Chairman Jay Clayton
U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

January 14, 2020

To Chairman Clayton: RE – S7-22-19

I am writing to you Chairman Clayton, and your fellow Commissioners, to express my support for the proposed rules on the proxy process. I am a retail investor who has followed this issue closely in recent years and submitted a comment during the last consultation. Since then I have been encouraged to see the Commission issue guidance and propose rules that tackle the issues proxy advisory firms pose. I urge the commission to finalize these proposed rules.

Like many retail investors I have found low-fee passive investment products and vehicles offered by institutional asset managers, such as index funds, to be an attractive investment vehicle. However, an unintended consequence of investing in products like index and mutual funds is that retail investors like me are required to surrender control of their proxy voting rights. These privileges are instead assumed by asset managers, so individual investors must have faith in asset managers to vote responsibly to reflect our financial interests.

Unfortunately, some managers are not responsibly using their newfound proxy voting power amassed from the investment accounts of ordinary investors. Many have chosen to pursue agendas that prioritize their chosen social and political goals over absolute financial returns, and they do so without the approval or knowledge of fund members like me.

In the past year, evidence of this practice has continued to surface, and fund managers continue to use the two largest proxy advisory firms, Institutional Shareholder Services (ISS) and Glass, Lewis Co. to assist them in the proxy process. These two firms have gained an outsized influence in the proxy process, controlling a whopping 97 percent of the proxy marketplace. As David F. Larcker, Brian Tayan and James R. Copland explained at the Harvard Law School Forum on Corporate Governance and Financial Regulation in 2018:

95 percent of institutional investors vote in favor of a company's "say on pay" proposal when ISS recommends a favorable vote while only 68 percent vote in favor when ISS is opposed (a difference of 27 percent). Similarly, equity plan proposals receive 17 percent more votes in favor; uncontested director elections receive 18 percent more votes in favor; and proxy contests 73 percent more votes in favors when ISS also supports a measure.

While the evidence shows that ISS is the more influential proxy advisory firm, Glass Lewis also has influence over voting outcomes. Glass Lewis favorable votes are associated with 16 percent, 12 percent, and 64 percent increases in institutional investor support for say on pay, equity plan, and proxy contest ballot measures. Furthermore, some individual funds vote in near lock-step with ISS and Glass Lewis recommendations, correlations that suggest that the influence of these firms is substantial.

Even more concerning is that proxy advisors have a history of promoting resolutions that offer no real value to retail investors. . Research by law firm Sullivan & Cromwell has now shown that ISS supported

74 percent of social proposals in 2018, including 94 percent of proposals that would require companies to disclose political spending and 84 percent of proposals that would force them to comply with extralegal environmental standards.

Although some institutional investors followed the recommendations of these proxy advisors and backed such measures, retail investors like me have been more reluctant. A study jointly produced by Broadridge and PwC showed that retail investors were half as likely as institutions to support environmental and social proposals in the 2018 proxy season.

A second study commissioned by the National Association of Manufacturers, suggests why retail investors do not vote for such proposals ourselves. Their data showed that, as we fear, these proposals frequently create greater financial costs for publicly traded companies – and therefore, their shareholders – than financial benefits. What's more, such proposals create costs for the companies that must hold ballots on the matters, yet there is no evidence definitively showing that social and environmental proposals deliver positive financial returns for shareholders. As I and other retail investors also surmise, the majority of environmental proposals put forward at publicly-held companies from 2006 to 2017 were proposed by just a handful of activist investors more interested in advancing social policy goals than the financial returns of other shareholders.

Yet another study, this time by the U.S. Chamber of Commerce, found that proxy advisory firms routinely support environmental and social proxy ballot items that have been rejected by a majority of retail investors such as me in prior years. According to their data, support from proxy advisors helps keeps these resolutions alive, creating "zombie proposals" that perennially drain capital and resources from firms and shareholders alike.

Based on my own experience when I owned a BlackRock fund, proxy advisory firms do not disclose their methodologies for coming to their conclusions about proxy voting matters. Nor do they disclose potential conflicts of interest, even though numerous critics over the years have pointed out that ISS, in particular, has a significant number of potential conflicts between its consulting business and ratings service. These serous concerns, as well as the increasing pursuit of political objectives by fund managers prompted me to join the Main Street Investors Coalition, in order to serve as a genuine voice for the rights of individual investors such as myself.

I would like to close by thanking you Chairman Clayton, and the rest of the Commission, for undertaking a comprehensive and thorough rulemaking process and proposing the rules that we see today. I believe these rules will force proxy advisory firms to be more transparent and improve the quality and accuracy of their guidance, in the process enhancing the value of retail investors' investments.

I especially would like to see an end to the influence that proxy advisory firms have on proposals motivated by social and political issues. These proposals have no place in the shareholder process and have been proven to only hurt the interests of retail investors like myself. I look forward to the day these rules are finalized by the SEC.

Sincerely,
Nancy Bauroth
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