Dear Ms. Countryman,

We are pleased to write to provide comments on the proposed changes to the SEC Rules governing shareholder resolutions.

Tides is a philanthropic partner and nonprofit accelerator dedicated to a world of shared prosperity and social justice founded on equality and human rights; a sustainable environment; healthy individuals and communities; and quality education. Tides’ impact solutions include philanthropic giving and grantmaking, impactful investing, fiscal sponsorship and acceleration services for social ventures, collaborative workspaces, collective initiatives, and advocacy services for policy change.

As of January 2020, Tides managed more than $550 million in assets and has deployed more than $3 billion in grants worldwide since its founding in 1976. As one of the earliest impact investors, Tides believes active shareholder engagement with publicly-traded companies adds to our portfolio’s financial value.

As a foundation dedicated to preserving and protecting the corpus of our portfolio for the long term as well as ensuring returns that allow us to pursue our grantmaking, we are deeply concerned about how ESG issues affect our portfolio. We believe, as an expanding number of investors do, that ESG issues can have a real and tangible impact on our investment portfolio. Our oldest public equities investment strategy, which is actively involved in creating value through active shareholder engagement, has had a net return of 8.9% since inception (1987) compared to a 7.7% return for the S&P 500. We strive to invest our portfolio consistent with our mission, seeking to invest in and support companies focused on a sustainable environment, quality education, and healthy individuals and communities. To that end, we engage with publicly-traded companies to protect long-term shareholder value and further our mission, in cooperation with our investment managers.

As part of our commitment to, and as an investor committed to Mission Related Investing, we join in the filing of shareholder resolutions. Thus, the new SEC rules will have a direct impact on our work as it relates to shareholder advocacy. Tides has been involved in sponsoring resolutions for approximately 20 years. As one of the more active foundations involved in shareholder advocacy, we have filed and co-filed dozens of resolutions throughout those two decades.

The SEC is aware of the growing number of investors who are actively and publicly committed to ESG investing, represented most graphically by the growing number of signatories to the Principles for Responsible Investment (PRI) which has reached 2,300 investor signatories with AUM of approximately $90 Trillion. You have received letters from PRI describing their response to the proposed rules.
Signatories to the PRI believe that having meaningful ESG information is vital for both investment decisions and assisting in engagement with companies. Thus, they actively engage companies seeking information on issues like diversity, climate risk, and human rights through dialogue and often through shareholder resolutions. As a result, it is important to protect our rights as investors to petition a company using the shareholder resolution process.

ESG investing, often called Sustainable Investing, can no longer be described as a “fad or a fringe issue.” It is very much part of mainstream investing. In fact, BlackRock’s Larry Fink has described Sustainable Investing as the wave of the future.

We believe the drafters of the proposed rules were insufficiently informed about the information needs of such investors and the growth of ESG Investing, and did not research the negative ways in which the proposed rules would affect such investors who seek relevant ESG information to help make basic investment decisions. For example, shareholder resolutions asking for diversity or climate related information to help investors make stock selections may be negatively affected by the proposed restrictive new rules.

We are aware that many of the industry trade associations who have pressed for radical changes in the shareholder resolution rules, namely the BRT, NAM and the U.S. Chamber of Commerce, have routinely criticized the proponents of resolutions as having a “social or political agenda” and being unconcerned about the bottom line. We believe this convenient scapegoating and “character assassination” is both inaccurate and a convenient way to diminish the value and financial impact of such resolutions.

Ironically, it also contradicts the important 2019 statement by 181 CEOs who are BRT members who vigorously supported the concept that companies need to address a range of stakeholders needs and not just the narrow financial interests of stockholders, understanding these issues often have a distinct impact on the bottom line.

Careful research demonstrates that the policy statements of many resolution sponsors describe their duty as fiduciaries as a major motivating factor in the filing of such resolutions. And the resolution texts themselves often refer to the business case for the request in the resolution.

We fear this negative perception of proponents has affected the SEC as they have proposed changes, small and large, restricting the ability to file resolutions. We would ask the SEC to study the policies of many major proponents to confirm that they use the shareholder resolution process to advance their interests as fiduciaries.

In fact, we believe the SEC should be opening up the shareholder resolution process to simplify the ability of investors to address important and material ESG issues.

The relevance of ESG issues and shareholder engagement is being profiled and described in detail by companies like Bank of America (“BofA”). We enclose a December 14, Financial Times article profiling a BofA study on how ESG problems have direct and measurable negative impact on shareholder value and a copy of the BofA study, “ESG Matters”.

We believe that before issuing such a package of new restrictive rules, the SEC should review this and other studies that highlight the financial value of ESG issues and evaluate how making it more difficult for investors who file resolutions on ESG topics may in fact harm investor financial interests. This BofA paper is but one of dozens from mainstream financial banks and investment firms highlighting the risks and opportunities related to investing using ESG criteria. Tides believes the present Rule changes should not be passed and calls on the SEC to examine such studies as part of their final deliberations.
Sincerely,

Judith Hill, Chief Financial Officer, Tides (contact info)
Suneela Jain, General Counsel, Tides (contact info)
Dhaval Patel, Director of Investments, Tides (contact info)

Tides
1012 Torney Avenue
San Francisco, CA 94129
10 reasons you should care about ESG

In our updated ESG primer, we cover a number of new topics ranging from climate change to management quality and controversies. Below, we highlight 10 reasons why we think you should care about ESG.

1. You can do good and do well
ESG could boost your returns by a significant amount: a strategy of buying stocks that rank well on ESG metrics would have outperformed the market by up to 3 percentage points per year over the last 5 years.

2. A tsunami of assets is poised to invest in “good” stocks
Three critical investor cohorts care deeply about ESG: women, millennials, and high net worth individuals. Based on demographics, we estimate over $20 trillion of asset growth in ESG funds over the next two decades – equivalent to the size of the S&P 500 today.

3. 70% of US assets can’t be analyzed without using ESG
Intangible assets — assets tied to reputation, brand and intellectual property — have reached record highs for the S&P 500 companies. Analyzing financial metrics alone simply won’t suffice anymore, in our view.

4. Happy employees = better returns
Companies with high employee satisfaction ratings on Glassdoor.com have outperformed those with low ratings by nearly 5 percentage points per year over the past 6 years.

5. The best signal of earnings risk we have found
Traditional financial metrics, such as earnings quality, leverage and profitability don’t come close to ESG as a signal of future earnings volatility or bottom-line risk.

6. ESG could have helped avoid 90% of bankruptcies
15 out of 17 (90%) bankruptcies in the S&P 500 between 2005 and 2015 were of companies with poor Environmental and Social scores five years prior to the bankruptcies.

7. “Good” companies enjoy a lower cost of capital
Just like consumers have credit scores, companies pay different rates depending on their risk profiles. The cost of debt for “good” versus “bad” companies based on ESG scores can be nearly 2 full percentage points lower.

8. ESG “controversies” have cost investors a lot
Major ESG-related controversies during the past six years were accompanied by peak-to-trough market capitalization losses of $534 billion for large US companies. Loss avoidance is key for portfolio returns over time.

9. Climate change is top-of-mind for investors
Climate change is the #1 ESG issue for ESG asset managers, according to US SIF (The Forum for Sustainable and Responsible Investment), with $3tn of ESG assets considering climate change as part of their investment decisions.

10. Actually, you already do care about ESG!
ESG is not new. Is management compensation aligned with shareholders? Is key talent happy or at risk of moving to a competitor? Does lax environmental behavior mean elevated legal risk? Stocks have been bought and sold on ESG concerns for decades. Today’s ESG discussions are largely focused on standardizing or codifying these elements, like we have seen for accounting and financial standards.
10 reasons you should care about Environmental, Social and Governance (ESG)

#1: ESG can generate alpha
Relative performance of top ESG-ranked companies vs. equal-weighted S&P 500

#2: Demographics suggests $20tn asset potential
Q: Do you currently own or are you interested in adding ESG assets to your portfolio?

#3: Financial metrics alone won’t suffice anymore
Intangible assets as % of total S&P 500 book value

#4: Happy employees – $
Relative performance of top Glassdoor-ranked companies vs. bottom-ranked companies

#5: The best signal of bottom line risk we have found
Median change in companies' EPS volatility over the next 3 years vs. their ESG scores (2005-2016)

#6: Avoid bankruptcy risks
90% of bankruptcies in the S&P 500 between 2005 and 2015 could have been avoided by screening out companies with below-average Environmental & Social scores 5 years prior

#7: "Good" companies enjoy lower funding costs
S&P 500 companies' weighted-average cost of debt vs. their ESG scores (9/2019)

#8: ESG controversies can cost a lot
Average peak-to-trough performance of ESG controversy stocks relative to the S&P 500 (30 days prior to through 360 days post controversy)

#9: Climate change – $3tn opportunity
ESG categories incorporated by money managers in US

#10: Actually, you already do care about ESG!
Is management compensation aligned with shareholders? Is key talent happy or at risk of moving to a competitor? Does lax environmental behavior mean elevated legal risk?

Stocks have been bought and sold on ESG concerns for decades. Today’s ESG discussions are largely focused on standardizing or codifying these elements, like we have seen for accounting and financial standards.

1. You can do good and do well

ESG could boost your returns by a significant amount: buying a strategy of stocks that rank well on ESG metrics would have outperformed the market by up to 3 percentage point per year over the last five years, based on our backtested analysis.

Chart 1: ESG has generated consistent alpha in recent years
Relative performance of top quintile companies by ESG scores vs. equal-weighted universe 1/2007-8/2019

Source: MSCI ESG Research LLC, Sustainalytics, Refinitiv, FactSet, BofA Merrill Lynch US Equity & Quant Strategy

Backtesting is hypothetical in nature and reflects application of the analytical approach prior to its introduction. It is not actual performance and is not intended to be indicative of future performance.

2. A tsunami of assets poised to invest in “good” stocks

Three critical investor cohorts care deeply about ESG: women, millennials, and high net worth individuals. Based on demographics, we conservatively estimate over $20tn of assets growth in ESG funds over the two decades — equivalent to the S&P 500 today.

Chart 2: Momentum building for Impact Investing in bellweather demographic segments
% of survey respondents who currently own or plan to add exposure to ESG assets

Source: 2018 U.S. Trust Wealth and Worth Survey
3. 70% of US assets can’t be analyzed without using ESG

The proportion of “intangible assets” of S&P 500 companies, assets tied to reputation, brand and intellectual property rather than evaluable tangible assets, have reached record highs. Analysis of financial metrics simply won’t suffice anymore in our view.

Chart 3: Asset opacity in the US is at an all-time high

![Chart showing asset opacity](image)

Source: FactSet, BofA Merrill Lynch US Equity & Quant Strategy

4. Happy employees = better returns

Companies with high employee satisfaction ratings on Glassdoor.com have outperformed those with low ratings by nearly 5 percentage points a year over the past six years.

Chart 4: Companies that are ranked higher on Glassdoor have outperformed their counterparts with lower ratings by 5 percentage points per year

![Chart showing relative performance](image)

Source: BofA Merrill Lynch US Equity & Quant Strategy, Thinknum

*top quintile includes stocks in the top 20th percentile based on Glassdoor ratings; bottom quintile includes stocks in the bottom 20th percentile based on Glassdoor ratings

Back tested performance is hypothetical in nature and reflects application of the screen and is not intended to be indicative of future performance

5. The best signal of earnings risk we have found

Traditional financial metrics, such as earnings quality, leverage and profitability, don’t come close to ESG as a signal of future earnings volatility or bottom line risk.
Chart 5: Best signal of future earnings risk: worse ESG ranks signaled more earnings deterioration
Median change in 3-yr EPS volatility over subsequent five years based on Refinitiv Overall ESG score from 12/2005-12/2015 (with volatility through 12/2018)

Source: Refinitiv, BofA Merrill Lynch US Equity & Quant Strategy
Q1 (Best) includes stocks within the top 20th percentile based on overall Refinitiv ESG scores; Q4 (Worst) includes stocks within the bottom 20th percentile based on the overall Refinitiv ESG scores

6. ESG could have helped avoid 90% of bankruptcies
15 out of 17 (90%) bankruptcies in the S&P 500 between 2005 and 2015 were of companies with poor Environmental and Social scores five years prior to the bankruptcies.

7. “Good” companies enjoy a lower cost of capital
Just like consumers have credit scores, companies pay different rates depending on their risk profiles. The cost of debt for “good” versus “bad” companies based on MSCI ESG scores can be nearly 2 full percentage points lower.

Chart 6: Companies with higher ESG scores tend to enjoy lower cost of capital
Weighted average option-adjusted spread (OAS) vs. MSCI overall ESG scores as of 8/2019

Source: MSCI ESG Research LLC, BofA Merrill Lynch US Equity & Quant Strategy

8. ESG “controversies” have cost investors a lot
We analyzed the performance of 24 major controversies among S&P 500 companies since 2014. Our analysis shows that those controversies were accompanied by peak-to-trough market capitalization losses of $534B, against a backdrop in which the S&P 500 grew by 7% on average.
Chart 7: More than $500bn of market value has been lost due to ESG controversies*

Average peak-to-trough performance of ESG controversy stocks relative to the S&P 500 (market cap weighted, 30 days prior to through 360 days post controversy)

Source: BofA Merrill Lynch US Equity & Quant Strategy

*includes 24 controversies related to data breaches, accounting scandals, sexual harassment and other ESG topics.

9. Climate change is top-of-mind for investors
Climate change is the #1 ESG issue for ESG asset managers according to US SIF (The Forum for Sustainable and Responsible Investment), with $3tn of ESG assets considering climate change as part of their investment decisions. According to the CDP (previously Climate Disclosure Project), $970bn worth of assets could be at risk within the next five years, based on estimates provided by 215 companies — some of the largest in the world.

Exhibit 3: Top Specific ESG Criteria for Money Managers 2018

<table>
<thead>
<tr>
<th>Climate Change/ Carbon</th>
<th>Tobacco</th>
<th>Conflict Risk (Terrorist or Repressive Regimes)</th>
<th>Human Rights</th>
<th>Transparency and Anti-Corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>$3.00 Trillion</td>
<td>$2.89 Trillion</td>
<td>$2.26 Trillion</td>
<td>$2.22 Trillion</td>
<td>$2.22 Trillion</td>
</tr>
</tbody>
</table>

Percent Increase in Assets Affected since 2016

|                       | 110%   | 432%  | 47% | 171%  | 206%  |

Source: US SIF Foundation

10. Actually, you already do care about ESG!
ESG is not new. Is management compensation aligned with shareholders? Is key talent happy or at risk of moving to a competitor? Does lax environmental behavior mean elevated legal risk? Stocks have been bought and sold on ESG concerns for decades. Today’s ESG discussions are largely focused on standardizing or codifying these elements, like we have seen for accounting and financial standards.
**Fundamentals**

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### Investment Ratings

<table>
<thead>
<tr>
<th>Classification</th>
<th>Total Return Expectation (within 12-month period of date of initial rating)</th>
<th>Ratings Dispersion Guidelines for Coverage Cluster*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>≥ 10%</td>
<td>≤ 70%</td>
</tr>
<tr>
<td>Neutral</td>
<td>≥ 0%</td>
<td>≤ 30%</td>
</tr>
<tr>
<td>Underperform</td>
<td>N/A</td>
<td>≥ 20%</td>
</tr>
</tbody>
</table>

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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