Vanessa Countryman, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C.20549-0609
January 22, 2020

Re: File No. S7-22-19

Dear Secretary Countryman,

I am Associate Professor of Law at the Antonin Scalia Law School, George Mason University, and spent two years as Chief Economist and Senior Counsel for the U.S. House Committee on Financial Services. I also serve on the Commission's Investor Advisory Committee.

I have submitted comments to the Commission in the past[1], most recently in April of last year during the open comment period for the Roundtable on the Proxy Process. I am pleased to see this comprehensive process culminate in the proposed rulemaking in file No. S7-22-19 and encourage the Commission to finalize the proposed rules.

I support these rules because they are in line with the SEC's primary mandate to protect the retail investors of the United States. While proxy advisory firms may not be the most visible threat to Main Street investors, the system as currently constituted is none the less a threat to their interests.

Included as a part of this submission is Spectrem Group's[2] recently updated survey quantifying retail investor views on proxy advisory firms, as well as on the Commission's proposed rulemaking. It shows that they are indeed concerned by the damaging impact proxy advisors have on their investments and support action by the SEC.

As importantly, it puts into context comments by certain investment advisors that no action is needed. Clearly it is essential that we remember that these entities are only intermediaries and are not the ultimate beneficiaries that the Commission aims to protect. Given that the results of this survey show that those beneficiaries, retail investors, do support regulation, it further raises questions over whether investment advisers are fulfilling their fiduciary duty by attempting to forestall any action.

I thank you for considering this comment letter and the attached survey and encourage the Commission to finalize the proposed rules.

Sincerely,

J.W. Verret

Associate Professor of Law
George Mason University Antonin Scalia Law School

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[1] See Verret Comment Letter, available at https://www.sec.gov/comments/4-725/4725-5361193-184087.pdf

[2] The full text of the survey can be found at https://spectrem.com/Content_Whitepaper/reclaiming-main-street-white-paper.aspx

RECLAIMING MAIN STREET:

SEC hears retail investors' cries for proxy advisory oversight

INTRODUCTION – BY J.W. VERRET

As the U.S. Securities and Exchange Commission (SEC) has initiated proposed reforms to the proxy voting process, retail investors—whose retirement accounts, savings and private investments fuel the markets—have become more aware of the role proxy advisors play in the system. With greater knowledge of proxy advisors' influence comes greater support among retail investors for increased SEC oversight.

These trends are clear in the results of a recent survey of 5,000 retail investors by Spectrem Group that updates their views on proxy advisors and shareholder proposals from a previous survey in April 2019.[3] This survey probed retail investor sentiment and opinions on some of the very topics the SEC has explored over the past year: concerns about flaws in the proxy advisory industry and system, the firms' conflicts of interest, a lack of transparency and the troubling practice of robo-voting. Importantly, the survey presented its descriptions of these issues and policies in a comprehensive, even-handed and objective manner.

The initial survey conducted in April found a growing disconnect between retail investors' expectations and the increased influence of proxy advisors. It also indicated less awareness than we see today of proxy advisors and some of their more concerning issues, such as errors in recommendations, lack of engagement with companies, robo-voting and conflicts of interest.

Retail investors can be excused for a relative lack of awareness on these topics, as proxy advisors' clout grew quietly and quickly. As SEC Chairman Jay Clayton noted when introducing new proposed rules for the firms:

"Twenty years ago, the business of providing proxy voting advice was virtually non-existent. Today, there are thousands of investment advisers managing trillions of dollars in assets for our retail investors, and many of these investment advisors contract with businesses to provide proxy voting advice."[4]

In truth, proxy advisors were born in response to artificial demand for their services created by SEC interpretations encouraging funds to use them. In the past year, the SEC has withdrawn the enabling guidance, issued additional expectations concerning use of proxy advisors, and released rule proposals concerning both proxy advisor regulation and changes to the shareholder proposal process.[5]

Spectrem's survey shows that retail investors support the SEC's recent progress in these areas and are looking to the SEC to serve out its mission of protecting investors, maintaining fair and efficient markets, and facilitating capital formation.

The SEC is clearly listening, as Chairman Clayton referenced retail investors when unveiling the proposed rule changes, and their concerns "that their financial investments—including their retirement funds—were being steered by third parties to promote individual agendas, rather than to further their

[3] Spectrem Research Group and J.W. Verret, Exile of Main Street, April 2, 2019, available at https://spectrem.com/Content_Whitepaper/exile-of-main-street-whitepaper.aspx
[4] Statement of Chairman Jay Clayton on Proposals to Enhance the Accuracy, Transparency and Effectiveness of Our Proxy Voting System, November 5, 2019, available at https://www.sec. gov/news/public-statement/statement-clayton-2019-11-05-open-meeting
[5] Commission Guidance Regarding Proxy Voting Responsibilities of Investment Advisers, August 21, 2019, available at https://www.sec.gov/rules/interp/2019/ia-5325.pdf

primary goals of being able to have enough money to lessen the fear of ‘running out’ in retirement or to leave money to their children and grandchildren.”[6]

Those worries are rooted in investors’ core focus on returns, which this survey confirms. When given a choice between maximizing returns or pursuing social and political goals, 91% of investors prefer maximizing returns.

These findings mirror the results of the initial Spectrem survey but paint a very different picture than the conventional wisdom being espoused by some investor groups, the Business Roundtable—which recently updated its Statement on the Purpose of a Corporation to move away from shareholder primacy—and many in the financial press about Environmental, Sustainability and Governance (ESG) investing. Their rhetoric around ESG investing, which is often reflected in voting recommendations from top proxy advisors Institutional Shareholder Services (ISS) and Glass Lewis, does not match actual retail shareholders’ preference to focus on maximizing returns.

Chairman Clayton recognized the diversity of shareholder interests in announcing the newly proposed rules:

“We must recognize that there is a myriad of investor interests and preferences. Many of these interests overlap substantially, such as the thirst for information material to an investment decision. But there are many others that do not and may be in direct conflict, such as a desire for a company to sell or buy a particular business or undertake a particular study or course of action. Understanding and responding to these interests, including both common and conflicting interests, in a fair and efficient manner is an important function of corporate governance and our proxy rules are intended to facilitate that function.”[7]

A notable change since the last Spectrem survey is a growing awareness among retail investors of the problems surrounding proxy advisors, as those with even a slight awareness of the firms grew from 50% to 57%. In fact, investors would like to see the SEC expand its reforms to areas such as robo-voting, which unfortunately is not covered in the otherwise robust recent rule proposals but is of utmost concern to retail investors.

This survey is therefore most relevant as the commission moves forward on new rules, because key investor priorities are revealed here. The SEC will take and record public comment on its proposals, and that docket of comments will fill with the results of lobbying campaigns and public relations manipulation. In contrast, the voices of retail investors and overwhelming support shown in this survey constitute a more direct representation of how the investing public view these governance issues—free of bias and pulled from a wide sample of respondents.

These results are a true measure of investor sentiment. It’s critical that the SEC hears more of these voices as the general public and retail investors have their say in how additional oversight of proxy advisors is incorporated into the regulations that protect them and their investments.

While this analysis largely focuses on the survey’s findings regarding proxy advisors, it’s important to note and briefly discuss the other subject of the SEC’s proposed rules: shareholder proposals. Shareholder proposals effectively function as a tax on company shareholders. As originally contemplated by state corporation law, proposals for shareholder vote could be brought independently, with those proposing the vote having the option to pay for their own proxy solicitation costs.

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[7] Ibid.

The SEC created a second avenue for shareholder proposals on the company ballot, paid for by all shareholders in the company. In effect, they must subsidize the small group of shareholders using this alternative method for engagement. The SEC's proposed reforms only affect this subsidized method for shareholder engagement, but even those shareholders impacted by these reforms remain free to pay for their own proxy solicitations for their proposals.[8]

Critics of the SEC's shareholder proposal reforms claim they will impede shareholder democracy. These survey results show the opposite is true. When asked whether the proposed SEC changes would affect the likelihood of engaging with companies before or after a proxy submission, only 12% of retail investors said it would make them less likely to engage; more than a third said that the rules would make them more likely to do so.

These proposals do not affect the basic shareholder voting rights provided under state law to vote for board elections, major transactions, and charter and bylaw amendments. What the SEC proposal does affect is the federally created subsidy for shareholder proposals.

Survey respondents support all proposals contained in the SEC's rule proposal, including identification of the proposing shareholder, requiring the proposer to meet with the company, limiting proposals to one per shareholder, increasing eligibility thresholds, increasing resubmission thresholds, and allowing investment advisors to abstain from voting. These proposals all received between 65% and 77% total support.

METHODOLOGY

As a continuation of Spectrem's April 2019 study, this benchmark survey was fielded online from November 13, 2019 to November 21, 2019. Respondents have at least $10,000 of assets in any combination of stocks, bonds, mutual funds, and exchange-traded funds (ETFs) held in various types of accounts, such as defined contribution plans, advisory accounts, brokerage accounts, individual retirement accounts (IRAs) and other similar investment accounts. Respondents are at least 19 years of age, and fielding was conducted to mirror the age distribution of the overall United States population over the age of 19. The margin of error for the analysis is ±1.39%.

A total of 5,000 persons qualified and responded to the survey. Of all respondents contributing to the sample, 61% have a defined contribution plan, 26% have an advisory or managed account, and 56% have an IRA.

All survey data, including detailed demographic data, are provided on the Spectrem website and are available for public access.

[8] Securities and Exchange Commission, Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8, November 5, 2019, available at https://www.sec.gov/ rules/proposed/2019/34-87458.pdf

Reclaiming Main Street:

SEC hears retail investors' cries for proxy advisory oversight

A Spectrem Group Whitepaper

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Voice of the Investor

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Voice of the Investor

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OVERVIEW

With the 2020 proxy season around the corner, Spectrem Group conducted an in-depth research examining retail investors' views on the complex proxy voting process and the role of proxy advisory firms. Compared to Spectrem's April 2019 survey on the same topic, the new findings show that investors' awareness of proxy advisors and the issues concerning them has increased.

According to the data, investors widely support recently proposed SEC rule amendments to improve the accuracy and transparency of proxy voting advice and to modernize the shareholder proposal rule. They also support a variety of additional SEC solutions that would address robo-voting—one of the most concerning proxy advisor issues—and protect their investments.

To conduct the survey, Spectrem Group, a wealth management research firm, worked in conjunction with J.W. Verret, board member of the Investor Advisory Committee of the Securities and Exchange Commission and an expert in corporate governance law.

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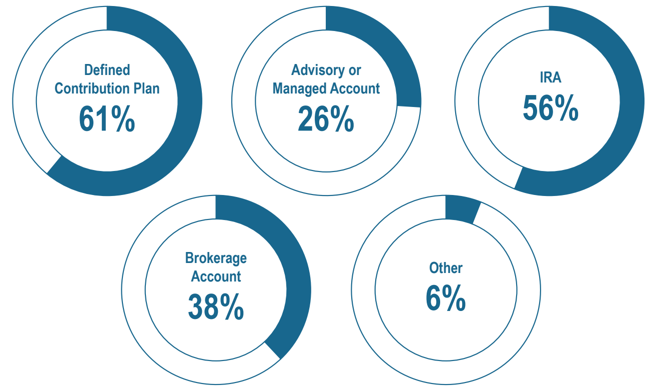

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ABOUT J.W. VERRET

J.W. Verret, an associate professor at George Mason University, teaches courses on banking, securities and corporation law, as well as accounting for lawyers. He was also previously a visiting professor at Stanford Law School.

Mr. Verret frequently serves as an expert witness in securities, corporate and commercial litigation and arbitration proceedings. A few representative engagements include New Jersey v. Sprint, 758 F.Supp.2d 1186 (2010) and Landsdowne v. OpenBand, 713 F.3d 187 (2013).

He serves on the SEC's Investor Advisory Committee, where he advises the Chairman of the SEC on legal and policy reform. He is faculty liaison to the American College of Business Court Judges. He also previously served as Independent Chairman of the Board of Directors of Egan-Jones Ratings, one of the eight domestic credit rating firms licensed by the SEC, to provide credit ratings on the debt of public companies. Mr. Verret has served as Chief Economist and Senior Counsel to the U.S. House Committee on Financial Services. He previously clerked on the Delaware Court of Chancery. He received his JD from Harvard Law School, a master's degree in public policy from the Harvard Kennedy School, and a bachelor's degree in financial accounting from Louisiana State University.

[1] Retail Investor Survey Question: Which of the following types of accounts do you currently have?

Mr. Verret's work has appeared in publications ranging from the *Stanford Law Review* and *Journal of Law and Economics* to *The Wall Street Journal* and *The New York Times*. He has appeared on most major television networks, commenting on financial regulatory issues, and has testified before the U.S. House and Senate more than a dozen times.

ABOUT SPECTREM GROUP

Spectrem Group is the leading provider of market research, consulting and content in the wealth management and retirement markets. Spectrem Group strategically analyzes its ongoing primary research with investors to assist financial providers and advisors in understanding the Voice of the Investor.

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A notable change since the last Spectrem survey is a growing awareness among retail investors of the problems surrounding proxy advisors, as those with even a slight awareness of the firms grew from 50% to 57%. In fact, investors would like to see the SEC expand its reforms to areas such as robo-voting, which unfortunately is not covered in the otherwise robust recent rule proposals but is of utmost concern to retail investors.

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Critics of the SEC's shareholder proposal reforms claim they will impede shareholder democracy. These survey results show the opposite is true. When asked whether the proposed SEC changes would affect the likelihood of engaging with companies before or after a proxy submission, only 12% of retail investors said it would make them less likely to engage; more than a third said that the rules would make them more likely to do so.

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Survey respondents support all proposals contained in the SEC's rule proposal, including identification of the proposing shareholder, requiring the proposer to meet with the company, limiting proposals to one per shareholder, increasing eligibility thresholds, increasing resubmission thresholds, and allowing investment advisors to abstain from voting. These proposals all received between 65% and 77% total support.

KEY OBSERVATIONS – BY J.W. VERRET

Retail Investor Preferences & Their Relevance for Commission Action

Retail Investors Support the SEC's Proposed Rules for Proxy Advisors

Investors were asked both before and after the survey whether they support increased SEC oversight of proxy advisors. At the onset, nearly two thirds of respondents indicated their support; by the end, that share increased by 12 points. This shows that the more investors learn about proxy advisors, the more they support reasonable regulations of the firms. Of the rules proposed by the SEC, investors are most supportive of requiring proxy advisors to disclose conflicts of interest, and of requiring them to post a hyperlink directing investors to a written statement addressing the proxy vote advice, to allow companies to respond to the proxy advisor reports.

Key Data Points:

- Prior to the survey, 69% of retail investors at least slightly supported increased SEC oversight of proxy advisors. Following the survey, support grew to 81%.
- 79% of retail investors support the SEC's new proposed rule requiring proxy advisory firms to give companies an opportunity to review and provide feedback on an advice before it is issued.
- 78% of retail investors support the proposed rule to require proxy advisors to disclose conflicts of interest, and 75% support the proposed hyperlink rule.

Retail Investors Support the SEC's Proposed Rules for Shareholder Proposals

The SEC has proposed five new rules regarding shareholder proposals more broadly, addressing concerns around investors who hold relatively few shares—or whose proposals have been continuously rejected at high rates—continuing to submit repeat proxies. Among the proposals are new criteria for shareholders to submit proposals: They must own $2,000 of shares for at least three years, $15,000 of shares for at least two years, or $25,000 in shares for one year. Another rule would increase thresholds for resubmitting proposals that have previously failed to garner certain levels of support over the years. The surveyed retail investors expressed strong support for these reforms. Each of the five rules is favored by at least two-thirds of respondents, showing strong retail investor alignment with the SEC's proposals.

Key Data Points:

- 77% of retail investors support the proposed rule requiring shareholder-proponents to provide their identify, role and interest when submitting proposals, and 73% support requiring shareholder-proponents to meet with companies to discuss proposals.
- 71% of retail investors support the SEC's proposal to limit proposals to one per shareholder, and 68% favor increased thresholds for resubmission of previously failed proposals.
- 72% of retail investors support modernizing criteria requiring shareholders to own higher amounts of shares for longer to be eligible to submit proposals.

Investor Awareness About Proxy Advisors Has Increased

The share of retail investors with at least a slight awareness about proxy advisors increased by 7% from the April survey to November. Specific awareness of top firms such as ISS and Glass Lewis also increased, as did investor attention to issues involving proxy advisors. This indicates that the SEC's roundtable and proposals have raised attention to issues in the proxy advisor space and started a healthy public dialogue about problems with proxy advisors.

Key Data Points:

- Respondents who are aware of proxy advisors increased from 50% in April to 57% in November.
- 47% of retail investors are familiar with the issue of robo-voting, up from 39% in April.

The SEC's Rules Can and Should Go Further by Addressing Robo-voting

Robo-voting—which allows investment advisors to vote proxies automatically according to proxy advisors' recommendations—was among the proxy issues with the highest level of concern among respondents. Even when investment advisors create "customized policies" to guide that automatic voting, retail investors are very concerned that their investment advisors are voting proxies without taking any analysis or company response into account. Investors were also asked about a potential solution that was not included in the SEC's rule proposal, which is to disable robo-voting when a company issues a rebuttal to a proxy advisor's voting recommendation. This potential solution is overwhelmingly supported, especially by investors who support including hyperlinks to issuer responses. The proposal considers investment advisor's new freedom to abstain from voting in situations in which they are uncertain whether active voting will provide them with marginal value. If investment advisors instead choose to engage in active voting, the hyperlink confirmation will help ensure advisors are following through without blindly relying on proxy advisors.

Key Data Points:

- 81% of retail investors are concerned about the practice of robo-voting.
- 80% of retail investors are concerned (35% said they're very concerned) with robo-voting guided by pre-determined "custom policies."
- 90% of retail investors support disabling robo-voting when a hyperlink to additional information is included in proxy advisor reports.

The Proposed SEC Rules Invite More Engagement

Critics of the SEC's proposed rules claim they will have a cooling effect on shareholder engagement with companies. But retail investors don't expect that to happen. Few respondents to the Spectrem survey said the proposed changes would affect the likelihood of them engaging with companies before or after submission of a shareholder proposal.

Key Data Point:

- Only 12% of retail investors said the SEC's proposed rules would make them less likely to engage with a company on shareholder proposals, whereas 34% indicated they would be more likely to engage.

SURVEY RESULTS – BY SPECTREM GROUP

About the Research

On April 2, 2019, Spectrem released new research about the regulatory landscape for proxy advisors and shareholder proposals. This research established a benchmark of retail investor sentiment on critical issues, which is now important to re-test considering the newly proposed SEC amendments to modernize and improve the proxy voting system. On November 5, 2019, the SEC proposed amendments to improve accuracy and transparency of proxy voting advice and to modernize the shareholder proposal rule.

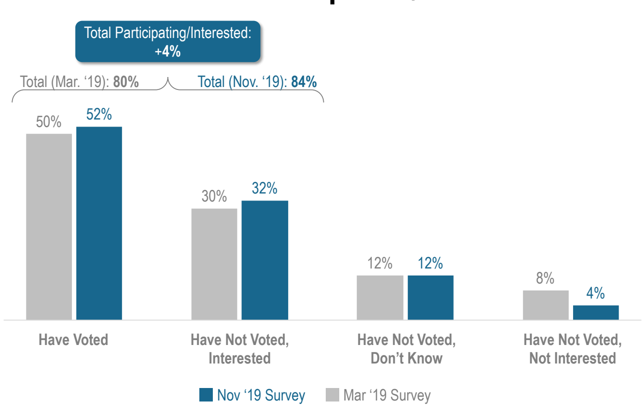
Spectrem Group, in collaboration with industry expert J.W. Verret, wanted to understand how retail investors view the SEC's newly proposed amendments, how sentiment has shifted since the April survey, and how understanding of the proxy voting system impacts support or disapproval. Most importantly, Spectrem felt it was important to test support and concern not only for amendments proposed by the SEC, but also specifically for amendments and actions not taken. The goal of this survey is to enhance the understanding of retail investor concerns and interests as the SEC adjusts policy to protect their interests and modernize the proxy voting system.

SECTION I: SUPPORT OF INCREASED OVERSIGHT AND PROPOSED RULE AMENDMENTS TO PROXY VOTING ADVICE

Retail Investor Voter Participation Interest

Spectrem found that interest in the proxy voting system has increased over the past six months. In our most recent survey, 52% of respondents indicate they have voted shares via proxy, up from 50% in April. In total, 84% of the survey sample expressed that they have either actively participated in voting their proxies or would be interested in voting at future shareholder meetings. Unfortunately, the number of investors who have not voted and are not interested remained the same (12%).

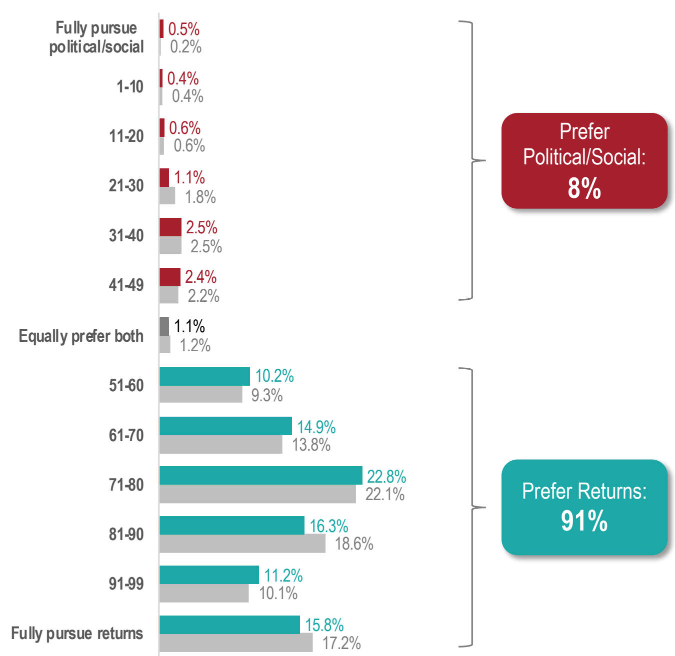
Retail Voter Participation / Interest[8,9]



Why are investors showing increased interest in proxy voting? The results show that retail investors view having a choice in how their shares are voted as critically important. Of investors who have previously submitted proxy votes, 94% indicated that it is at least slightly important to have a choice in how their shares are voted. This is a significant increase since Spectrem's April survey where 84% had indicated importance. Additionally, for those who have a higher knowledge level of financial products and investments, almost all (99%) believe that having a choice in how their shares are voted is important.

With increased interest, Spectrem also tested if retail investor priorities have shifted toward either maximizing returns or pursuing social or political initiatives. Like the April data, investors still strongly prefer to focus their attention on investment returns over social/political initiatives. In fact, the level of preference observed is nearly identical to the April survey, with 91% of investors preferring investment returns and only 14% indicating that proxy advisors should focus on something other than wealth maximization. Retail

Investment Preference: Pursue Political/ Social vs. Maximizing Returns[10]



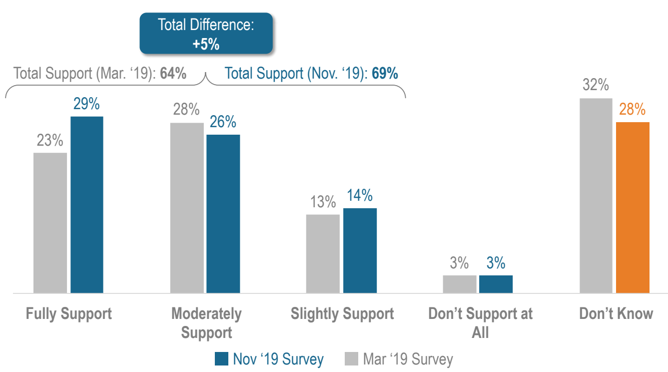
[8] Retail Investor Survey Question: Over the course of your investment history, have you ever submitted proxy votes for a company that you held shares?
[9] Retail Investor Survey Question: Although you have not submitted proxy votes previously, would you be interested in voting at future shareholder meetings?
[10] Retail Investor Survey Question: In terms of your investment preferences, given a choice between maximizing returns and pursuing other social or political initiatives, how would you rate your prioritization?

investors' average value was also very similar to previous results at 76%, continuing to indicate a preference for pursuing returns.

Retail Investor Support of SEC Oversight of Proxy Advisors

Spectrem once again tested—at both the beginning and end of the survey—the overall support level for the SEC's increase in oversight and regulation of the proxy advisory industry. When inquired at the beginning of the survey, 69% of investors were at least slightly supportive of the increase in oversight—a jump since April when 64% showed initial support. Awareness continued to play a big role in determining investor support, as more than a quarter (28%) of retail investors were unsure if they would support the issue. Like the April survey, only 3% of respondents noted that they would not support increased SEC oversight.

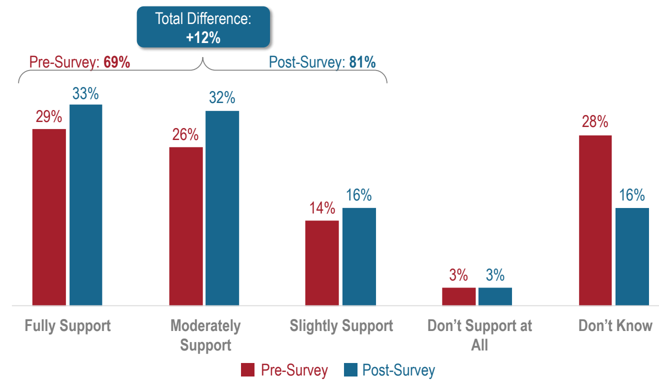
First Impression: Support of Increased Oversight and Regulation of Proxy Advisory Industry[11]



Spectrem also tested investor sentiment at the end of the survey to determine if more exposure to industry issues could alter preferences. We found that post-survey, overall support significantly increased from 69% to 81%. The biggest change came from respondents who were initially uncertain about the issue but, after the survey, were equipped with enough industry information to form an opinion and subsequently chose to support the SEC's oversight increase.

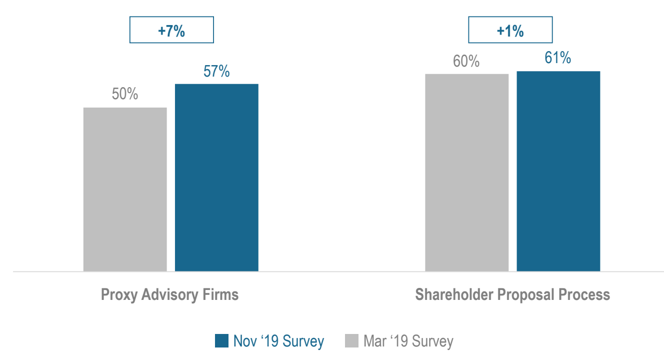
These findings indicate that more exposure to industry issues and learning about the proxy advisor process may potentially impact retail investor opinion and preferences.

SEC Support Sentiment – Pre and Post Survey[12]



The lack of overall industry awareness among retail investors and the issue of increasing general knowledge of proxy advisors has been an ongoing challenge for the SEC. Efforts to narrow the knowledge gap have been fruitful since April as there has been an overall uptick of awareness regarding proxy advisors. Previously, 50% of investors were at least slightly informed about proxy advisors and now the updated data shows that 57% are informed.

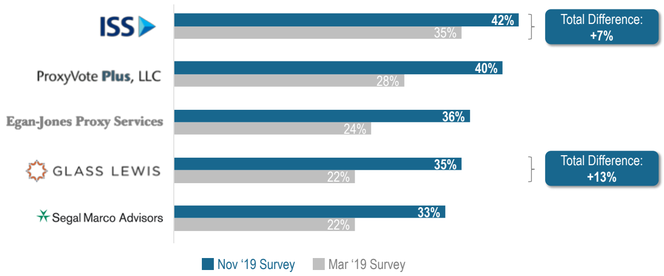
Level of Knowledge of the Following Topics[13]



In addition to an uptick in industry awareness, familiarity with all proxy advisory firms increased—notably, Glass Lewis showed the greatest change since April from 22% to 35% of investors at least slightly familiar with the firm. ISS also saw a rise in familiarity from 35% to 42%.

[11] Retail Investor Survey Question: Before we begin, how would you rate your overall support for the U.S. Securities and Exchange Commission ("SEC") to increase oversight and regulation of the Proxy Advisory industry?
[12] Retail Investor Survey Question: Sometimes over the course of a survey, people change their minds. Following the previous questions, how would you rate your overall support for the U.S. Securities and Exchange Commission ("SEC") to increase oversight and regulation of the Proxy Advisory industry?
[13] Retail Investor Survey Question: On November 5th 2019, the SEC held an open meeting to facilitate constructive shareholder engagement and enhance transparency, improve disclosures, and increase confidence in the proxy process. Specifically, the SEC proposed amendments to improve proxy solicitation rules and to modernize the submission and resubmission requirement of shareholder proposals. The updated rulemaking builds upon the SEC's guidance on August 21st 2019 which more clearly outlined proxy advisor firm solicitation status. Generally speaking, how informed do you feel on the below topics?

At Least Slightly Familiar With Proxy Advisors[14]



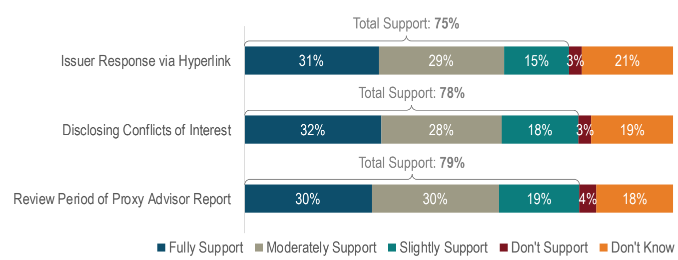
Support and Importance of Proposed Rule Amendments to Improve Accuracy and Transparency of Proxy Voting Advice

On November 5, 2019, the SEC proposed amendments to Exchange Act Rule 14a-1(l), Rule 14a-2(b), and Rule 14a-9. Specifically, revisions to Rules 14a-2(b) directly address some of the ongoing concerns regarding the proxy advisory industry. Newly proposed rule amendment details are as follows:

- **Issuer Response via Hyperlink** – Under the new rule, proxy advisory firms will be required to display a hyperlink directing investors to an issuer-provided statement addressing the proxy advisor report. The hyperlink is aimed at effectively allowing companies to respond to proxy advisor reports, so shareholders can make their own determinations of errors and opinions in their analysis.
- **Disclosing Conflicts of Interest** – Under the new rule, proxy advisory firms will be required to include disclosure of material conflicts of interest in their proxy voting advice. This disclosure is intended to enable their clients to have the ability to evaluate the objectivity and quality of the recommendations they provide.
- **Review Period of Proxy Advisor Report** – Under the new rule, proxy advisory firms will be required to give companies an opportunity to review and provide feedback on proxy voting advice before it is issued. The length of the review period is dependent on the number of days between the filing of the definitive proxy statement and the date of the shareholder meeting.

Spectrem probed retail investors on their overall support regarding SEC's proposed amendments and found that investors were very supportive, with roughly three out of every four investors indicating support for the changes. Notably, of the newly proposed rules, retail investors were most supportive of allowing issuers to review proxy advisor reports and the requirement for proxy advisors to disclose material conflicts of interest—with 79% and 78% supporting, respectively. Additionally, 75% of retail investors supported the updated rule requiring proxy advisors to display a hyperlink to allow for more fluid transfers of information on contested issues.

New Proxy Rule Amendment Support[15,16,17]



As noted above, retail investors are most supportive of the rules that enhance the quality of the proxy advisor information. Their main objective is to facilitate fair market dynamics focused on accurate and unbiased exchanges. In fact, accuracy of research was the most important proxy advisor report element with 54% of retail investors indicating it was very important. Providing unbiased opinions was not far behind with 52% of investors viewing it as very important.

[14] Retail Investor Survey Question: Let's discuss the topic of proxy advisory firms. Proxy advisory firms provide investors with research, data and recommendations on proxy proposals that are voted on at a company's annual meeting. Proxy advisory recommendations impact proxy voting for public companies – swinging a vote result by up to 25%. For the following proxy advisory firms, please select how familiar you are with each company.

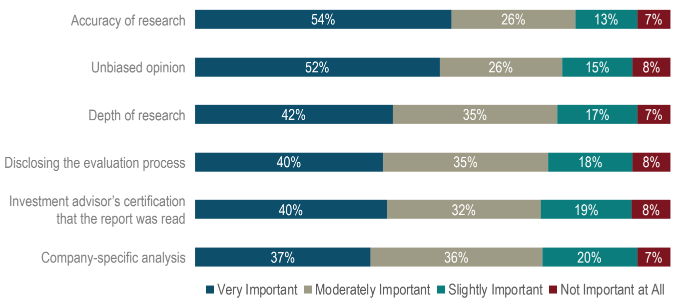
[15] Retail Investor Survey Question: One of the newly announced SEC rules directly addresses conflicts of interest. Under the new rule, proxy advisory firms will be required to include disclosure of material conflicts of interest in their proxy voting advice. This disclosure is intended to enable their clients to have the ability to evaluate the objectivity and quality of the recommendations they provide. To what extent do you support the SEC addressing material conflicts of interest of proxy voting advice?

[16] Retail Investor Survey Question: One of the newly announced SEC rules directly addresses errors in proxy advisor reports. Under the new rule, proxy advisory firms will be required to give companies an opportunity to review and provide feedback on proxy voting advice before it is issued. The length of the review period is dependent on the number of days between the filing of the definitive proxy statement and the date of the shareholder meeting. To what extent do you support the SEC allowing companies to review and provide feedback to proxy advisory firms?

[17] Retail Investor Survey Question: One of the newly announced SEC rules directly addresses the issue of engagement. Under the new rule, proxy advisory firms will be required to display a hyperlink directing investors to a written statement addressing the proxy voting advice. The hyperlink is aimed to effectively allow companies to respond to proxy advisor reports, allowing shareholders to make their own determinations of errors and opinions in their analysis. To what extent do you support the SEC allowing companies to submit a hyperlink within proxy advisor reports?

Relatively, it is worth noting that "company-specific analysis" was the least important element with only 37% of respondents indicating it was very important. It is interesting to see this category score lowest despite Chairman Jay Clayton's statements and repeated messaging that proxy advisors need to customize their research to company-specific factors.

Importance in Proxy Recommendation Elements[18]



SUMMARY

Overall, Spectrem found that interest and knowledge of the proxy advisory system has increased since the previous report in April. Additionally, investors are more supportive of SEC oversight of the proxy advisory industry. These findings align with our previous conclusion, which showed that the more investors know about the proxy advisory process, the more they support oversight. Investor interest in the proxy advisory system has manifested in more than just support of oversight but in behaviors, as more investors are either participating in proxy voting or are interested in doing so. Of the proposed SEC rules for the proxy advisory system, three quarters of investors supported the new amendments—with their support highest for items that address inaccurate or biased reporting.

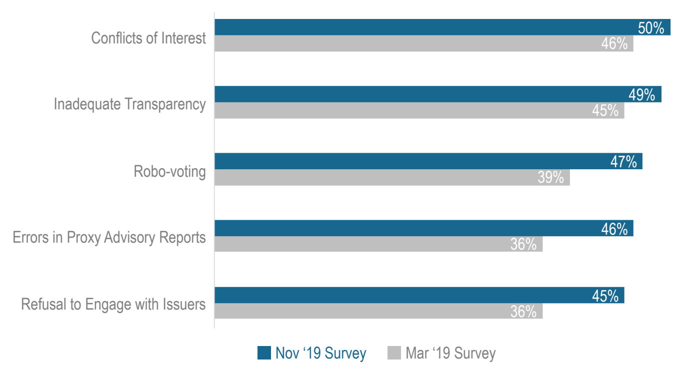
SECTION II: OUTSTANDING PROBLEMS WITH PROXY ADVISORS

To determine if the level of familiarity and concern has changed since April, Spectrem examined the following five key issues regarding the proxy advisory industry:

1. Conflicts of Interest
2. Robo-Voting
3. Inadequate Transparency
4. Errors in Proxy Advisory Reports
5. Refusal to Engage with Issuers

Retail investors showed an increase in familiarity with all five issues—most notably related to proxy advisor reports containing errors, which increased 10 points (from 36% to 46%) since April. Conflicts of interest and inadequate transparency were the most familiar topics, with half of all retail investors knowing about these issues.

At Least Slightly Familiar with Proxy Issues[19]



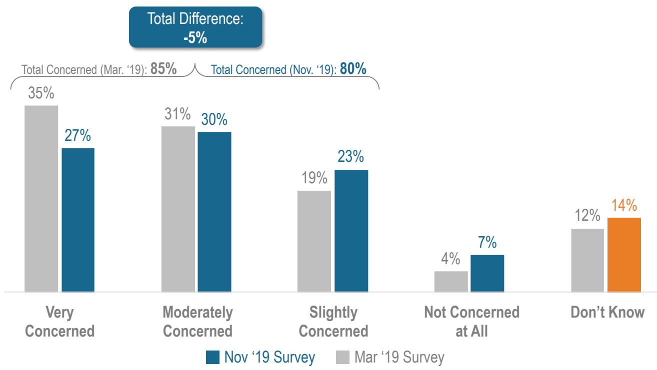
Conflicts of Interest

Let's first look at conflicts of interest. Conflicts of interest remains a key issue with proxy advisory firms—retail investors argue that conflicts of interest in the proxy advisors' business can undermine the objectivity of voting recommendations. In total, 80% of retail investors indicated they were at least slightly concerned about conflicts of interest. The increased familiarity may be the result of political conversation currently surrounding the concept of "quid pro quo." That said, Spectrem found that

[18] Retail Investor Survey Question: For the recommendations that proxy advisors provide, how important are the following elements?
[19] Retail Investor Survey Question: Market commentators have listed several concerns with proxy advisors. What is your level of knowledge about each of the potential issues?

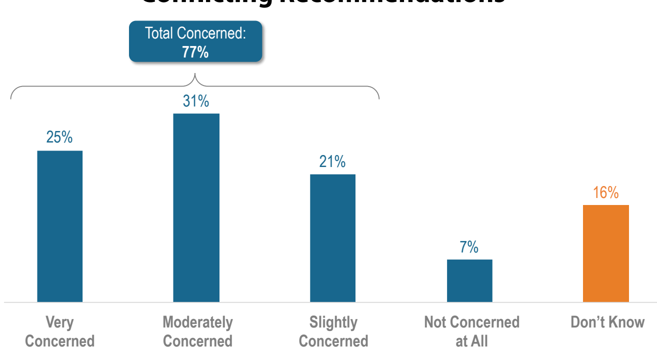
the overall level of concern for conflicts of interest decreased since our April survey, from 85% to 80%. While conflicts clearly remain a top concern, the decrease is potentially an outcome of the newly taken steps by the SEC to require proxy advisors to disclose material conflicts of interest.

Concern: Providing Recommendations and Consulting Services Present a Conflict of Interest[20]



As discussed earlier, retail investors are primarily focused on wealth maximization goals. ISS, the largest proxy advisor, struggles to manage this objective while also meeting the varying needs of all asset managers. As stated by ISS, their focus is "protecting shareholder value and mitigating governance risk," yet the proxy advisor produces secondary or "specialty" reports that potentially contain conflicting vote recommendations from ISS's core benchmark report. When informed of this discrepancy, 77% of investors indicated

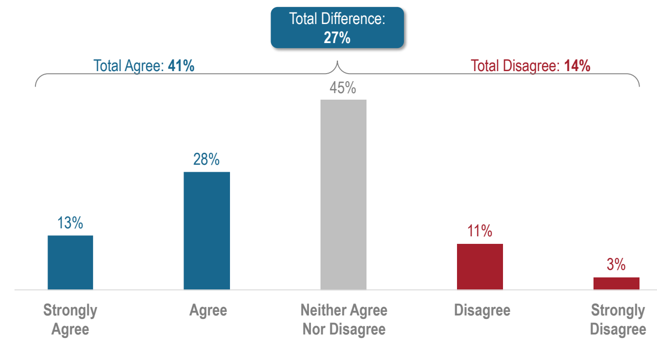
Concern: ISS Produces Multiple Reports with Conflicting Recommendations[21]



that they were at least slightly concerned with ISS producing multiple reports with conflicting recommendations.

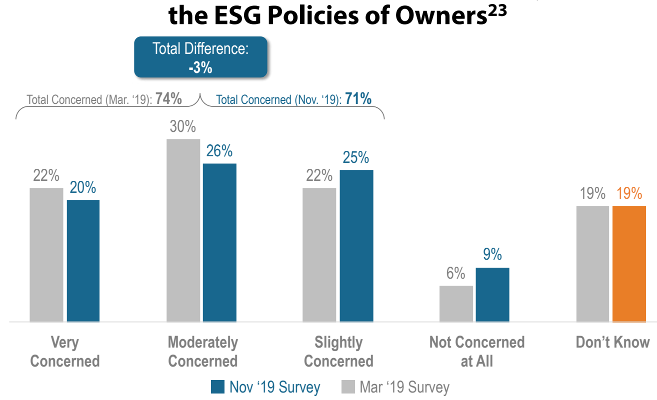
Further, Spectrem asked retail investors if proxy advisors should consider non-wealth maximizing factors into their vote recommendations. By a factor of nearly three-to-one, investors preferred that proxy advisor recommendations focus solely on wealth maximization.

Agreement: Should Proxy Advisors Solely Consider Wealth Maximization[22]



Unlike ISS, Glass Lewis faces issues related to conflicts of *ownership*. Glass Lewis is co-owned by the asset manager Ontario Teachers' Pension Plan Board, a fund that actively supports and submits environmental, social, and governance shareholder proposals. The influence of Glass Lewis' co-owners may affect the firm's ability to provide the most value-enhancive

Concern: Glass Lewis Influenced by the ESG Policies of Owners[23]



[20] Retail Investor Survey Question: Let's discuss conflicts of interest. Some argue proxy advisors have conflicts of interests in their business that undermine the objectivity of voting recommendations. For example, the largest proxy advisor (ISS) provides recommendations on companies, as well as selling consulting services on how companies can improve their performance for those same recommendations. This dynamic creates a "quid-pro-quo" environment and jeopardizes the objectivity of advisor recommendations. How concerned are you that proxy advisors providing both recommendations and consulting services present a conflict of interest?

[21] Retail Investor Survey Question: ISS claims that their focus is on "protecting shareholder value and mitigating governance risk." Yet, for any given company, ISS will produce secondary or "specialty" reports – which can potentially contain conflicting vote recommendations from ISS's core benchmark report. This discrepancy suggests some reports consider shareholder value more than others. How concerned are you that ISS produces multiple reports with conflicting recommendations?

[22] Retail Investor Survey Question: Do you agree that proxy advisor recommendations should solely consider wealth maximization?

[23] Retail Investor Survey Question: The second largest proxy advisor (Glass Lewis) is co-owned by the asset manager Ontario Teachers' Pension Plan Board. The Ontario Teachers' Pension Plan Board actively supports and submits environmental, social and governance ("ESG") shareholder proposals that do not always enhance the value of the company in question. How concerned are you that recommendations from Glass Lewis will be influenced by the ESG policies of their owners?

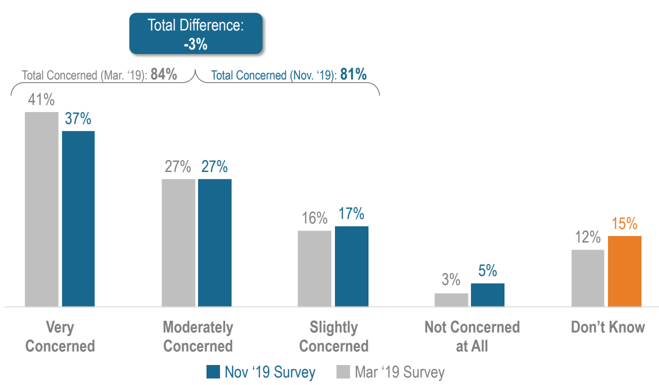
recommendations for the company in question. Overall concern for conflicts of ownership remained high (71%) but slightly decreased when compared to April (74%).

Robo-Voting

In a statement released by SEC Commissioner Hester Peirce, she discussed the integrity of the proxy voting process. Commissioner Peirce noted that "hiring assistance in researching and analyzing proxies of course does not relieve the adviser of its fiduciary duty; the adviser must still weigh the advice and vote according to its clients' interests, which might be inconsistent with its own."[24] Robo-voting—a phenomenon where investment advisors vote proxies automatically and without evaluation, by relying completely on the proxy firms' recommendations—is an ongoing concern. This has the potential to breach an investment advisor's fiduciary duty and is a top concern for the SEC, as noted by Commissioner Peirce.

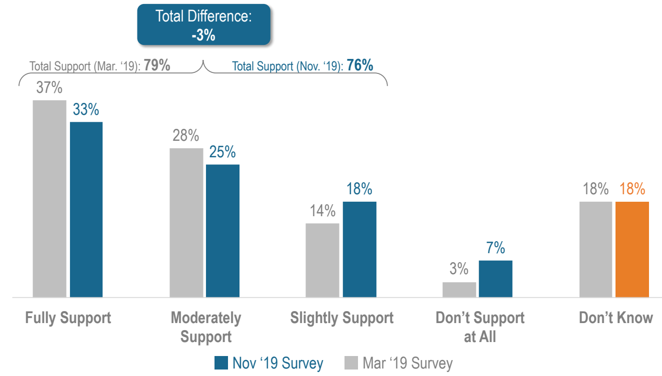
In the eyes of retail investors, robo-voting is the most concerning issue with proxy advisors, according to 81% of respondents. 37% of investors indicated that they were very concerned of this issue, receiving the highest amount of extreme concern across all tested issues.

Concern: Proxy Advisors Enable Robo-Voting[25]



Although the SEC did not recently take action to prevent robo-voting, retail investors remain highly supportive of adopting changes to address the problem. In total, 76% of retail investors at least slightly support changes on the issue. It is worth noting that only 7% of investors indicated they would not support changes to address robo-voting.

Support: SEC Adopting Changes to Address Issue of Robo-Voting[26]



Because robo-voting was such a concerning issue to retail investors, Spectrem further researched potential solutions and concerns on the topic. Please see Section III for additional information.

Inadequate Transparency

Another criticism of proxy advisory firms is their lack of sufficient transparency in voting policies and procedures. Due to the lack of transparency, stakeholders face difficulties in understanding how recommendations are derived. Retail investors are starting to take note of this issue, as 49% indicated familiarity with the lack of transparency, an increase from 45% since April.

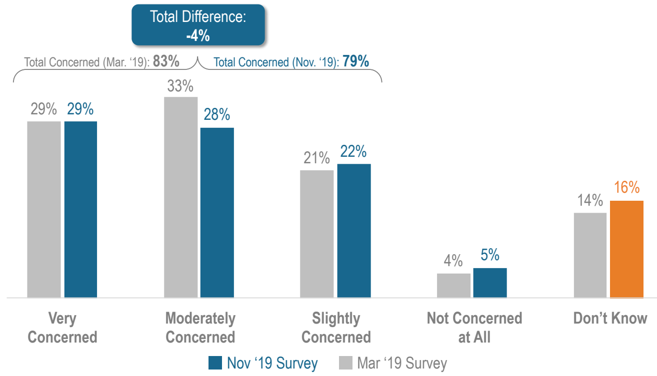
The increase in awareness in inadequate transparency is accompanied by a high level of concern. Spectrem saw 79% of retail investors as at least slightly concerned about the issue. This level of alarm is a decrease from April when 83% of investors indicated concern.

[24] Commissioner Hester M. Peirce, Statement at Open Meeting on Proposed Amendments to Improve Accuracy and Transparency of Proxy Voting Advice, November 5, 2019, available at https://www.sec.gov/news/public-statement/statement-peirce-2019-11-05-proxy-voting-advice

[25] Retail Investor Survey Question: Let's discuss Robo-Voting. There are investment advisors that vote proxies automatically and without evaluation, relying completely on the proxy firms' recommendations. This phenomenon, called "Robo-Voting," has the potential to be a breach of an investment advisor's fiduciary duty to their investors. How concerned are you about Robo-Voting?

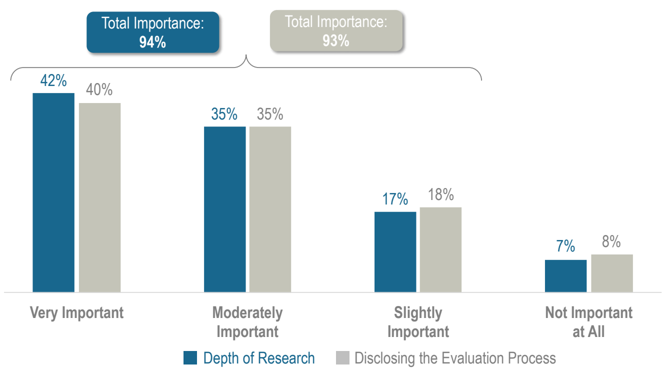
[26] Retail Investor Survey Question: How much do you support the SEC adopting changes to address the issue of Robo-Voting?

Concern: Proxy Advisors Lack Transparency in Their Recommendation Process[27]



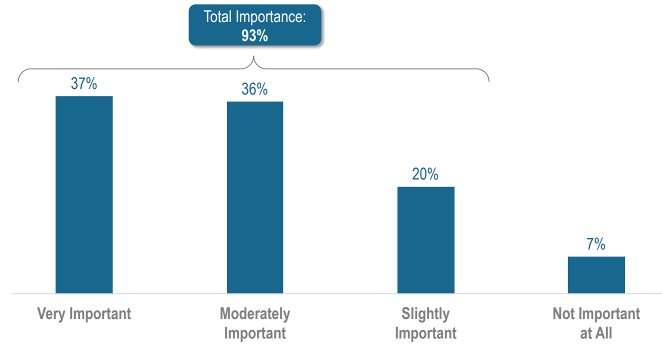
Because lack of transparency is a key issue for retail investors, Spectrem further examined and tested elements that investors find important for proxy advisor recommendations. Of note, 94% of respondents indicated at least a slight importance for depth of research and 93% for disclosing the evaluation process. As investors find significant value in recommendations that are in-depth and inclusive, a lack of transparency is unsurprisingly a concern.

Importance for Proxy Advisor Recommendations: Depth of Research, Disclosing the Evaluation Process[28]



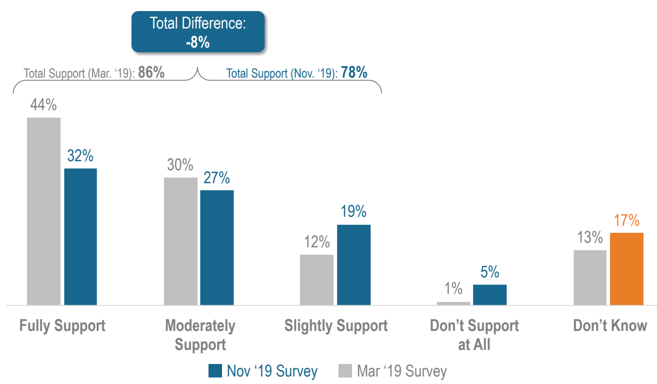
Another aspect of the issue of transparency is based in proxy advisors' frequent use of a one-size-fits-all approach that ignores company-specific characteristics. When asked if company-specific analysis was an important factor, 93% agreed on the importance of the element in proxy advisor recommendations.

Importance for Proxy Advisor Recommendations: Company-specific Analysis[29]



Overall, investors are demanding more clarity around proxy advisory recommendations and processes, as lack of transparency remains the second highest priority in SEC actions. Additionally, 78% are supportive of the SEC adopting changes to address the issue of inadequate transparency. Total support decreased from 86%, as measured in Spectrem's April study.

Support: SEC Adopting Changes to Address Issue of Inadequate Transparency[30]



Errors in Proxy Advisor Reports

In its public commentary submitted to the SEC on June 3, 2019, the Business Roundtable cited a 2018 survey of its CEO members that found that 95% of respondents identified factual errors in proxy advisory reports.[31] The letter points out that "the incidence of errors is far too frequent for reports so widely used and relied upon," arguing that errors, no matter how small, remain prevalent in proxy advisory reports and need to be addressed.[32]

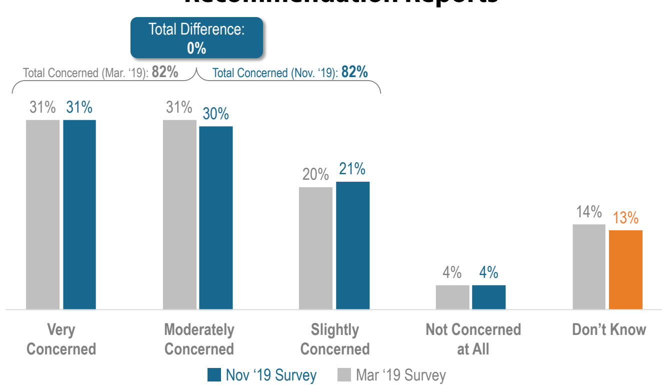
[27] Retail Investor Survey Question: Let's discuss transparency. One criticism is there isn't sufficient transparency about a proxy advisory firm's voting policies and procedures so that all stakeholders can understand how voting recommendations are derived. Additionally, critics argue that proxy advisors use a one-size-fits all approach that may ignore unique company characteristics and raise debate whether comparisons of recommendations across similarly situated companies have value. How concerned are you about proxy advisors lacking transparency in their recommendation process?
[28] Retail Investor Survey Question: For the recommendations that proxy advisors provide, how important are the following elements?
[29] Retail Investor Survey Question: For the recommendations that proxy advisors provide, how important are the following elements?
[30] Retail Investor Survey Question: How much do you support the SEC adopting changes to address the issue of inadequate transparency?
[31] Business Roundtable, Supplemental Public Comments to SEC on the Proxy Process, June 3, 2019, available at https://s3.amazonaws.com/brt.org/Business-RoundtableSECSubmissionReFileNo.4-725.pdf.
[32] Ibid.

The SEC's proposal, "Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice," cites the Business Roundtable letter and offers a potential solution by providing issuers an opportunity to review the proxy advice and correct or respond, as needed:

"We believe that establishing a process that allows registrants and other soliciting persons a meaningful opportunity to review proxy voting advice in advance of its publication and provide their corrections or responses would reduce the likelihood of errors, provide more complete information for assessing proxy voting advice businesses' recommendations, and ultimately improve the reliability of the voting advice utilized by investment advisers and others who make voting determinations, to the ultimate benefit of investors." [33]

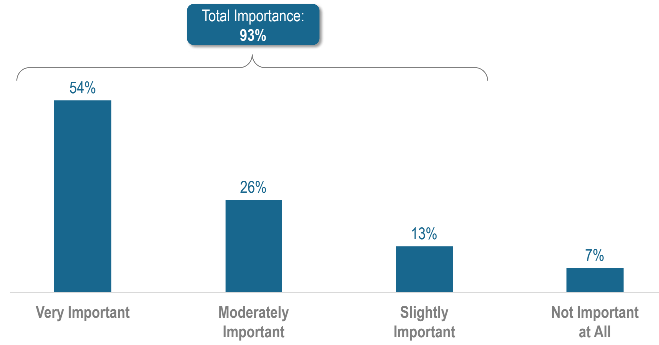
Retail investors mirror the SEC and the Business Roundtable's concern for errors within proxy advisor reports, by ranking the issue first in level of total concern among the five proxy advisor items. Identical to Spectrem's April survey results, 82% of investors are at least slightly concerned with errors within proxy advisor reports.

Concern: Errors Within Proxy Advisor Recommendation Reports[34]



Given that errors in proxy advisor reports are a top concern for investors, it is no surprise to see accuracy of research is also viewed as a crucial factor in proxy advisor recommendations. Among retail investors, 93% noted that accuracy of research was at least slightly important and 54% of investors indicated it was very important.

Importance for Proxy Advisor Recommendations: Accuracy of Research[35]



As previously discussed, 79% of investors support the new SEC amendment allowing issuers to review proxy advisor reports for errors. This is clearly a top priority for retail investors and allowing issuer feedback is a widely supported step toward addressing these concerns and boosting retail investor confidence.

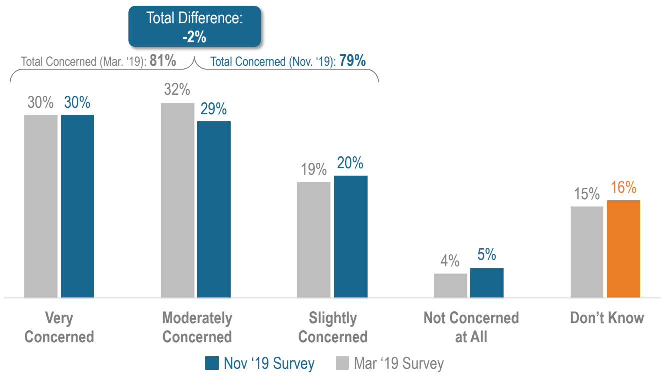
Refusal to Engage with Issuers

The opportunity for a company to provide comments, whether on errors in a proxy advisor report or to address methodological differences, is not currently available to issuers. However, this is changing. In 2019, Glass Lewis tested a pilot program to allow issuer feedback and the SEC has now provided an amendment to require an issuer to include a specific hyperlink within a proxy advisor report.[36] The SEC has long supported engagement activities that foster better communication between issuers and investors. The new hyperlink rule further modernizes the communication channels, allowing more timely and relevant feedback to be provided. Spectrem found that 45% of investors are at least slightly familiar with the issue of engagement, and the lack thereof.

Although familiarity of insufficient engagement is relatively low compared to other proxy items, retail investors maintain a high level of concern for the lack of engagement from proxy advisors. In fact, 79% of investors expressed that they were at least slightly concerned.

[33] SEC Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice, page 44.
[34] Retail Investor Survey Question: Let's discuss errors. One issue is if companies are being given an appropriate opportunity to raise concerns if they disagree with a proxy advisory firm's recommendation, including, in particular if the recommendation is based on erroneous, materially incomplete, or outdated information. In fact, a recent report identified 139 proxy advisor errors (as reported by supplemental filings) from 2016, 2017 and part of the 2018 proxy season. How concerned are you with errors within proxy advisor reports?
[35] Retail Investor Survey Question: For the recommendations that proxy advisors provide, how important are the following elements?
[36] https://www.glasslewis.com/report-feedback-statement-service/

Concern: Refusal to Engage Issuers[37]



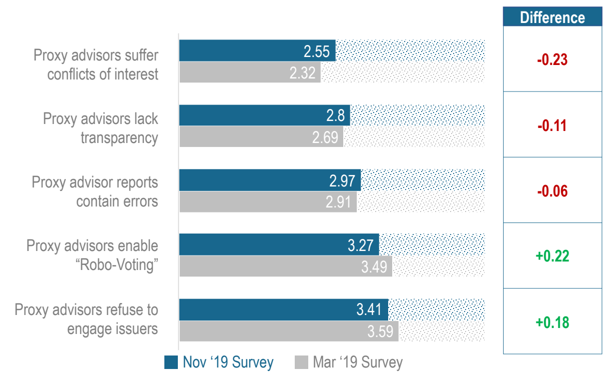
Surprisingly it was SEC Commissioner Allison Lee that said, "there is no basis for assuming that greater issuer involvement would improve proxy voting advice."[38] Retail investors disagree with this sentiment, and in fact 75% are supportive of the SEC's new hyperlink amendment with 31% indicating they were fully supportive. As previously indicated, confidence that the provided recommendations are accurate, unbiased, and in-depth are all important to investors but are not viable without clear consideration of both sides of the story.

SUMMARY

Overall, Spectrem found that concern and support of key issues with proxy advisors remain comparable to the previous report in April. Retail investors would like to see the SEC address conflicts of interest, robo-voting, inadequate transparency, and poor engagement with issuers. Additionally, investors would like to ensure that all available information is being considered by their investment advisors in the voting process. Verifying information and ensuring that proxy advisor reports are accurate is a top priority.

To further determine which of the five issues were of greatest importance to investors and to understand if priorities have changed since April, Spectrem once again asked investors to prioritize potential SEC actions on these key issues. Investors ranked the five issues in the same order of priority as the April survey, ranking conflicts of interest first and refusal to engage with issuers last.

Prioritization of Proxy Issues for SEC Action[39]



It is interesting to note that the SEC took action to address conflicts of interest, errors, and engagement but did not resolve problems with robo-voting or inadequate transparency. We'll address potential issues with robo-voting in the next section.

SECTION III: CONCERN FOR ROBO-VOTING AND SUPPORT FOR PROXY ADVISOR SOLUTIONS

As previously stated, robo-voting and errors are the two biggest concerns for retail investors. This section explores how concerns vary, what fuels them, and what solutions (if any) are supported to alleviate them.

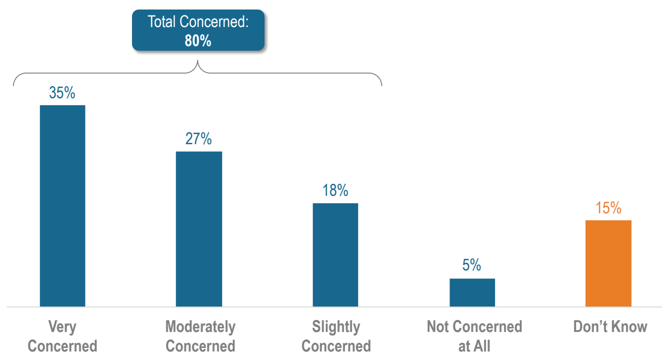
Concern for Pre-determined Policy Robo-voting

Proxy advisory firms have rebutted complaints around robo-voting, indicating that investment advisors vote based on customized and pre-determined policies. These polices, handcrafted in collaboration with the proxy advisors, allow investment managers to express their voting preferences without defaulting to the standard advisor recommendations.

[37] Retail Investor Survey Question: Let's discuss engagement. When proxy advisors release an adverse recommendation, they rarely provide the company an opportunity to provide comments. In fact, a recent study of companies showed that Glass Lewis did not provide advanced notice in 84% of adverse recommendations. With no ability to ensure the accuracy of information, companies cannot respond to potential errors. How concerned are you with the lack of engagement from proxy advisors and companies?
[38] Commissioner Allison Herren Lee, Statement on Shareholder Rights, November 5, 2019, available at https://www.sec.gov/news/public-statement/statement-lee-2019-11-05-shareholder-rights
[39] Retail Investor Survey Question: If you had to prioritize the potential changes that the SEC should make, how would you rank the order of importance for the below issues? (Lower values = higher importance)

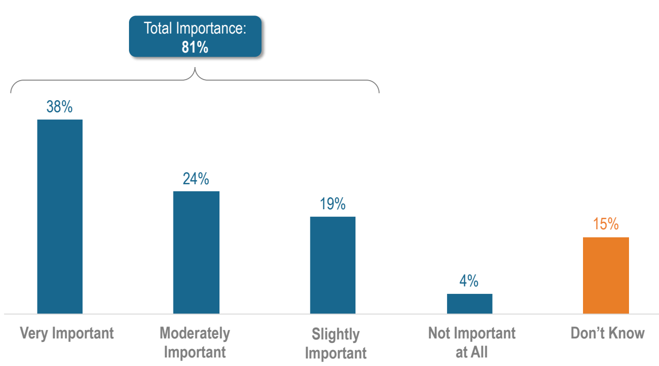
Although these "customized policies" may be different than the core proxy advisor recommendations, they enable investment advisors to automatically vote without certifying that they have read the proxy advisor's analysis or any response from the issuer. As previously stated, retail investors indicated a high level of concern (81%) for the issue of proxy advisor default robo-voting. However, Spectrem tested concern for pre-determined policy-based robo-voting and found that investors are *equally concerned* with policy-based voting as they are with proxy advisor defaults. In fact, 80% of investors are at least slightly concerned with pre-determined policies and only 5% are not concerned at all.

Concern: Predetermined Robo-Voting[40]



It is important to note that retail investors highly value an investment advisor's in-depth evaluation of all available and potentially relevant information prior to making a voting decision, regardless of whether the proxy recommendation was adverse or not. In fact, 81% of respondents indicated it was at least slightly important that an investment advisor utilize all available information before voting proxies.

Importance for Utilizing All Available Information[41]

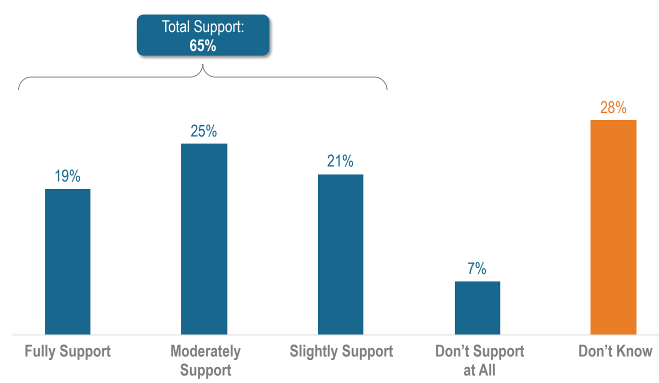


Potential Regulatory Solutions to Robo-voting

Retail investors' solutions are not unreasonable. In fact, investors are aware of the benefit of voting efficiently in instances with no conflicting recommendations. However, when management and proxy advisors disagree—roughly 5-10% of all resolutions— retail investors are supportive of additional oversight. Spectrem asked what level of consideration resolutions should receive if parties disagree—36% indicated that *more* considerations were warranted, 52% said all resolutions should receive the same amount, and only 4% said less consideration.

As previously noted, investors are primarily focused on voting in alignment with wealth maximization. On August 21st, the SEC provided updated guidance to clarify that investment advisors are not obligated to vote securities for non-material proposals. By abstaining from non-material proposals, investment advisors can reduce the amount of resources allocated to the proxy voting process. Spectrem found that 65% of retail investors were supportive of the updated guidance and only 7% did not support the clarification.

Support: Updated "No Vote" SEC Guidance[42]



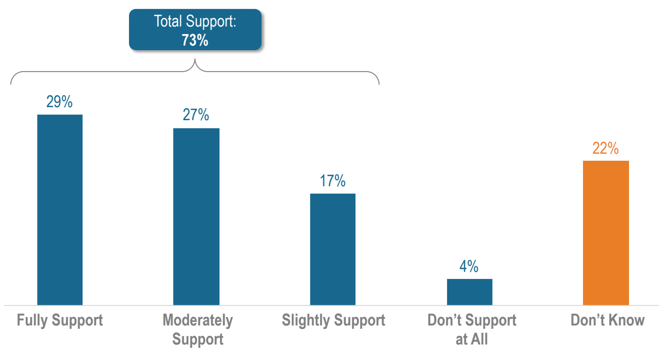
[40] Retail Investor Survey Question: In some cases, investment advisors Robo-Vote shares in alignment with predetermined voting policies. Although these "customized policies" may be different than the core proxy firm recommendations, they enable an investment advisor to automatically vote without certifying that they have read the proxy advisor's analysis or any response from the issuer. To what extent are you concerned about predetermined Robo-Voting?

[41] Retail Investor Survey Question: How important is it for investment advisors to utilize all available and potentially relevant information – including direct engagement with subject companies – prior to making a voting decision?

[42] Retail Investor Survey Question: The SEC provided guidance that investment advisers are not obligated to vote their securities for non-material proposals. By abstaining from non-material proposals, investment advisers can reduce the amount of resources allocated towards proxy voting. To what extent do you support investment advisors abstaining from non-material proposals?

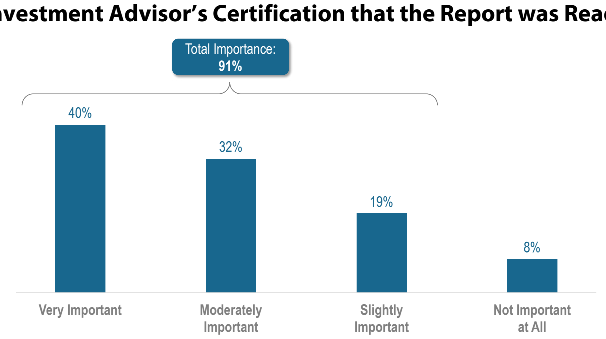
Spectrem was also interested in potential solutions that could address the issue of robo-voting. One discussed regulatory solution is disabling the automatic voting system when a company issues a rebuttal to a proxy advisor's voting recommendation. Should this happen, investment advisors would need to certify that they have read the proxy advisor's report, as well as any response from the issuer, and then confirm their vote, which would ensure the investment advisors' vote is in alignment with their fiduciary duty. A large majority (73%) of investors were supportive of this solution and only 4% showed no support at all.

Support: Disabling Robo-Voting When Company Rebuts Proxy Advisor's Recommendation[43]



How important is it to investors that a proxy advisor's report is read by the investment manager? Very important. In fact, 91% of retail investors view certification that an advisor's report was read as important. The data show that retail investors want to be sure that investment advisors have thoroughly examined and taken into consideration all relevant information.

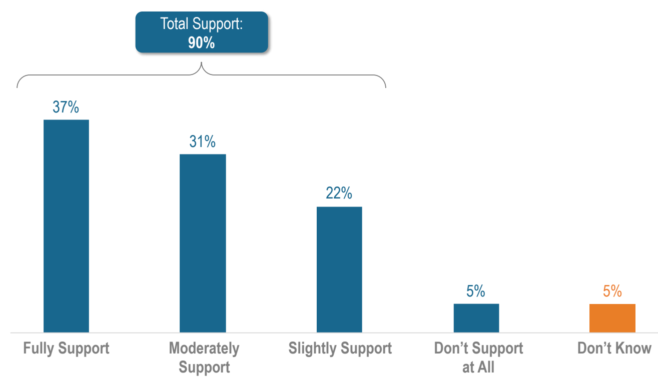
Importance for Proxy Advisor Recommendations: Investment Advisor's Certification that the Report was Read[44]



In its new proposal for proxy rule amendments and as part of the Request for Comment, the SEC inquired, "Should we require proxy voting advice businesses to disable the automatic submission of votes unless a client clicks on the hyperlink and/or accesses the registrant's (or certain other soliciting persons') response, or otherwise confirms any pre-populated voting choices before the proxy advisor submits the votes to be counted?"[45]

Retail investors say yes. As requested by the SEC, Spectrem looked deeper into how retail investors view robo-voting and the potential solutions discussed to address this issue. Taking one step further from the SEC's proposed hyperlink rule, Spectrem asked retail investors their level of support for the SEC requiring proxy advisors to disable automatic voting until an investment advisor confirms their vote. Of investors that support the hyperlink rule (75%), 90% indicated that they also support disabling robo-voting until confirmation is received.

Support: Disabling Robo-Voting until Investment Advisor Confirms Vote[46]



SUMMARY

Investors are largely concerned with robo-voting, not just proxy advisor default voting but also pre-determined policy based robo-voting. Investors want their investment advisors to review all available information before making voting decisions, especially in circumstances where proxy

[43] Retail Investor Survey Question: One discussed regulatory solution to Robo-Voting is disabling the automatic voting system when a company issues a rebuttal to a proxy advisor's voting recommendation. In these instances, an investment advisor would need to certify they have read the proxy advisor's report, read any response from the issuer, and then confirm their vote. This would ensure investment advisors vote shares in alignment with their fiduciary duty. How much do you support the SEC disabling automatic voting only in circumstances when a company rebuts a proxy advisor's recommendation?
[44] Retail Investor Survey Question: For the recommendations that proxy advisors provide, how important are the following elements?
[45] SEC Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice, page 66.
[46] Retail Investor Survey Question: In the event that issuers include a hyperlink in proxy advisor reports, to what extent would you support the SEC requiring proxy advisors to disable automatic or Robo-Voting until an investment adviser confirms their vote?

advisors and management disagree. Investors largely support disabling automatic voting when parties disagree and view the hyperlink as playing a critical role in confirming investor engagement with proxy materials. In fact, if the SEC requires an issuer to use a hyperlink, 90% of investors support disabling robo-voting until an investor has confirmed their vote.

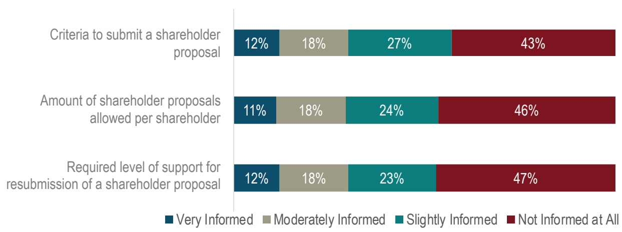
SECTION IV: SUPPORT AND IMPORTANCE FOR AMENDMENTS TO SHAREHOLDER PROPOSAL RULE

On November 5, 2019, along with amendments to proxy voting rules, the SEC proposed amendments to modernize the shareholder proposal rule (Exchange Act Rule 14a-8). Specifically, the proposed amendments would revise the eligibility requirements under Rule 14a-8(b), the one-proposal limit under Rule 14a-8(c), and the resubmission thresholds under Rule 14a-8(i)(12). Included in the SEC's amendments were the following changes:

- Update to the criteria to submit a shareholder proposal
- Update the "one proposal" rule, clarifying the amount of proposals allowed per shareholder
- Modernize the required level of support for resubmission of a shareholder proposal

To begin, Spectrem asked retail investors of their overall awareness of these core topics. Among the three proposed amendments, investors indicated the highest level of familiarity with updates to the shareholder proposal submission criteria, with 57% of respondents at least slightly informed of the topic.

Familiarity of Newly Proposed Shareholder Proposal Rules[47]



That said, more than 40% of respondents indicated that they were not informed at all, which suggests that more education on these topics is warranted.

Criteria to Submit a Shareholder Proposal

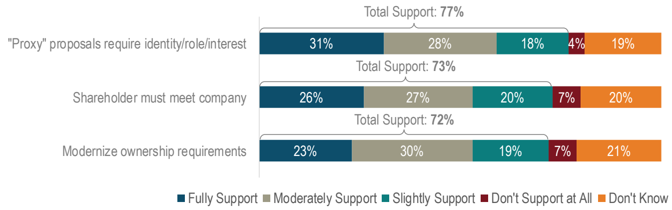
Diving deeper into each topic, Spectrem tested retail investors' support for each of the shareholder proposal amendments. In particular, the SEC's amendments to Rule 14a-8(b), the shareholder eligibility criteria for submitting a shareholder proposal, newly enforces the following requirements:

- **Modernize ownership requirements** – Shareholders' eligibility to submit proposals is based on both the amount of ownership and the duration of their holding period
- **Shareholder proposals "by proxy" require identity/role/interest** – Proposal by proxy requires documentation to confirm that the representative is authorized to act on the shareholder-proponent's behalf and to provide a meaningful degree of assurance as to the shareholder-proponents identity, role and interest in a proposal
- **Shareholders must meet with the company – ** Each shareholder needs to state their ability to meet with the company in no less than 10 calendar days and no more than 30 calendar days after submission of the shareholder proposal, and provide contact information, business days and specific times that the shareholder-proponent is available to discuss the proposal with the company

All three requirements received high levels of support from retail investors. Most notably, requiring "proxy" proposals to have shareholder identity/role/interest and making meetings mandatory with the company were the two most supported changes—77% and 73%, respectively.

[47] Retail Investor Survey Question: Let's discuss the newly proposed rule on shareholder proposals. The SEC released new amendments to modernize the rule that governs the process for shareholder proposals which can be summarized into three core topics. To what extent are you informed about each topic?

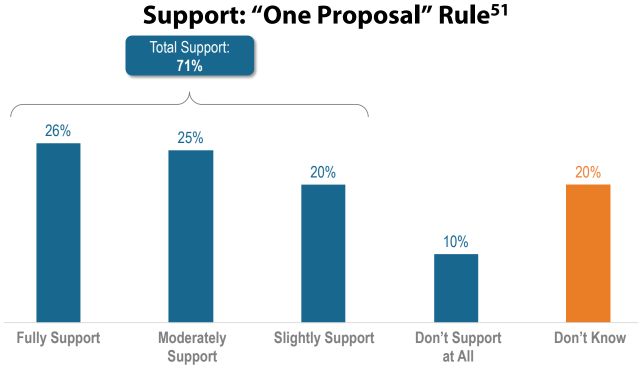
Support: Updated Criteria to Submit a Shareholder Proposal[48,49,50]



Amount of Shareholder Proposals Allowed per Shareholder

The SEC proposed amendments to the "one proposal" rule to clarify that a single person may not submit multiple proposals at the same shareholder's meeting, regardless of whether the person submits a proposal as a shareholder or as a representative of a shareholder. 71% of investors indicated they are at least slightly supportive of this proposed update with only 10% not supportive at all.

Support: "One Proposal" Rule[51]

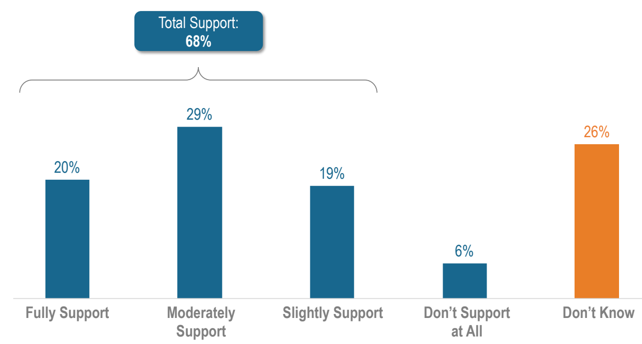


Required Level of Support for Resubmission of a Shareholder Proposal

Additionally, the SEC addressed the resubmission thresholds for shareholder proposals. These efforts modernize the eligibility threshold if a shareholder proposal can reappear in the same company's future shareholder meetings. If changes are to be implemented, resubmission thresholds will become 5%, 15%, and 25% for matters voted on once, twice, or three or more times in the last five years, respectively.

Proposals that experience a decline in shareholder support of 10% or more compared to the immediately preceding vote would also be excluded. 68% of retail investors largely supported this amendment and only 6% disapproved completely. While this amendment has the lowest level of support, it also has the highest level of uncertainty with over a quarter of respondents saying they "Don't Know." This indicates that the resubmission threshold changes are perhaps the hardest for investors to understand.

Support: Modernized Resubmission Thresholds[52]



[48] Retail Investor Survey Question: In updating the criteria to submit a shareholder proposal, one requirement is regarding amount of ownership. Instead of using a flat alignment structure, shareholders will now be eligible to submit proposals based on both the amount of ownership and the duration of their holding period. Details of the updated rule below. **Previous**: To be eligible to submit a shareholder proposal you must either own $2,000 of company shares or 1 percent of a company's securities for at least one year. **Updated**: Investors would be qualified to submit a proposal if they met the below conditions:

- Own $2,000 of the company's securities for at least three years;
- Own $15,000 of the company's securities for at least two years; or
- Own $25,000 of the company's securities for at least one year.

To what extent do you support the updated rule to modernize ownership requirements to submit a shareholder proposal?

[49] Retail Investor Survey Question: In updating the criteria to submit a shareholder proposal, one requirement is that a shareholder-proponent who elects to use a representative for the purpose of submitting a shareholder proposal (known as "proposal by proxy") provide documentation to make clear that the representative is authorized to act on the shareholder-proponent's behalf and to provide a meaningful degree of assurance as to the shareholder-proponent's identity, role and interest in a proposal. To what extent do you support requiring a shareholder proposal by proxy reflect the identity, role, and interest of the underlying shareholder?

[50] Retail Investor Survey Question: In updating the criteria to submit a shareholder proposal, one requirement is that each shareholder-proponent state that he or she is able to meet with the company, either in person or via teleconference, no less than 10 calendar days, nor more than 30 calendar days, after submission of the shareholder proposal, and provide contact information as well as business days and specific times that the shareholder-proponent is available to discuss the proposal with the company. To what extent do you support requiring shareholders to meet with the company to discuss the shareholder's proposal?

[51] Retail Investor Survey Question: In updating the amount of shareholder proposals allowed per shareholder, the amendment updates the "one proposal" rule to clarify that a single person may not submit multiple proposals at the same shareholder's meeting, whether the person submits a proposal as a shareholder or as a representative of a shareholder. To what extent do you support clarifying that a single person may only submit one shareholder proposal at the same shareholder meeting?

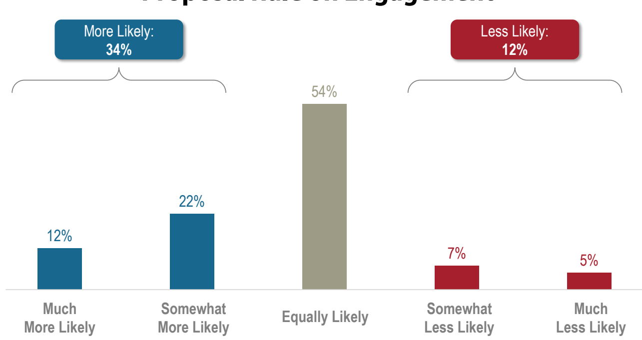
[52] Retail Investor Survey Question: In updating the required level of support for resubmission of a shareholder proposal, the SEC modernizes the threshold if a proposal is to reappear at the same company's future shareholder meetings. Details on the rule below. **Previous:** Resubmission thresholds of 3 percent, 6 percent and 10 percent for matters voted on once, twice or three or more times in the last five years, respectively. **Updated:** Resubmission thresholds of 5 percent, 15 percent and 25 percent for matters voted on once, twice or three or more times in the last five years, respectively. Additionally, proposals would be excluded that experience a decline in shareholder support of 10 percent or more compared to the immediately preceding vote. To what extent do you support modernizing the threshold a proposal must receive to be eligible for resubmission at the same company's future shareholder meetings?

Companies say that continuing to address the same shareholder proposals year after year is a poor use of shareholders' resources. Therefore, resubmission thresholds require repeat proposals to meet minimum levels of support to be resubmitted. Failing to meet resubmission thresholds requires a proposal "cooling off" period that would disqualify the company from eligibility for three years. Spectrem asked investors about the appropriate duration of the "cooling off" period and most investors (34%) felt three years was appropriate.

SUMMARY

Overall, retail investors showed high levels of support for all newly proposed SEC rules. SEC Commissioner Elad Roisman stated in the announcement of the shareholder proposal rule amendments that "these proposed changes will facilitate and encourage meaningful company-shareholder engagement and make changes that can help prevent misuse of the process."[53] The changes were indeed positively received, as retail investors further indicated their support for the SEC's amendments by noting that the new changes would encourage more engagement with companies. Most investors (34%) find the changes encourage further engagement, whereas only 12% said it would harm potential engagement with the company in question.

Effect of Amendment to Shareholder Proposal Rule on Engagement[54]



[53] SEC Proposes Amendments to Modernize Shareholder Proposal Rule, November 5, 2019, available at https://www.sec.gov/news/press-release/2019-232
[54] Retail Investor Survey Question: To what extent would the proposed SEC changes affect your likelihood of engaging with companies prior to and/or following the submission of a shareholder proposal?

CONCLUSION – BY J.W. VERRET

Our report on the April 2019 Spectrem study included numerous recommendations for SEC consideration and action, based on the views and opinions gathered from retail investors. As noted at the time, these average American investors, many of whom, as Chairman Clayton noted, "have put or are putting $50, $100, $200 a month away for years and years," are the most critical players in the markets that the SEC is charged with regulating and protecting.[55]

Their voice and call for change were clear. Action is necessary to address conflicts of interest at proxy advisors, particularly the two dominant firms ISS and Glass Lewis. Retail investors said they would welcome SEC attention to rules that have entrenched the firms, especially as proxy advisors have wielded the influence of—and recommended the actions put forth by—clients pushing a more "socially responsible" agenda in shareholder proposals.

The recommendations noted how the growing power of proxy advisors had greater implications on shareholder proposals generally. They also called for greater proxy advisor disclosure. The survey showed that retail investors see proxy advisors' social and political focus as inconsistent with their priority of maximizing returns. They want greater transparency in how and why proxy advisors make their recommendations, and whether their advice is influenced by clients that provide substantial income to the firms.

It was also clear that retail investors had concerns with robo-voting and wanted to see the SEC take steps to ensure company responses to proxy advisor recommendations—especially those tainted by errors of analysis—were being properly considered by investment advisors, and not ignored by automatic voting procedures.

The recent SEC proposals, and this new survey's findings of overwhelming support for those reforms among the retail investor community, show that those recommendations were timely and on-target.

The SEC proposes to require that proxy advisors address some of retail investors' top concerns, including greater disclosure of conflicts of interest and providing companies a real opportunity to respond to recommendations—and for those responses to be made readily visible to investors and their advisors.

The proposed rules also aim to address some of the issues voiced around shareholder proposals by making it clearer who is submitting the proposals and making the criteria to do so more stringent. This is a direct response to concerns about the influence of market players for whom maximizing returns is not the top priority.

And while retail investors show decidedly strong support for what the SEC has proposed, this survey shows they'd like to see further action on robo-voting. In response, the SEC should consider additional reforms to ensure that institutional investors with active voting policies must demonstrate they've reviewed information in the voting recommendation hyperlink before a vote is finalized. Most retail investors support this reasonable response to the robo-voting problem.

This survey should be viewed as a call to action by the retail investor community. As the SEC takes public comment on its proposed rules, retail investors have an opportunity to narrow the disconnect between their preferences and proxy advisors' influence and align them with the voting practices at institutional investors. Their voice, the true investor sentiment, can be heard as these important reforms are instituted.

[55] Chairman Jay Clayton, Statement at the SEC Staff Roundtable on the Proxy Process, November 15, 2018, available at https://www.sec.gov/news/public-statement/clayton-statement-roundtable-proxy-process