

Benedictine Sisters of Virginia

Clothed in Faith with the Gospel as our Guide

January 30, 2020

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

Re: **S7-22-19** Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice

Dear Chairman Clayton,

I write to you in my role as subprioress and treasurer of the Benedictine Sisters of Virginia. We have been engaged in value-based investing and have long advocated for accountability and conscientious stewardship among stakeholders in corporate enterprises. Our community is a member of the Benedictine Coalition for Responsible Investment.

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. As long-term investors who engage with companies on critical environmental, social, and governance (ESG) issues, we believe that the proposed rules are unnecessary, and will undermine a corporate engagement process that has been of great value to both companies and investors.

For decades, the shareholder proposal process has served to benefit issuers and proponents alike as an effective, efficient and valuable tool for corporate management and boards to gain a better understanding of shareholder priorities and concerns. 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 smaller investors to voice important concerns and raise issues of risk to the companies they own. The current ownership threshold of \$2,000 ensures that a diversity of voices are heard, not just the biggest players. Small investors have contributed a multitude of now commonplace best practices. For example, we Sisters were co-filers of a proposal to Verizon in 2019 to request that the Board of Directors issue a report on the potential sexual exploitation of children through the company's products and services, including a risk evaluation, at reasonable expense and excluding proprietary or confidential information, by March 2020, assessing whether the company's oversight, policies and practices are sufficient to prevent material impacts to the company's brand reputation, product demand or social license. Already in the first year, this proxy received 33.90%. These issues are important to us and we raise them with corporations.

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).

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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.¹ 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 the risks 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 issues. 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 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, and by misleadingly painting shareholders raising ESG issues as "activists" imposing a "social agenda" who are "uninterested in shareholder value." This misinformation feeds a political agenda by the trade associations to limit the ability of shareholders to engage with the companies that they own.

We engage as shareholders on ESG risks precisely because we are concerned about the long-term health of the companies in which we are invested. Many of the companies that we engage with understand that this engagement enables them to mitigate reputational, legal, and financial risks, and build value.

¹Si2 'FACT SHEET: Shareholder Proposal Trends', *Sustainable Investments Institute*, Oct.17, 2019, https://siinstitute.org/special_report.cgi?id=80



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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,

Sister Andrea Westkamp, OSB

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Subprioress and Treasurer