Vanessa Countryman, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

Re: File Number S7-22-19

DATE

Dear Secretary Countryman,

I wrote with comments to your predecessor earlier this year and would like to reiterate my concerns in light of continued efforts by the Securities and Exchange Commission (SEC) to collect information and testimony from real people about the appropriate role of proxy advisory firms in the administration of public pensions.

I am a retired public employee in California. My pension is invested with the California Public Employees Retirement Fund (CalPERS). Anyone who is as concerned as I am about the retirement of public employees dependent on their pensions has to be alarmed at the activities in recent years of the organizations that should be fiduciaries of those pensions.

More and more, these organizations are making investment decisions that are ideological and political, rather than strictly financial. Those decisions are being deeply influenced by the proxy advisory (PA) firms whose activities the SEC is now examining. I believe the SEC should take steps to ensure that PA firms do not make recommendations for extraneous purposes.

Please understand that I have absolutely no objection to an individual deciding for himself or herself to make an investment based on ESG (for environment, social, and governance) criteria, the new slogan for "social investing." But boards of public pension funds should have one objective and one alone: achieving the most optimal risk-adjusted returns for public sector workers and retirees who depend on them.

In my letter to the SEC earlier this year, I provided a number of facts with citations that prove the tendency of PA firms to make these ESG investments—or divestments, just as unfortunately—and the devastating impact this pattern has on the integrity of pension funds such as CalPERS. I will not repeat myself completely here and hope you will be willing to review that letter and seriously consider these unfortunate examples as proof positive for why the proxy system needs greater regulation, and soon.

In 2018, the CalPERS portfolio lost 3.7% of its value. Over the past decade, CalPERS has produced an average annual return of 7.9% while Vanguard Balanced Index, a mutual fund whose assets are simply split 60-40 between a stock index and a bond index, returned 9.4%. That's a huge difference.

Proxy firms play a major role in the ESG ecosystem. They turn investment theory into reality through their domination of the business of providing recommendations on proxy voting to funds of all types, both public and private. There simply is no excuse for PA firms to continue this pattern of posting losses with other people's money.

Two PA firms, Institutional Shareholder Services and Glass Lewis, hold essentially a duopoly on the proxy market and have taken much of fund management and governance not off the plates of fund managers, but rather out of their hands. The Department of Labor (DOL) last year cited its "longstanding view that, because every investment necessarily causes a plan to forego other investment opportunities, plan fiduciaries are not permitted to sacrifice investment return or take on additional investment risk as a means of using plan investments to promote collateral social policy goals."

With the DOL laying out its position clearly, we see that already one agency essentially prohibits this investment behavior. I hope the SEC will follow suit by requiring that PA firms discharge their fiduciary responsibility to make recommendations that demonstrably enhance shareholder value, not fulfill some political purpose.

I worry every day about the solvency and returns of public pension plans in California. Those worries are heightened by plan boards that make decisions that meet social and environmental agendas at the expense of fund integrity. Proxy advisory firms must not aid and abet those decisions, but instead do the opposite: keep boards focused on the best financial results for their members. You, the SEC, have a perfect opportunity to ensure that PA firms discharge their true fiduciary responsibility.

Sincerely,

Marie Reed