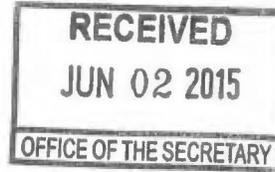


May 27, 2015



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

Re: "Pay Versus Performance"  
Release No. 34-74835  
80 *Federal Register* 26630 (May 7, 2015)

Dear Mr. Fields:

My goal is not so much to comment one way or the other about the "Pay Versus Performance" Release No. 34-74835 but rather to request that the SEC use this rule proceeding as an opportunity to clarify the meaning of the phrase total shareholder return. I know of at least three ways total shareholder return is calculated, each producing a significantly different result, the proponent of each convinced that his way is correct, that only his way complies with Regulation S-K item 201(e), and that other methods are not only wrong but betray weakness of character and feeble intellect. Explaining does no good. Only the SEC has the power to persuade. I hope it uses this opportunity to do just that.

Item 201(e)(1) states that total shareholder return is measured by —  
... dividing the sum of the cumulative amount of dividends for the measurement period, assuming dividend reinvestment, and the difference between the registrant's share price at the end and the beginning of the measurement period; by the share price at the beginning of the measurement period.

Believe it or not, one person can assert that the quoted text demands one sort of calculation, while another person can insist that it requires an entirely different sort of calculation. Yet a third person can insist that they're both wrong and that the proper calculation is different still. I know of three calculation methods. And I'm confident there are others I'm not aware of.

**First.** The first and crudest calculation method is easiest to explain but almost certainly wrong: take the difference between the ending share price per share and the beginning share price per share, add to that the dividends paid per share in the period, and divide that result by the beginning share price per share. *Voila*. Total shareholder return. A person I know of insists this is the only true path. And he prepares SEC disclosures accordingly. I think this method understates total shareholder return when the share price is increasing.

**Second.** A second method is similar to the first, the only difference being that the second takes into account the marginally growing dividend amount received by the holder of the single share, growing because of dividend reinvestment. This second method's weakness is that it doesn't give the holder credit for the marginal, fractional additional share he or she now possesses, although strangely it does give credit for the additional dividend amount to which he or she would be entitled by that marginal, fractional additional share. I think this is closer to being correct than the first method is, and I think it can be argued that this second method is favored by the quoted text of item 201(e)(1). I think this method also understates total shareholder return when the share price is increasing, but

does so less than the first method.

**Third.** A third method, which makes most sense to me, is a variation of the second, except that it gives credit for the marginal, fractional share. So if at the beginning of the measurement period the holder possessed a single share, after dividend reinvestment he or she now possesses slightly more than a single share. In other words, total shareholder return is enhanced in two ways: (1) the holder's dividend amount is growing, and (2) the fair market value of his or her total share holding is also growing if the share price is rising. Both of these account for an enhanced total shareholder return. So for example if a fund consisted on January 1 of a single share trading at \$30, at the end of the year the fund has grown because of dividend reinvestment to 1.05 shares, when the trading price per share has increased to \$35. The fund's value has grown from \$30 to \$36.75, not merely from \$30 to \$35, in other words. And in the meantime the fund's dividend income might have fractionally increased also, for example from a first quarter dividend on a single share of \$0.02 (applied to reinvestment) to a fourth quarter dividend on 1.05 shares of \$0.021 (also applied to reinvestment). It aint much. But I'd take it.

The third way of calculating total shareholder return is to divide the fund's enhanced value (\$6.75) by the beginning value of the fund (\$30), or in this case a total shareholder return of 22.5%. The first method would have produced a total shareholder return of \$5.08 divided by \$30, or a total shareholder return of 16.93% ((\$5 plus four quarterly dividends of \$0.02), divided by \$30). The second way would have produced a total shareholder return of \$5.081 divided by \$30, or a total shareholder return of 16.94% ((\$5 plus quarterly dividends of \$0.02, \$0.02, \$0.02 and \$0.021), divided by \$30).

The first method is like a simple interest calculation. The third is like a compound interest calculation. I don't know what to call the second, but you can argue it is favored by the quoted text of item 201(e). The third method seems to me to be favored by the plain text of instruction 1.b to item 201(e). Instruction 1.b explicitly adopts the simple assumption that dividend reinvestment yields more shares for the holder. That is so obviously true that we can feel stupid saying it. But I absolutely guarantee you people will dispute this assumption if you don't command them to make it.

Here's another illustration, in tabular format. Assume a stock starts the year at \$10 per share and ends the year at \$12.50, growing quarter-by-quarter by exactly one fourth of the total growth during the year, or in other words by about \$0.625 per quarter. Assume that the quarterly dividend is \$0.05 per share. I can produce three different TSR results:

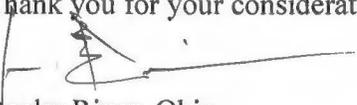
<b>TSR result 1</b> <i>(almost certainly wrong – no change in size of holding and no change in dividend earned)</i>	<b>TSR result 2</b> <i>(SEC's method according to S-K item 201(e)?? – the dividend earned grows incrementally but the size of the holding does not, which doesn't make much sense)</i>	<b>TSR result 3</b> <i>(possibly correct? – measures value of a holding that has grown because of reinvested dividends (compounding of sorts – both the dividend and the holding grow)</i>
<b>TSR 27.00%</b>	<b>TSR 27.01%</b>	<b>TSR 27.18%</b>
one share at the beginning of the year, and one share at the end of the year, with no change in the amount of dividends received	one share at the beginning of the year and one share at the end of the year, but somehow the dividend nevertheless increases incrementally based on a hypothetical dividend reinvestment	one share at the beginning of the year grows to become 1.01747 shares by the end of the year because of steady reinvestment of a dividend that grows incrementally during the year

<dividends \$0.20000="" (\$2.50),="" (a="" <math="" at="" beginning="" by="" divided="" during="" four="" growth="" in="" of="" or="" over="" plus="" price="" quarters)="" received="" the="" total="" year="" year,="">\\$2.70/\\$10.00 = 27.00\% </dividends>
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[for the record, I think S-K item 201(e) can be understood to favor result #2 or result #3, depending upon which part of an internal conflict within item 201(e) wins]

I am choosing to remain anonymous for two reasons: (1) this isn't a comment about the Pay Versus Performance proposal and it therefore doesn't belong with the many comments you're likely to get about that proposal, and (2) I like being off the grid, as the expression goes. I really don't have any comments to make about the proposal. I only read enough of it to know that it does not resolve my quandary about calculating total shareholder return. It would be good if the SEC dispels all uncertainty about calculating total shareholder return. A simple illustration is all it would take.

Thank you for your consideration,



Rocky River, Ohio