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April 11, 2019

**VIA E-MAIL RULE-COMMENTS@SEC.GOV**

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

**Re: Commission Roundtable on the Proxy Process (File No. 4-725)**

Dear Mr. Fields:

Federated Investors, Inc. ("Federated") appreciates the Securities and Exchange Commission (the "Commission") organizing its November 15, 2018 roundtable on current proxy voting mechanics and technology, the shareholder proposal process, and the role of proxy advisory firms ("Proxy Roundtable"). We also appreciate the opportunity to provide comments on this topic.

Federated generally supports many of the comments and positions articulated by the Investment Company Institute ("ICI") in regards to the Proxy Roundtable as set forth in its letter dated March 15, 2019 ("ICI Letter"). Specifically, Federated agrees with the following points raised in the ICI Letter:

- Federated joins the ICI in supporting a careful cost-benefit evaluation of regulation of proxy advisory firms, rather than imposing regulation just for the sake of regulation, and recommends retaining the 2014 IM Staff Bulletin in so far as it permits use of proxy advisory firms to assist with administrative tasks in connection with an adviser's exercise of its fiduciary duties when voting proxies.
- In connection with shareholder proposals, Federated agrees with the ICI's recommendations regarding increasing ownership and holding period requirements and resubmission thresholds, and the ICI's request for further guidance on the Exchange Act Rule 14a-8(i) exclusion request process. In our experience, this would better align the process with the interests of long-term investors, as well as make the shareholder proposal process more efficient and less costly, which will benefit shareholders.
- Federated agrees with the ICI's recommendation that the Commission consider making the process for soliciting fund shareholder votes more efficient and less costly by allowing funds to deliver their proxy materials directly to their shareholders irrespective of their status as an objecting beneficial owner (or "OBO") or non-objecting beneficial owner (or "NOBO"). In our experience, this would make obtaining quorum and shareholder approval more efficient, and less costly, for all mutual funds, and thereby benefit shareholders.

- Federated joins the ICI in its opposition of any additional disclosure requirements regarding proxy voting for registered mutual funds.
- Federated agrees with the ICI's position that, to the extent that disclosing proxy voting records achieves important public policy purposes, then all institutional investors should do so. Federated believes that institutional investors should be subject to the same requirements as mutual funds with regard to disclosure of proxy voting.

Federated also would like to take the opportunity to submit the following additional points for the Commission's consideration:

### **1. Passing Through Proxy Votes to Shareholders**

Federated agrees generally with the ICI that requiring the pass-through of proxy votes to underlying shareholders would be impractical and highly disruptive to the proxy process. However, we strongly believe that passively managed fund advisers should be precluded from voting for or against proposals unless they have developed and seek to implement a detailed voting policy as part of a comprehensive engagement program. Passive fund managers, by investment objective and policy must invest in securities to match a particular index or benchmark. They do not engage in price discovery and consequently do not make judgments about a portfolio holding's business approach or products. If a portfolio company is in the index, they invest in its securities regardless of the performance or particular business strategy of the portfolio company. If a passive fund manager's interest in owning the underlying issuer is nothing more than to faithfully replicate an index in accordance with the investment objective of the fund, then passive funds are akin to an intermediary through which shareholders own an index of companies. Equity ownership was historically and is still legally considered a form of business ownership. Passive funds that seek only to replicate an index fly in the face of that structure where proxy voting presumes an interest in business outcomes. Consequently, passive funds should not vote proxies unless such funds independently merit the right to vote on behalf of their shareholders.

Federated believes that for passive fund managers to merit the right to vote on behalf of their investors, they should seek to enhance the long-term performance of the issuers held by the fund through a bona fide corporate engagement on topics such as the environment, governance, and sustainability. Federated believes that in the absence of active management (i.e., price discovery), stewardship through engagement with issuers is the only way for a passive fund manager to add value, improve performance and reduce risk to their funds. Active managers can engage portfolio companies in a variety of ways – from research to discussions directly with management. Ultimately, the ability of active managers to decide to buy, sell or hold shares of the portfolio company makes companies attentive to their views on particular issues, including proxies. To assure that passive fund managers properly implement stewardship principles in voting proxies, and to guard against mere market moving activities that divert from fiduciary responsibility to the fund, passive fund managers should be required to develop and implement a detailed voting policy as part of a comprehensive corporate engagement program. This policy should be incorporated into the investment policies of the passive fund and disclosed in the prospectus so that investors may consider the passive fund's stewardship principles as part of their overall assessment of the product. Federated recommends that

passive funds be required to make proxy voting decisions based upon a comprehensive corporate engagement program, as described above, or by consulting with companies offering “stewardship services” that provide recommendations seeking to enhance long-term performance through corporate engagement on topics such as environment, governance, and sustainability. Alternatively, passive fund advisers could vote “present” for purposes of satisfying quorum requirements and then abstain from casting a vote for or against any proposal presented to shareholders.

## 2. Examine the Significant Influence of Proxy Advisory Firms

Federated recommends a further examination into whether too much power over shareholder voting, and influence into corporate affairs, is concentrated in proxy advisory firms. As part of such an examination, Federated recommends investigating the inherent conflict created by allowing proxy advisory firms to provide consulting services to issuers while making recommendations to investors on how to vote on proposals that impact issuers.<sup>1</sup>

Federated hopes that the Commission finds these comments helpful and is happy to provide additional information relating to our comments or discuss any questions you may have.

Sincerely,



Peter J. Germain  
Chief Legal Officer



Anne Kruczek  
Head of Responsible Investing

cc: The Honorable Jay Clayton  
The Honorable Hester M. Peirce  
The Honorable Elad L. Roisman  
The Honorable Robert J. Jackson Jr.  
Ms. Dalia Blass, Director of the Division of Investment Management

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<sup>1</sup> See, e.g., comments of Congressman Sean Duffy that these firms use their influence to “hold companies hostage and make them buy services”. Picker, L & Lasky, A., Interview with U.S. Rep. Sean Duffy, R-Wis. CNBC, 28 June 2018.