

To: Nancy Morris, Secretary, U.S. Securities and Research Commission
Re: Comment on File Number S7-16-07

I am writing to comment on File Number S7-16-07, the Release proposing amendments to the Rules under the Securities and Exchange Act of 1934 “concerning shareholder proposals and electronic shareholder communications”. This release deals both with access to the proxy for the nomination of directors as well as a section relating to shareholder proposals. The SEC has issued a series of questions for public comment.

Natural Investment Services LLC is an Investment Adviser registered with the SEC. We steward hundreds of millions of dollars and are national leaders in values-based investing. Our clients – institutions, foundations, businesses, non-profits, and individuals – have always appreciated the opportunity to use their ownership shares to influence the direction of companies.

As an investor who takes seriously our responsibility to be engaged and informed, we feel strongly that the SEC’s proposals to eliminate the shareholder resolution process or make it more difficult to sponsor resolutions should not be adopted.

Shareowner proposals, and the proxy voting process, are vitally important tools in communicating with the Board, management and other investors on key issues like climate change, employee diversity, executive compensation, human rights in overseas factories and governance reforms. All of these efforts are designed to directly affect the bottom-line financial performance of a given company, and as such are materially relevant and not externalities, as some management representatives may suggest. The link between social, environmental, and governance issues and financial performance is well-documented by mainstream research. Companies which ignore these issues are simply less profitable than their peers in any industry. Shareholders are acting as good stewards by helping management to acknowledge the potential liabilities associated with ignoring such issues.

There is a long history of demonstrated positive results from shareholder resolutions with companies making specific reforms and changing policies. Annually, one quarter to one third of resolutions are withdrawn because of constructive dialogue with the company resulting in WIN-WIN agreements. The rising support votes of resolutions, across a range of environmental, social and governance topics indicate that a broad spectrum of investors increasingly understand, and take seriously, shareholder resolutions as a communication tool.

The SEC has issued 3 specific proposals which we believe would eliminate or cripple the resolution process.

1. THE OPT-OUT OPTION

The SEC asks for comments on the right of a company to “opt-out” of the shareholder resolution process either by seeking a vote of the shareholders to give them that authority OR, if empowered under State law, to have the Board vote to opt-out of receiving advisory resolutions. Either option would have disastrous consequences. The most unresponsive companies, those with poor records of investor communications, would be most likely to opt-out and isolate themselves further. Advisory resolutions act as one important means of holding unresponsive companies accountable.

Consider a company with a poor governance record or with a history of controversy with investors, one which had received a number of resolutions in the past which received strong votes. The company would be free to “opt-out,” thus disenfranchising its shareowners by removing a right they had been successfully utilizing. Allowing companies to opt-out would also result in an uneven playing field with some companies allowing resolutions and others prohibiting them.

2. THE ELECTRONIC PETITION MODEL OR “CHAT ROOM”

The release also asks “Should the Commission adopt a provision to enable companies to follow an electronic petition model for non-binding shareholder proposals in lieu of 14a-8?” This question builds on the SEC Roundtable discussion of “electronic chat rooms.”

We strongly oppose this proposed change. The resolution process presently assures that management and the Board focus on the issue in question, as they must determine their response to the proposal. In addition, each and every investor receives the proxy and has the opportunity to study the issue. To substitute a chat room or electronic petitions for the valuable fiduciary duty allowed by the current proxy process is irresponsible.

This proposal ignores the ongoing importance of the shareholder resolution process and attempts to create an untested option to substitute for an approach that has already proved successful. The proposal is fraught with difficulties and unanswered questions.

Chat rooms and electronic forums could be additional tools of communication, combined with the existing right to file a resolution through the proxy process. We cannot support a substitution of one for the other.

3. RESUBMISSION THRESHOLDS

In its release, the Commission also asks for comments on the resubmission thresholds for shareholder resolutions which presently stand at 3%, 6% and 10% vote levels for resubmitting resolutions. The SEC asks if a new threshold should be raised to a 10%, 15% and 20% level. Raising the resubmitting threshold makes it harder for investors to present proposals for a vote, thus further insulating company management from a reasonable tool of accountability. Over the last 40 years, many issues that now receive significant shareholder support started with proposals that received very modest levels of support. Adding higher restrictive thresholds on resubmitting resolutions makes it more difficult for investors seeking to engage companies on significant issues. We oppose changes in the resubmission thresholds.

In 2007, there have been fewer than 1,400 resolutions, and since a number of companies received multiple resolutions, in actuality fewer than 1,000 companies receive resolutions. This is less than 20% of the market. The market is hardly “burdened” by the resolution process.

We urge the SEC to uphold the right of investors to sponsor resolutions for action at stockholder meetings. These proposals are contrary to those interests.

Finally, in any given year, one-quarter to one-third of the resolutions are withdrawn in light of agreements between investors and the company.

Adding higher restrictive thresholds on resubmitting resolutions simply makes it more difficult for investors seeking to engage companies on significant issues. We oppose changes in the resubmission thresholds.

We urge the SEC to uphold the right of investors to sponsor resolutions for action at stockholder meetings. These proposals are contrary to those interests.

Finally we wish to comment on the two “access” proposals submitted by the Commission for comment. The first would disallow shareholder resolutions allowing investors to nominate Director candidates for a vote by shareholders. The second sets up a detailed and onerous process for nominations but requires investors with 5% of the combined shares to propose the nomination.

This share level makes the actual ability to utilize this right virtually impossible resulting in a “non access proposal.” We support the right of investors to nominate board members using the proxy process and urge the SEC to have a reasonable level of shares required for the nomination process.

Sincerely,

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