Church Investment Group
Serving the Episcopal Church and Its Christian Mission

January 29, 2020
Via email to rule-comments@sec.gov
Hon. Jay Clayton
Chairman
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re:
S7-23-19 Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8
S7-22-19 Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice

Dear Chairman Clayton,
We strongly oppose the rules proposed by the Securities and Exchange Commission (SEC) on November 5th, 2019, which will severely limit the rights of shareholders to engage with corporations using the shareholder resolution process over issues with a distinct impact on long-term value.

The Church Investment Group is a non-profit with over $90 million in assets which enables Episcopal Church endowments to invest at scale. We have a fiduciary responsibility to our Episcopal endowments to maximize the probability of attractive long-term returns and we believe that that duty includes engaging with corporations to effect constructive improvements in corporate governance and well as other matters of financial sustainability.

The proposals transfer power to management at the expense of their shareholders, who are the ultimate owners of corporations. Investors have not sought these changes. The shareholder proposal process is one of the most visible and verifiable ways in which investors can practice responsible ownership. The proposed rule changes will make companies far less accountable to shareholders, stakeholders, and the public at large.

The proposed increase in ownership thresholds will make it difficult for even larger investors to voice important concerns and raise issues of risk to the companies they own. For investors who index their equity holdings, even large investors may not hold $15,000 or $25,000 of a security at the outset of their holdings. Shareholders should not be forestalled from timely engagement with the companies in which they invest.

According to data compiled by the Sustainable Investments Institute, 187 resolutions on social and environmental topics came to a vote at US companies in the spring of 2019. Many of these were filed by investors with relatively small stakes consistent with the existing filing thresholds. The proposals received an average of 25.6 % support (about the same as the average of 25.4% for resolutions of this kind in 2018, and 21.4% in 2017). These numbers demonstrate that proposals of interest to a large portion of a company's shareholder base can and do originate with smaller individual and institutional investors. Excluding this group of shareholders until they have held for three continuous years raises serious questions about the equity of the proposal process and leaves smaller investors who can make valuable contributions without access to the proxy.

The proposed increase in resubmission thresholds threatens to unnecessarily exclude important proposals that gain traction over time and will ultimately stifle key reforms. There are many examples through the years of resolutions that initially received low votes, but went on to receive significant support or have led to productive engagement, as shareholders came to appreciate the serious risks they presented to companies. The issue of declassified boards is just one example – in 1987 proposals on this issue received under 10% support; in 2012 - 81%, and it is now considered to be best practice. Other examples include resolutions with oil and gas companies on assessing the potential impacts of climate change that often received below 5% of shareholder support when first introduced beginning in 1998, but which now receive substantial, and even majority shareholder votes, and have been adapted by numerous companies. Resolutions highlighting human rights risks in global supply chains initially received low votes at companies, but as a result of engagement prompted by the proposals, sector leaders have adopted human rights policies and supplier codes of conduct that help minimize legal, reputational, and financial risks. Clearly these and other votes on critical matters signify that investors appreciate the value of the issues being raised in these resolutions. It can take some time for shareholders to get up to speed on emerging issue. The proposed changes could prevent significant topics from even being raised and considered, to the detriment of all stakeholders.

In addition to the Rule 14a-8 proposals, changes regarding proxy advisory firms were approved at the SEC's November 5th meeting. We would note that CIG controls the decisions on voting our proxies. While we use a proxy advisor firm, the advisor's recommendations are reviewed and considered before being implemented by our proxy voting advisor. We have found that the current proxy voting process has resulted in constructive improvements in corporate governance, as well as corporate behavior on environmental and employee concerns which improved the long-term resilience and profitability of the corporations which our endowments own.

We believe these modifications have been proposed to undermine the voice of investors and produce more management-friendly votes, unfairly stacking the deck against shareholders and towards corporate management. The proposal would require that proxy advisory firms allow companies to review and provide feedback on proxy voting advice, and would greatly impede the ability of institutional investors to get independent advice and information about how to vote on director elections, Say on Pay ballot items and shareholder proposals. The fact that the proposed rule does not give shareholder proposal proponents and shareholders conducting "vote no" campaigns the same right of review further underlines that the rule would provide an unfair advantage to company management to the detriment of shareholders.

The current 14a-8 rule has worked well for decades, and there is no need to revise it. Trade associations like the Business Roundtable, the U.S. Chamber of Commerce, and the National Association of Manufacturers have lobbied rigorously for the proposed changes by exaggerating the cost of the process to companies, the frequency of when companies are responding to proxy resolutions and failing to acknowledge the benefits to shareholders from the improvements to corporate profitability and operations resulting from proxy resolutions. Many of the companies that we engage with understand that this engagement enables them to mitigate reputational, legal, and financial risks, and build value. The filing of shareholders resolutions by investors big and small is a crucial part of the engagement process.

For the above reasons, we strongly urge the SEC to reconsider the proposed rule changes.

Sincerely,
JoAnn Hanson
President, Church Investment Group