CtW Investment Group

January 16, 2019

Hon. Jay Clayton
Chairman
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

Re: File Number 4-725: SEC Staff Roundtable on the Proxy Process

Dear Chairman Clayton,

In response to the Securities and Exchange Commission ("SEC") Staff Roundtable on the Proxy Process, File No. 4-725, the CtW Investment Group ("CtW") takes this opportunity to affirm the current shareholder proposal process and support the current role of proxy advisory firms. The CtW Investment Group works with union-sponsored pension funds to enhance long-term shareholder value through active ownership. These funds have over $250 billion in assets under management, and as long-term shareholders across many of the largest public companies, they pay close attention to sound corporate governance practices.

We urge the SEC to recognize the efficiency, fairness, and effectiveness of the current proxy system and to understand that calls for reform are not from the investors that the SEC is mandated to protect, but issuer-friendly special interest groups such as the Business Round Table and U.S. Chamber of Commerce. We ask that the SEC continue to protect the rights of active owners that are obligated to manage their long term investments on behalf of their plan beneficiaries.

Merits of the Current Shareholder Proposal Process

Under the current Rule 14a-8, shareholders that own $2,000 worth of a company's stock for at least a year can submit a shareholder proposal. The amount was kept low to afford small shareholders the same rights as large institutional investors. Increasing stock ownership guidelines to file a proposal, as suggested, to one percent of a company's stock, would leave most shareholders disenfranchised especially at companies like Apple and Amazon whose value recently crossed $1 trillion.

The proposal process is also cost-effective mechanism that enables shareholders to elevate material concerns to directors, often with benefits to companies. For example, in 2018 CtW filed a proposal at Amazon to implement the Rooney Rule in its director nomination process. Various studies have demonstrated that enhancing board diversity can lead to better performance, improved "tone at the top," and greater adaptability to the ever-changing business environment. We ultimately withdrew this proposal after Amazon agreed to modify its director nomination policy in recognition of the benefits of such a policy.

The request by critics of the proposal process to raise resubmission thresholds because they fail to garner majority support does not consider that the thresholds were kept intentionally low as many of them require years to build support. For example, proposals asking companies to amend their EEO policies to prohibit discrimination based on gender identity and sexual orientation initially received low support, but with the backing of large institutional shareholders, government action in the form of legislation and fines, and increased societal awareness some companies have committed to amending their policies leading to increased workplace morale and productivity. Moreover, threshold limits fail to consider companies including Tesla, Facebook, Netflix, and Oracle where insiders have special voting rights and increasing resubmission thresholds at these companies reduces the likelihood that most shareholder proposals will pass the proposed resubmission requirements.

Finally, we note that numerous best practices in corporate governance began as shareholder resolutions, such as board independence, annual director elections, majority votes for director elections, advisory say on pay votes, and proxy access. Many of these issues are now considered the standard for good governance practices and in some cases have provided shareholders with essential mechanisms to hold directors accountable. We urge the SEC to maintain the current standards for submission of shareholder proposals and to ensure that the long-term interests of shareholders are being protected.

The Role of Proxy Advisors

The research provided by proxy advisory firms is one of many tools investors use to supplement their research and inform their voting decisions. The value-added analysis provided by proxy advisory firms such as peer group comparisons for executive compensation, auditor tenure, and board diversity by percent is especially valuable during US proxy season when thousands of US companies schedule their annual meetings. Further, the firms provide an objective analysis of an issuer based on a benchmark policy developed with feedback from investors themselves. Without this research, many investors, especially smaller ones, would lack the capacity to synthesize the information to make independent and informed voting decisions. The ability of these firms to stay impartial rests on them being permitted to operate without undue influence from companies. We strongly oppose mandating that issuers be granted a prepublication review of such reports or the creation of a special regulatory regime for proxy advisory firms.

We thank you for considering CtW's views on the shareholder proposal and proxy process. If you have any further questions, please contact me at [redacted].

Sincerely,

Dieter Waizenegger
Executive Director
CtW Investment Group