



Boston Trust & Investment
Management Company®



Walden Asset Management®
Advancing sustainable business practices since 1975

February 7, 2019

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

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

Dear Mr. Fields:

This final testimony replaces a previous letter I had submitted dated January 29, 2019.

Walden Asset Management, the sustainable investment practice of Boston Trust & Investment Management Company, has submitted comments previously to the Securities and Exchange Commission (SEC) related to the ongoing discussion of the proxy rules (letters dated November 7, 2018 and December 13, 2018).

We appreciate that the SEC organized a Roundtable on November 15, 2018 that provided an opportunity to discuss shareholder engagement and shareholder resolutions.

We believe it is important that the role of shareholder resolutions be understood in the context of their 50+ year history. We believe that engagement by investors, including the use of the shareholder resolution, has played an important role in prompting meaningful changes to corporate policies and practices on a range of issues from governance to climate change to diversity. As you are aware, a wide spectrum of investors are involved in company engagement, including state and city pension funds, religious investors, foundations, individual investors, mutual funds, and investment firms.

Various investors describe their motivations for shareowner engagement differently: a foundation may refer to its mission and grantmaking priorities; a religious investor may refer to its religious heritage and belief system; a pension fund may refer to its duty to care for its beneficiaries; a mutual fund or investment manager may refer to their clients' priorities. But a common theme for all investors is a focus on long-term shareholder value creation.

In our letters of November 7th and December 13th, we excerpted statements from the U.S. Chamber of Commerce (the Chamber), National Association of Manufacturers (NAM), and the Business Roundtable (BRT). We did so because we believe these statements are simplistic and inaccurate characterizations of the motives of investors who engage companies and utilize shareholder resolutions.

For example, NAM asserted that:

- a flawed proxy process can be hijacked by unregulated third parties with little-to-no stake in a 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 erroneous representations by NAM are similar to those of the Chamber and BRT. 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.

In our December 13th letter, we added quotes from BRT (its November 9th letter to the SEC) and the Chamber (November 12th letter). Both business organizations made generalized statements that maligned the motives of investors who present proposals to companies for votes at their annual meetings. For example, BRT argues, “among 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...” The letter goes on to criticize the number of “environmental, social and policy-related shareholder proposals” as if these proposals and issues have nothing to do with protecting or enhancing shareholder value.

The Chamber, which has presented the same narrative on this issue for over a decade, stated in its November 12th letter, “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.”

Nowhere in the numerous statements made by the Chamber in its rebuke of shareholder engagement and resolutions does it recognize that:

- research identifies many of the issues raised in resolutions as important contributors to a company’s long-term profitability and shareholder value;
- thousands of companies globally have championed issues such as good governance, diversity, climate change, and sustainability reporting, with many stating directly that improved practices in these areas are important for long-term value;
- many proponents have stated explicitly that they are acting consistent with their fiduciary duty to address issues such as climate change that pose significant risks to companies and their shareholders.

We believe that the BRT, Chamber, and NAM are presenting fallacious arguments to the SEC and public at large without any exceptions or nuance.¹ They strive to discredit the motives and character of shareholder proponents, marginalizing them before the SEC during the Agency’s review of the shareholder resolution process. We believe that these endeavors, left unchallenged, could leave truth and accuracy on the sidelines.

Ironically, many company members of the BRT, Chamber, and NAM are more thoughtful and respectful regarding their investors and shareholder proponents. While complaints regarding specific proposals or proponents are a normal aspect of the process, we are not aware of

¹ Recently, other organizations, notably the “Mainstream Investors Coalition,” have made similarly misleading arguments.

blanket condemnations of investors' motives in raising environmental, social, and governance concerns.

Investors have written and held meetings with scores of companies that are members of and in leadership roles at the BRT, Chamber and NAM. These have been serious and thoughtful discussions, involving major pension funds and other large institutional investors. We have yet to find a company that associates itself with this false narrative regarding the motivation of shareholder proponents.

We therefore must ask: On whose behalf is the BRT, Chamber, and NAM speaking? Certainly, our experience suggests that there is no unanimity in their membership; indeed, there is significant dissent. We have encouraged companies with which we have held discussions to publicly clarify their firms' positions and distinguish themselves from the inaccurate representations expressed by these trade associations. They know directly through our interactions that our discussions revolve around risk mitigation and long-term value creation.

Indeed, as mainstream investors like BlackRock, Fidelity, State Street, Vanguard, and Wellington Management vote their proxies, they do so based on carefully crafted proxy voting guidelines that describe their philosophy, basic approach, and specific guidance on issues presented in shareholder resolutions. These investment companies have made the case that shareholder resolutions need to be taken seriously in order to fulfill their fiduciary duty to protect their clients' economic interests.

For example, the world's largest asset management firm, BlackRock, recently published its updated Proxy Voting Guidelines (several pages from the new Guidelines are appended to this letter, <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-us.pdf>). BlackRock explains its approach on environmental and social risks and opportunities, such as sustainability and climate risk. These guidelines demonstrate the seriousness with which BlackRock considers these issues from its perspective as a fiduciary. In addition, BlackRock privately engages hundreds of companies on climate change because they believe this impacts shareholder value.

We urge the Securities and Exchange Commission to recognize that false narratives put forth by the BRT, Chamber, and NAM do not advance the legitimate debate about the rules governing the shareholder resolution process.

Sincerely,

A handwritten signature in black ink that reads "Timothy Smith". The signature is written in a cursive style with a large initial 'T' and 'S'.

Timothy Smith
Senior Vice President
Director of ESG Shareowner Engagement

BlackRock Proxy Voting Guidelines for U.S. Securities, January 2019 *(excerpts from pages 12-14)*

Environmental and social issues

Our fiduciary duty to clients is to protect and enhance their economic interest in the companies in which we invest on their behalf. It is within this context that we undertake our corporate governance activities. We believe that well-managed companies will deal effectively with the material environmental and social (“E&S”) factors relevant to their businesses.

BlackRock expects companies to identify and report on the material, business-specific E&S risks and opportunities and to explain how these are managed. This explanation should make clear how the approach taken by the company best serves the interests of shareholders and protects and enhances the long-term economic value of the company. The key performance indicators in relation to E&S factors should also be disclosed and performance against them discussed, along with any peer group benchmarking and verification processes in place. This helps shareholders assess how well management is dealing with the material E&S factors relevant to the business. Any global standards adopted should also be disclosed and discussed in this context.

We may vote against the election of directors where we have concerns that a company might not be dealing with E&S factors appropriately. Sometimes we may reflect such concerns by supporting a shareholder proposal on the issue, where there seems to be either a significant potential threat or realized harm to shareholders’ interests caused by poor management of material E&S factors. In deciding our course of action, we will assess the nature of our engagement with the company on the issue over time, including whether:

- The company has already taken sufficient steps to address the concern
- The company is in the process of actively implementing a response
- There is a clear and material economic disadvantage to the company in the near-term if the issue is not addressed in the manner requested by the shareholder proposal

More commonly, given that these are often not voting issues, we will, or have, engage(d) directly with the board or management. We do not see it as our role to make social, ethical, or political judgments on behalf of clients, but rather, to protect their long-term economic interests as shareholders. We expect investee companies to comply, at a minimum, with the laws and regulations of the jurisdictions in which they operate. They should explain how they manage situations where such laws or regulations are contradictory or ambiguous.

Climate risk

Within the framework laid out above, as well as our guidance on “How BlackRock Investment Stewardship engages on climate risk,” we believe that climate presents significant investment risks and opportunities to many companies. We believe that the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (“TCFD”) and the Sustainability Accounting Standards Board’s (“SASB”) sector-specific disclosure standards provide useful guidance to companies on identifying, managing, and reporting on climate-related risks and opportunities. We expect companies to help their investors understand how the company may be impacted by climate risk, in the context of its ability to realize a long-term strategy and generate value over

time. We expect companies to convey their governance around this issue through their corporate disclosures. For companies in sectors that are significantly exposed to climate-related risk, we expect the whole board to have demonstrable fluency in how climate risk affects the business and how management approaches assessing, adapting to, and mitigating that risk. Where a company receives a shareholder proposal related to climate risk, in addition to the factors laid out above, our assessment will take into account the robustness of the company's existing disclosures as well as our understanding of its management of the issues as revealed through our engagements with the company and board members over time.

Corporate political activities

Companies may engage in certain political activities, within legal and regulatory limits, in order to influence public policy consistent with the companies' values and strategies, and thus serve shareholders' best long-term economic interests. These activities can create risks, including: the potential for allegations of corruption; the potential for reputational issues associated with a candidate, party, or issue; and risks that arise from the complex legal, regulatory, and compliance considerations associated with corporate political activity. We believe that companies which choose to engage in political activities should develop and maintain robust processes to guide these activities and to mitigate risks, including a level of board oversight.

When presented with shareholder proposals requesting increased disclosure on corporate political activities, we may consider the political activities of that company and its peers, the existing level of disclosure, and our view regarding the associated risks. We generally believe that it is the duty of boards and management to determine the appropriate level of disclosure of all types of corporate activity, and we are generally not supportive of proposals that are overly prescriptive in nature. We may decide to support a shareholder proposal requesting additional reporting of corporate political activities where there seems to be either a significant potential threat or actual harm to shareholders' interests, and where we believe the company has not already provided shareholders with sufficient information to assess the company's management of the risk.

Finally, we believe that it is not the role of shareholders to suggest or approve corporate political activities; therefore, we generally do not support proposals requesting a shareholder vote on political activities or expenditures.