



SHAWN T. WOODEN
TREASURER

State of Connecticut
Office of the Treasurer

DARRELL V. HILL
DEPUTY TREASURER

January 31, 2020

The Honorable Jay Clayton
Chairman
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Re: File No. S7-22-19, *Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice*

File No. S7-23-19, *Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8*

Dear Chairman Clayton,

As Treasurer of the State of Connecticut and principal fiduciary of the \$38.5 billion Connecticut Retirement Plans and Trust Funds ("CRPTF"), I write in opposition to two (2) proposed rules under consideration by the SEC: (1) *Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice* ("Amendments") and (2) *Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8* ("Procedural Requirements"). As discussed more fully herein, the proposed Amendments are likely to adversely impact the manner in which the CRPTF procures advice from proxy advisory firms, an essential resource in the exercise of my fiduciary duty to cast informed votes at the companies in which the CRPTF is invested, and will curtail value-creating proposals put forth by investors.

Connecticut's Proxy Voting Program

My primary objective as fiduciary of the CRPTF is to increase the value of our investments on behalf of 212,000 participants and beneficiaries who depend on these assets for their future financial security. To that end, I've taken seriously my responsibility to vote proxies with integrity, transparency and diligence for each of the 15,770 unique ballot items at 1,585 meetings in 2019 alone. The advice we receive from proxy advisory firms in the execution of these votes is essential. Accordingly, I strongly oppose the proposed Amendments and Procedural

Requirements on the grounds that they are unnecessary, burdensome, and will restrict the exchange of value-creating ideas that promote fair and efficient markets.

The SEC's Proposed Amendments (S7-22-19)

I have strong concerns that the proposed regulatory requirements for proxy advisers will serve to weaken the quality and timeliness of advisory analysis that investors use to inform their voting on a wide range of proxy voting items every year. Specifically, the proposal requiring proxy advisers to share their reports with companies, before investor clients, runs contrary to the rules governing stock analyst reports, which exist to guard against company influence that could undermine analysts' independence.¹ These company reviews, as proposed, will add more than a week to advisors' analysis without any evidence that the research which investors ultimately receive will improve as a result. Rather, these changes will undoubtedly limit the amount of time that shareholders have to scrutinize proxy advice and conduct our own analysis.

Moreover, these proposed Amendments seek to codify SEC interpretation and guidance that will subject proxy advisers to liability for materially misleading misstatements or omissions.² Should the SEC's proposed rule changes be enacted, proxy advisers, under increased threat of litigation, will be pressured to incorporate company revisions into their analysis, which will further weaken the independence of their advice. While I share a desire for accurate and materially relevant reporting,³ I am concerned that the rules' effect, in practice, will add costs to the procurement of proxy advice, and will act as a disincentive for new and smaller advisory firms to otherwise contribute to the body of information that investors seek as part of due diligence.

These proposed changes affecting proxy advisory firms highlight what I believe to be a fundamental flaw in the SEC's understanding of the relationship between proxy firms and investors. Proxy advisers serve at the behest of investors, not issuers. As the proxy voting fiduciary for the CRPTF, all votes are cast in accordance with our custom proxy voting guidelines, independent of proxy advisers' voting recommendations. Yet, the SEC's proposed rule changes presume a greater undue influence exerted by proxy advisory firms than what is borne out by fact. In 2018, ISS recommended voting against 12.3% of say-on-pay proposals for Russell 3000 companies, while only 2.4% of those proposals received less than majority shareholder support. In 2019, Glass Lewis recommended in favor of 89% of director elections while directors garnered an average support of 96%.⁴

The SEC's Proposed Procedural Requirements (S7-23-19)

I oppose any changes that will weaken the existing rights of shareholders under Rule 14a-8. The current rule provides for an effective, market-based process for investors to communicate with

¹ FINRA Rule 2241, which the SEC approved, explicitly prohibits stock analysts from sharing draft research reports with target companies.

² See *SEC Clarifies Investment Advisers' Proxy Voting Responsibilities and Application of Proxy Rules to Voting Advice*, August 21, 2019, <https://www.sec.gov/news/press-release/2019-158>

³ Studies suggests that errors in proxy advice are extremely rare, estimated at 0.1% or less. See American Council for Capital Formation, "Are Proxy Advisers Really a Problem?" October 2018, available at https://accfcorgov.org/wp-content/uploads/2018/10/ACCF_ProxyProblemReport_FINAL.pdf

⁴ Council of Institutional Investors.

companies on risks and opportunities of material interest to investors. The SEC's proposed changes to stock ownership requirements and resubmission thresholds will adversely impact smaller funds and stifle collaboration by limiting opportunities to collaborate with other investors on critically important governance topics.

Raising stock ownership requirements and prohibiting the aggregation of shares will limit the use of shareholder proposals by individual investors as well as investor coalitions. While the SEC may view this as a benefit to issuers, shareholder proposals have long been a source of value-creation for companies. The SEC's proposed changes to holdings requirements presume that good ideas only come from those with large holdings. It is important to maintain a shareholder proposal system that fosters collaboration, not just between shareholders and issuers, but among shareholders themselves.

The proposed changes to resubmission thresholds are of particular concern when considering companies with dual class stock. Shareholders do not rely on predictably high levels of support for their initial proposals at these companies; nevertheless the existing 14a-8 rule provides for a process where a significant portion of investors can advance materially important proposals. Under the existing process, companies are exposed to environmental, social, and governance topics, of investor concern, in a nonbinding manner. Investors are afforded adequate time to appreciate the evolving nature of these topics as well as time to incorporate new items into their proxy voting policies. By substantially raising these thresholds, shareholder proposals that are aimed at protecting long-term investments will be sharply curtailed.

Thank you for this opportunity to comment on these important issues. If you have any questions or would like to follow up further, please contact me or Christine Shaw, Assistant Treasurer for Policy at [REDACTED] or [REDACTED].

Sincerely,



Shawn T. Wooden
Connecticut State Treasurer

cc: The Honorable Robert J. Jackson, Jr., Commissioner
The Honorable Allison Herren Lee, Commissioner
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Reisman, Commissioner
Vanessa A. Countryman, Secretary