My name is Eric Schlecht, and I am a writer and consultant who has worked on budget and economic issues in Washington D.C. for more than 25 years. I have served in leadership offices in both the U.S. Senate and the House of Representatives.

I appreciate the opportunity to provide my thoughts on your recent rule proposals to change the oversight of proxy advisory firms.

Recently, the U.S. Securities and Exchange Commission held an Open Meeting on this topic, and several investor groups complained that the current laissez-faire approach of the SEC toward these entities have allowed special interests to hijack boards and impose costly demands.

The emphasis that these interest groups place on investors is commonly known as Environmental and Social Governance investing, or ESG. It has come to mean refusing to invest in companies that facilitate carbon emissions or produce tobacco products, firearms, or alcohol, invest in companies based in Israel, or fail to employ or promote a sufficient number of women or minorities.

However, the scope of behavior targeted by such interest groups has expanded greatly through the years. It has evolved from simple screening approaches five decades ago to an increasingly intrusive practice that approaches the imposition of a political agenda on the corporate governance of public corporations.

Its adherents often aver that imposing such strictures actually pay off in the long run, by guiding them away from dying industries, but the reality is that this assertion is predicated on the idea that investors or corporate boards have little foresight. The reality is ESG investment constraints invariably impose a significant financial cost. What's more, a recent study found that 91 percent of retail investors value wealth maximization over conquering social objectives.

Cliff Asness of ESG Investing notes that "this seems to arise from investment managers selling virtue as a free lunch, and from investors who very much want to believe in that story. In particular, and my focus here, accepting a lower expected return is not just an unfortunate ancillary consequence to ESG investing, it's precisely the point … and if the virtuous decide they won't own something, the sinners then have to, and they have to be induced to through getting a higher expected return than otherwise."

Many of the largest asset managers in the United States are weighing in on the issue. Blackrock, which has over $6 trillion under management,

announced that it would back tougher rules regarding shareholder advice and transparency when investors file resolutions at annual meetings. Current rules allow a shareholder who owns as little as $2,000 of stock in a company to propose a proxy vote, and it can remain on the shareholder ballot for several years even with tepid support.

James R. Copland, a senior fellow for the *Manhattan Institute*, observed that two proxy advisory firms dominate the market and that the larger of these, Institutional Shareholder Services, effectively controls 15 percent of all shareholder voting on proposals at large businesses.

An individual investor is certainly free to invest his money however he chooses, and if he wants to sacrifice returns to put his wealth in what he perceives to be socially valuable companies, that is certainly his prerogative.

Unfortunately, many people do not have the ability to make such choices, and thus the issue of robo-voting arises, leading some firms left to operate unchecked with little oversight. Most workers' only option is to invest in the 401(k) provided by their employer. The nudges provided by proxy advisory firms impacts their retirement wealth. They may not share the perspective of their fund's proxy advisor, either.

The statement put out by Jamie Dimon and the Business Roundtable that public corporations should be about more than just the blind pursuit of profits represents a tacit acknowledgement that political exigencies play a larger role in society today than ever before. However, effectively imposing these values on the limited investment capital of middle-class workers via proxy advisory firms effectively imposes the political preferences of one entity on an entirely different group, and not necessarily to their benefit.

I appreciate this opportunity to weigh in and would be happy to talk to your staff about this issue further if need be.