JantzManagement

Responsible Quantitative Value Investing™

October 7, 2019

Via electronic mail

Mr. William Hinman
Director, Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Subject: June 21, 2019 Rule 14a-8 Stakeholder Meeting

Dear Director Hinman,

Jantz Management LLC is a Boston-based investment management firm providing discretionary investment services to separately managed accounts, trusts and estates, foundations and charities, and corporations and other business entities. On behalf of its clients, Jantz Management engages companies in its client portfolios regarding material issues such as responsiveness to human rights concerns and climate change.

We urge the Commission to resist modifying the ownership and/or resubmission thresholds related to Rule 14a-8 shareholder proposals. Attached, please find a reprint of my article "Filing Thresholds and Main Street Investors" which details our concerns about how any increase in the filing threshold would only serve to hinder Main Street investors' abilities to engage their investee companies and to maintain diversified portfolios. We believe our exercise illustrates that, in its endeavor to protect Main Street investors, the Commission should not consider increasing the filing threshold for shareholder proposals. If any modification is considered, our work suggests lowering the threshold to increase opportunities for Main Street investor engagement.

Sincerely,

Christine Jantz, CFA
CEO
Jantz Management LLC

"Filing Thresholds and Main Street Investors"

On May 8, 2019, SEC Chairman Jay Clayton testified to the Senate that "[o]ur first goal, which has been a priority of mine since I became Chairman, is focusing on the interests of our **long-term Main Street investors**." He went on to say that "the question we ask ourselves every day: how does our work **benefit** the Main Street investor? Each proposal or action we take is guided by that principle."* [emphasis added]

Perhaps one of the most important benefits of owning stock in a U.S. publicly traded corporation is the opportunity to engage that company as a part-owner. For decades, Main Street investors have had the mechanism of the shareholder proposal process to communicate with company management when they see a problem, identify inefficiencies, or are displeased with how the company has spent investor dollars.

Clayton also stated that:

> Main Street investors' **continued participation provides the lifeblood for our capital markets**, as at least 52 percent of U.S. households are invested directly or indirectly in the capital markets... **This level of retail investor participation stands out against other large industrialized countries**. [emphasis added]

Despite Clayton's avowed intention to protect and support Main Street investors, the SEC is considering changes to the shareholder proposal process. Because changes to this process risk increasing the cost and difficulty for investors, we examined the current SEC rules for filing shareholder proposals as it applies to such Main Street investors.

For Main Street investors that wish to be actively engaged owners, the right to file shareholder proposals is a valuable element of the bundle of rights associated with share ownership. Retail investors often hold shares in companies with a goal of long-term value creation and with the capacity to engage through the shareholder proposal process should it prove to be necessary.

While SEC rules provide a minimum holding requirement in order to preserve the right to file shareholder proposals, the need to retain a diversified portfolio is also an important consideration for the same Main Street investors.

SEC Rule 14a-8 ("the Rule") requires that "to be eligible to submit a proposal … the shareholder to have continuously held at least $2,000 in market value" for a year before the filing deadline. However, given the possibility of rising and falling stock prices throughout the course of a continuous year, investors interested in engaging investee companies need to hold more than the bare minimum to act as a buffer against falling below the requirement. Is one dollar over than the minimum enough? Not even close. Two dollars? Still no. The exact determination of how much buffer is needed in order to prevent falling below the minimum threshold over the

* SEC Chairman Jay Clayton's testimony, May 8, 2019, to the "Financial Services & General Government Subcommittee of The U.S. Senate Committee on Appropriations."

course of a year is not static. In years in which stock prices are rising in general and company prospects are good, not as much buffer will be needed to weather the ups and downs of daily stock movements.

During recessions, however, when markets are falling and company projections are lower, guarding against steep drops in stock value requires a bigger buffer to avoid falling below the $2,000 minimum. While the most recent U.S. recession "wasn't the greatest percentage decline in history," it does help to establish buffer requirements. By March 5, 2009, it had dropped more than 50%.[†] As a rough rule of thumb, holding double the minimum requirement would protect against a drop to 50% value or less, giving investors effectively a 100% buffer for a significant drop in stock price throughout the year.

While $2,000 (or even with a buffer at $4000) may at first seem like a small sum, we believe that for a typical Main Street investor also seeking to keep a diversified account, this *existing minimum* can present quite a hurdle.

For example, the age cohort with the highest median retirement account (of $126,000) is 65 to 74 years old.[‡] Given that the shareholder must hold at least $2,000 in a company stock *continuously* in order to bring a shareholder resolution, and leaving a 100% buffer for a significant drop in the stock price during the year, we can assume that an investor with a $126,000 portfolio could hold at most 32 stocks.

Therefore, we can see that for the Main Street investor who wants to engage investee companies, this situation poses a problem with holding and maintaining a diversified portfolio. **In order to exercise her right as a shareholder that seeks to engage investee companies, the $2,000 holding minimum (with a 100% buffer, bringing the minimum to $4,000) severely limits diversification options.** In order to hold enough stock to engage each company she owns, the investor would have to heavily weight her portfolio to a small number of equities – a significant risk for many investors, especially Main Street investors that may have limited other savings.

To elaborate, the investor might follow the SEC guideline for diversification by ensuring that no stock position be greater than 5% of the equities in the portfolio—a minimum of 20 stocks needed to qualify as a diversified portfolio. Given the likely need for this same portfolio to also be diversified between bonds, mutual funds, and other forms of holdings, with this $2,000 threshold ($4,000 with 100% buffer) and the 5% maximum requirement, the Main Street investor of median holdings would need to hold at least $80,000 in equities. With $126,000 in her account, her equity portion (20 stocks) will equate to 63.4% of her total portfolio.[§] For many Main Street investors, holding more than 50-60% of one's assets in equities and so few names is too risky. Thus if the investor seeks to engage investee companies, she might not be able to hold enough of each stock to remain diversified *and* engage those companies. The average

[†] https://www.thebalance.com/stock-market-crash-of-2008-3305535
[‡] https://www.thestreet.com/retirement/average-retirement-savings-14881067
[§] https://www.investopedia.com/articles/investing/062714/100-minus-your-age-outdated.asp

retail investor would find it nearly impossible to both maintain a diversified portfolio to hedge against risk and to also hold enough stock continuously in order to engage the portfolio of companies in which she is invested.

Given Chairman Clayton's stated focus on Main Street investors, it is unfathomable that the SEC would *increase* the filing threshold for shareholder proposals as it would conflict with the goal of ensuring that Main Street shareholders seeking active engagement also maintain a diversified portfolio. The Rule should not become more stringent; if anything, our examination illustrates that if the SEC seeks to support and encourage Main Street investor participation in the public markets, then the filing threshold should be relaxed to allow greater participation of the Main Street investor.