THE U.S. IMPACT INVESTING ALLIANCE
Private Capital for Public Good

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: File numbers: S7-23-19; S7-22-19

Dear Ms. Countryman:

Thank you for the opportunity to provide comment on these proposed rule changes. Unfortunately, we and our members have significant concerns about the substance of the proposed changes, as well as the haste with which the Commission has moved to apply them. In particular, the proposals would severely constrict the scope of the proxy process, and in turn, would eliminate one of the most important avenues for effective stakeholder engagement with corporate managers.

The U.S. Impact Investing Alliance ("the Alliance") is a field building organization committed to catalyzing the growth of impact investing in the United States. Members of our boards and councils include individual and institutional investors collectively owning hundreds of billions of dollars of invested assets, in addition to asset and fund managers collectively managing trillions of dollars in assets.

We define impact investing broadly to include those investments that create measurable and positive social, economic or environmental impacts. This definition includes all asset classes globally, and impact investors seek a wide range of return expectations.

Impact investing practices have grown rapidly in the past two decades. In 1996, when the Forum for Sustainable and Responsible Investment (US SIF) began tracking the amount of assets invested for impact in the public markets and in community development finance institutions, they measured $600 billion in assets under management (AUM). According to the most recent data from US SIF, there is currently $12 trillion of AUM, the bulk of which – $11.6 trillion – is in environmental, social and governance ("ESG") investments.[1] This growth is, in part, driven by the increasingly clear materiality of impact factors.

Robust academic and market research has demonstrated that performance on ESG metrics, for instance, positively correlates to long-term financial performance.[2,3] Shareholders are realizing long-term improvements of their return on capital by utilizing increasingly sophisticated tools and strategies that build upon this research.

Among the reasons for this improved financial performance is the strength of stakeholder engagement that ESG and impact management practices enable. Investors, like BlackRock's Larry Fink, and corporate managers, such as those represented by the Business Roundtable, are in agreement that corporations

[1] US SIF Foundation, "Report on U.S. Sustainable, Responsible and Impact Investing Trends," October 2018.
[2] Oxford University and Arabesque Partners, "From the Stockholder to the Stakeholder: How Sustainability Can Drive Financial Outperformance," March 2015.
[3] The Journal of Portfolio Management, "Foundations of ESG Investing: How ESG Affects Equity Valuation, Risk, and Performance," July 2019.

today have an obligation to represent the interests of diverse stakeholders and that pursuing such a purpose will ultimately drive long-term success.[4,5]

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Historically, the proxy process has allowed for stakeholders to get a seat at the table, a condition we believe improves and sustains shareholder value. For example, both Glass Lewis and ISS have recently updated their voting guidelines to generally recommend voting against the nominating committee chair of a company whose board lacks gender diversity. Proxy advisory firms' leadership on this issue is important for ensuring that corporate management more accurately represents its stakeholders. Furthermore, studies reveal that gender diversity on corporate boards often leads to improved financial returns, ESG outcomes and corporate culture, all important drivers of long-term shareholder value. [6,7]

Crucial to the success of the engagement process has been its relatively accessible nature, and the ability of investors to get access to timely and accurate advice on proxy proposals. This allows stakeholders and shareholders to quickly and efficiently alert corporate managers to emerging issues, frequently leading to engagement and resolution outside of the proxy process.

Accordingly, the Alliance believes that the proposed changes to the proxy proposal process are unnecessary and unwise. We have heard from our constituencies and relevant market actors that the current process generally works well, promoting greater accountability throughout the system. Those represented by the Alliance own large swaths of the public markets and therefore rely on efficient and independent proxy advice in order to properly track the issues put forward. The proposed rule change runs the risk of fundamentally subverting this relationship.

In other public comments and in Commissioner Robert Jackson's public statements, we have seen the proposed rule change mandating proxy advisory firms to preview their voting materials with companies classified as a "tax" on perspectives that differ from those of corporate management.[8] We too are deeply concerned that this new requirement would place an undue burden on proxy advisory firms, perhaps resulting in less frequent voting recommendations, and therefore less shareholder input overall.

Further, the proposed change undermines the independence of proxy advisory firms. Allowing companies to preview proxy voting materials before they are sent to shareholders could result in an inappropriate pro-management bias, threatening the delicate equilibrium established between parties.

Finally, the proposed rule arbitrarily singles out proxy advisors as inherently different from other providers with whom investors might seek advice and counsel. The proposal does not provide a

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[4] Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans,' August 2019.

[5] Larry Fink, BlackRock, Letter to CEOs, "A Fundamental Reshaping of Finance," January 2020.

[6] Academy of Management, "Women on Boards and Firm Financial Performance: A Meta-Analysis," November 2014.

[7] Harvard Law School Forum on Corporate Governance, "Across the Board Improvements: Gender Diversity and ESG Performance," September 2018.

[8] SEC Commissioner Robert J. Jackson Jr., "Statement on Proposals to Restrict Shareholder Voting," November 2019.

reasonable explanation for the inconsistent treatment of proxy advisors compared to other market actors. We find this concerning, particularly in light of the issues described above.

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Relatedly, shareholder proposals are an important market-based mechanism integral to maintaining the overall efficacy of the company-to-stakeholder relationship. Critical issues, such as corporate diversity, executive compensation and relevant environmental considerations, have been brought up through shareholder proposals, thus avoiding the festering of broader risks that erode shareholder value.

Rule 14a-8 works well in its current form, allowing for shareholders to efficiently communicate with boards, management and other shareholders on important issues that affect the long-term financial viability of a company. The proposed changes to the ownership requirements exacerbate an already uneven power dynamic between corporate management and small investors. Submitting shareholder proposals is one of the only ways in which small investors can meaningfully engage with companies, and at the very least, ensure that corporate management has reviewed their concerns.

The proposed revised minimum and tiered approach will crowd out the voices of small, Main Street investors – the very same group the Commission has vowed to protect. For shares held one year, the proposed rules would increase the ownership requirement of $2,000 by an astounding 1,200 percent, to $25,000. We find this proposed jump in required shares held to be extreme and unnecessary. What's more, disallowing investors from aggregating their total shares to meet the ownership requirements further disenfranchises small investors within the process.

Likewise, the Alliance is concerned with the Commission's proposed revision of the resubmission thresholds for bringing up shareholder proposals. The current 3-6-10 resubmission thresholds for years one, two and three, respectively already screen out perpetually poor performing proposals, while giving high-quality proposals the appropriate breathing room to gain shareholder support over time. The Alliance objects to raising the resubmission thresholds, as well as the introduction of the so-called "Momentum Rule," which would arbitrarily disqualify proposals that receive significant shareholder support and have met the significantly higher resubmission thresholds, but experience a step-down in support of 10 percent from the previous year's vote.

The combined effect of these rule changes would be the disproportionate and negative impact on proposals related to important and material ESG issues, as these matters tend to take time to gather broad bases of support. Investor interest in seeing companies report on issues related to sustainability and ESG is increasing, driven by the very real and pressing risks presented by things like climate change, lack of corporate diversity and human rights abuses in the supply chain. Moreover, companies should also be concerned about this potential rule change, given the fact that they often rely on shareholder proposals as early warning signs of financial and other risks.

Conclusion

The proposed changes to the proxy advisory and shareholder proposal processes are unnecessary and directly contradict the Commission's mandate to protect investors. If enacted, these changes will stifle important dialogues among affected parties and ultimately harm the long-term interests of companies. On behalf of the Alliance's broader network of individual and institutional investors, we strongly object to the proposed rule changes, as they will inject inefficiencies into a working system and silence the voices of stakeholders from whom corporations should be seeking greater input, not less.

We urge the Commission to revisit the flaws in these proposed rules and to ensure that investors, stakeholders and long-term corporate interests are better protected in the final regulations.

Sincerely,

Fran Seegull
Executive Director, U.S. Impact Investing Alliance