in and pursue active ownership strategies. As company executives and boards who engage with their shareowners well know, the motivation of most actively engaged investors is appropriately focused on protecting shareholder value.

As the letters to the Securities and Exchange Commission continued to be filed, we studied both the Business Roundtable's November 9<sup>th</sup> letter and the U.S. Chamber of Commerce November 12<sup>th</sup> letter.

Both of these letters slipped into simplistic characterizations of proponents' motives in attempts to discredit them and the process.

We include an appendix with excerpts from the three letters. Similar language is used by the Mainstreet Investors Coalition and Manhattan Institute among others.

Ironically, these attacks put into one basket numerous major investors who utilize the proxy process. These include state and city pension funds, religious investors, foundations, investment firms and mutual funds as well as individuals.

Walden Asset Management and other investors have talked to scores of companies regarding the proxy process and to date none of them have agreed with such broad derogatory characterizations of investor proponents, many of whom are engaged in meaningful dialogue with the companies. Their experience with these investors is often very constructive.

We write to present this contradiction to the Securities and Exchange Commission. These three Trade Associations use attacks and smears against investors. But many companies, who are their members, state publicly they do not agree with these broad and misleading characterizations of investors.

We believe the Securities and Exchange Commission should take into account the fact that these characterizations are false and misleading as you assess the need for proxy rule reforms.

Sincerely,

A handwritten signature in cursive script that reads "Timothy Smith". The signature is written in dark ink and is positioned to the right of the word "Sincerely,".

Timothy Smith  
Senior Vice President  
Director of ESG Shareowner Engagement  
Walden Asset Management



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### Appendix

RE: Excerpts from Business Roundtable, National Association of Manufacturers & U.S. Chamber of Commerce Letters to SEC on Proxy Process

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#### From Business Roundtable Letter to SEC, November 9, 2018

“The shareholder proposal process has become dominated by a limited number of individuals who own only nominal stakes (or, in the case of proponents who submit via proxy, no stake) in the companies they target and file similar proposals across a wide range of companies. In fact, from 2016-2018, the same three individuals and their families have submitted or co-filed over 24 percent of all shareholder proposals each year at Russell 3000 companies.

Among other top shareholder proponents are institutional investors with an express social, religious or policy purpose who may pursue idiosyncratic interests, which may have no rational relationship to the creation of long-term shareholder value and may conflict with what a typical investor views as material to making an investment or voting decision.

In addition, spurred by court-driven changes in SEC policy beginning in the 1970s, companies have had to contend with a continuous influx of proposals focused on general societal issues. Currently, more environmental, social and policy-related shareholder proposals are submitted than any other type of proposal each year. These proposals typically have limited success and very seldom receive the majority support of shareholders. In fact, in 2018, only 10 of 145 of such proposals voted on received majority shareholder support.

Further, the current proposal process risks obscuring matters of true economic significance to the company by potentially allowing annual meeting ballots to simultaneously present numerous immaterial proposals for consideration.”

#### From U.S. Chamber of Commerce Letter to SEC, November 12, 2018

“Unfortunately, the shareholder proposal system today has become dominated by a minority of special interests that exploit an outdated system in order to advance parochial agendas. According to the Manhattan Institute’s Proxy Monitor report, 56% of shareholder proposals at Fortune 250 companies during the 2017 proxy season dealt with social or policy concerns.

## From Walden Asset Management Letter to SEC, November 30, 2018

'The U.S. Chamber of Commerce, a longtime critic of shareholder resolutions, was joined three years ago by vocal opposition from the Business Roundtable. Most recently, the National Association of Manufacturers (NAM) and the newly formed Main Street Investors Coalition, which is housed at NAM, have added their voices against the current proxy process. These industry groups regularly challenge the credibility and motives of shareholder resolution proponents who engage with companies and vote their proxies conscientiously on ESG matters.

As an example, we copy below and attach comments excerpted from the October 30, 2018 NAM letter to the SEC (Appendix A). NAM asserts that:

- a flawed proxy process can be hijacked by unregulated third parties with little-to-no stake in company's success or investor returns
- These outside actions often pursue agendas divorced from shareholder value creation
- the proxy process has...been hijacked by activists that seek to force companies to act according to their narrow interests
- in many instances, these third parties take the form of activists pursuing political goals unrelated to business growth
- The proxy ballot...has devolved into a shouting match focused on social and political issues

These characterizations by NAM are similar to those of the U.S. Chamber of Commerce and Business Roundtable. They represent a simplistic and inaccurate portrayal of the motives and actions of investors and shareholder proponents who believe in and pursue active ownership strategies. As company executives and boards who engage with their shareowners well know, the motivation of most actively engaged investors is appropriately focused on protecting shareholder value.

Investors consistently and effectively raise concerns about risk mitigation and long-term value creation as they discuss topics such as governance reforms, climate change, board diversity, and business ethics. Our experience suggests that if NAM or the Business Roundtable had discussed the drivers of investor concern with their member companies, they would have received thoughtful feedback of the positive impact from countless conversations between companies and investors. A review of the policies of investor members of CII, PRI, USSIF, Ceres, and ICCR would also demonstrate the reality that enhancing and protecting shareholder value is central to these investors. Likewise, this motivation is evident in the statements and policies of major public pension funds such as CalPERS, CalSTRS, Connecticut, Illinois, New York City, New York State, Rhode Island, and Washington state.

## Quotes From NAM Letter to SEC, November 30, 2018

"Conversely, a flawed proxy process can be hijacked by unregulated third parties with little-to-no stake in company success or investor returns. These outside actors often pursue agendas divorced from shareholder value creation and divert valuable resources from job creation and R&D.

The proxy ballot was designed for the majority of investors to constructively engage with company management, but it has devolved in many ways into a shouting match focused on social and political issues.

However, the National Manufacturers of America (NAM) does not believe that it is appropriate for activists to abuse the proxy ballot to push goals that are better addressed by Congress or other policymaking institutions."