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Sent via email

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Commissioner Elad L. Roisman
Securities and Exchange Commission
100 F. Street, N.E.
Washington, D.C. 20549

Dear Commissioner Roisman:

As Vice Chairman and Chief Legal Officer of The Travelers Companies, Inc. and a long-time corporate governance and securities law practitioner, I'm writing to you following our 2019 Annual Meeting of Shareholders to share some unsettling observations about the U.S. proxy system. During the most recent proxy season, our company experienced firsthand the outsized influence of proxy advisory firms on voting decisions, as well as certain investment advisors' unfortunate neglect to consider critical information in making voting decisions on behalf of their investors. The obvious failure of some investors to conduct a company-specific analysis or assimilate information from all available sources to ensure that voting decisions are made in the best and long-term interest of the company's shareholders underscored for us how broken the proxy system is and how important reforms in this area are.

By way of background, Travelers had a shareholder proposal presented in its proxy statement this year. That proposal requested that the company prepare and make available to investors a diversity report that provides (1) "[a] chart identifying employees according to gender and race in major EEOC-defined job categories, listing numbers or percentages in each category" and (2) "a description of policies/programs focused on increasing gender and racial diversity in the workplace."

Travelers' Board of Directors recommended a vote against the proposal in part because it felt the proposal too narrowly defined diversity. At Travelers, we think about diversity much more broadly than just race and gender as called for by the proposal – our approach to diversity also encompasses ethnicity, religion, veteran status, age, disability and sexual orientation, among others. While we disagreed with the approach in this proposal, we are completely aligned with its stated goals. Travelers has a long-standing commitment to diversity and inclusion, recognizes it as a business imperative and highlights its workplace diversity policies and efforts in detail on its website; the Board explained in its opposition statement, however, that it does not believe that preparing an additional report describing these policies or identifying employees according to standardized EEOC-defined job categories – categories that do not take into account any company- or industry-specific job descriptions or responsibilities – would enhance Travelers' efforts to encourage diversity and create a diverse workforce.

Impact of Proxy Advisory Firms on the Vote

Our experience with respect to this shareholder proposal was a textbook example of how the proxy advisory firms' voting recommendations instantaneously – and significantly – impact the voting results. On May 8, 2019, just prior to ISS's release of its proxy voting report on Travelers, **21.3%** of the votes cast were cast in favor of the proposal. ISS published its report on the same date, advocating in favor of the shareholder proposal, and within 48 hours – on May 10, 2019 – **57.4%** of the votes cast were cast in favor of the proposal. Within those 48 hours alone, 10% of the outstanding shares (or 13% of the votes ultimately cast) were voted; those shares represent approximately one quarter of the total shares that ultimately supported the shareholder resolution.¹

The magnitude of ISS's influence on the vote within such a short period evidences a known and troubling trend – that there are investment advisers that blindly follow proxy advisory firms' voting recommendations. Despite the fact that many resolutions present complicated and nuanced issues that need to be addressed on a company-by-company basis, some investment advisors are, unfortunately, voting without conducting a company-specific analysis. Moreover, the outsourcing of voting decisions cedes outsized power to proxy advisory firms that have neither a financial stake in the company for which they are providing a voting recommendation nor a fiduciary duty to the company's shareholders and apply one-size-fits-all voting policies to companies across the board. Significantly, this dynamic results in proxy advisory firms acting as unregulated regulators. This is not good corporate governance, and, I am afraid, the unintended consequences will only become apparent over time and after meaningful damage has been done to our capital markets.

Failure of Some Investors to Consider Relevant Information

In the days, weeks and months leading up to our Annual Meeting, we attempted to engage with our large institutional investors, many of which are registered investment advisors who hold the assets of and vote on behalf of thousands of individual investors who entrust their 401(k), pension and other assets to these advisors. Our objective was to discuss the shareholder proposal and other matters presented in our proxy statement, share our perspective with respect to the proposal and answer any questions. That outreach effort was as disconcerting as the effect of ISS's recommendation on our vote results. We found that some of the investment advisors we reached out to had no interest in speaking with us. In some cases, the investment advisors we contacted informed us that they follow a specific proxy advisory firm's recommendations – not that they *consider* that firm's recommendations, but that they *follow* them. In other cases, the investment advisors declined the engagement or even informed us of their policy not to speak with issuers – a revelation we found surprising. In still other cases, we were advised by our proxy solicitation firm that there is simply no one at the investment advisor for us to speak with about the proposal.

¹ We were unable to isolate Glass Lewis's impact on our voting results in this context. Our proxy solicitation firm has advised us that automatic voting in response to Glass Lewis's voting recommendations does not occur in the same manner as ISS auto-voting. While some Glass Lewis auto-votes may be executed within 24 hours of the release of Glass Lewis's report, additional auto-votes are cast within the 48 hours prior to the meeting – the same time frame in which a significant portion of the overall vote is executed. Though the context is slightly different, we estimate that Glass Lewis's recommendation with respect to our say-on-pay proposal typically impacts our say-on-pay vote by over 9% of votes cast.

Equally alarming were several instances in which we spoke with a portfolio manager who knows our company well, and who listened to and agreed with our position on the shareholder proposal, yet was powerless to sway the voting decision. In those instances, the portfolio manager initially told us that he or she would recommend that the investment advisor vote against the proposal, only to return to us with the news that the investment advisor has a voting policy from which it is unwilling to diverge or that the proxy voting team has made its decision and will not take the portfolio manager's view into account. These conversations underscored the unhealthy bifurcation at many investment firms between those making the investment decisions and those making the voting decisions. The common thread among all these interactions (or non-interactions) is that some investment advisors are not utilizing available and potentially relevant information prior to making a voting decision. To achieve the best possible outcome for the company and its shareholders, robust company-specific analysis is key – and that necessarily includes incorporating all relevant information available.

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Our recent experiences are not isolated events; they are part of a disconcerting pattern I've seen emerge over the last decade or so. I am disheartened by the current proxy environment in this country and how it impedes good corporate governance. But the fact that the Commission is focused on these important issues gives me hope that solutions will be implemented that will benefit shareholders, the U.S. companies in which they invest and, consequently, the broader United States economy. Especially in the current environment in which environmental, social and political proposals abound, it is crucial for the Commission to ensure that the institutions voting on behalf of the millions of hardworking people whose pension, 401(k) and other assets are held by such institutions are making voting decisions that are truly informed and in the best long-term economic interest of such investors. Matters that are unrelated to the long-term economic interests of shareholders must be left to be decided by the democratic process contemplated by our Constitution.

As the Commission continues to consider how to address concerns with our proxy system, please do not hesitate to contact me if I could be of further assistance. I can be reached at [REDACTED] or [REDACTED]. Thank you for your consideration of these matters and for your commitment to the efficiency of our capital markets and, by extension, the competitiveness of our economy.

Sincerely,



A.J. Kess

cc: Chairman Jay Clayton, SEC
Commissioner Robert J. Jackson Jr., SEC
Commissioner Hester M. Peirce, SEC
Yafit Cohn