From: Jonas Kron
To: submissions (Banking)
Subject: Request for Proposals to Foster Economic Growth
Date: Thursday, April 13, 2017 1:21:35 PM

Dear Chairman Crapo and Ranking Member Brown,

In response to your March 20, 2017 request for proposals to foster economic growth, I would like to offer some thoughts and comments. We greatly appreciate the opportunity that you are providing and your interest in our perspective.

For 35 years Trillium Asset Management has understood that economic growth for the United States is closely tied to the success of our publicly traded companies. In turn, the success of these companies depends, in large part, on sound corporate governance. This is one of the principles that we bring to bear when investing the $2.2 billion in assets that our clients have entrusted to us.

These foundational points were recently addressed by a group of investor and corporate CEOs including the CEOs of General Motors, J.P. Morgan Asset Management, Verizon, BlackRock, General Motors Company, and many other large and familiar names. In announcing the "Commonsense Corporate Governance Principles", (www.governanceprinciples.org) the fundamental argument was this:

> The health of America's public corporations and financial markets — and public trust in both — is critical to economic growth and a better financial future for American workers, retirees and investors. Millions of American families depend on these companies for work — our 5,000 public companies account for a third of the nation's private sector jobs. … Our future depends on these companies being managed effectively for long-term prosperity, which is why the governance of American companies is so important to every American.

One of the six principles of Commonsense Corporate Governance is that:

> Effective governance requires constructive engagement between a company and its shareholders. So the company's institutional investors making decisions on proxy issues important to long-term value creation should have access to the company, its management and, in some circumstances, the board.

It is in this context that on March 15, 2017 a group of organizations representing institutional investors with more than $65 trillion of assets under management wrote an open letter to Gary D. Cohn Director, National Economic Council in support of the current Securities and Exchange Commission Shareholder Proposal rule 14a-8. This letter<!--[if !supportFootnotes]-->[1]<!--[endif]--> explains that for almost five decades, SEC rule 14a-8 "has served as a cost effective way for corporate management and boards of directors to gain a better understanding of shareholder priorities and concerns and to benefit from those insights on critical and emerging risks and opportunities. The process has proven to be valuable to numerous companies and has given shareholders an important voice."

The letter goes on to convey the merits of rule 14a-8 and how it performs "an effective job of facilitating communication between shareholders and companies. It provides shareholders of all types and sizes, from large pension funds to smaller asset managers and individual investors, an opportunity to communicate directly with corporate boards and management on issues of concern to them and to other shareholders. Over the years, this process has led to many reforms that protect and enhance shareholder value, both at specific companies and in many cases to the benefit of the entire corporate and shareholder community."

It also provides useful evidence of how shareholders have enhanced corporate value through the rule 14a-8 process including:

<!--[if !supportLists]-->• <!--[endif]-->Independence of a majority of the members of the Board of Directors, and only independent directors in the Audit, Governance-Nominations, and Compensation Committees

<!--[if !supportLists]-->• <!--[endif]-->Board diversity

<!--[if !supportLists]-->• <!--[endif]-->Auditor independence

<!--[if !supportLists]-->• <!--[endif]-->Annual election of all directors

<!--[if !supportLists]-->• <!--[endif]-->The need to manage supply chain risks

<!--[if !supportLists]-->• <!--[endif]-->The need to manage climate risk, as well as other environmental risks

<!--[if !supportLists]-->• <!--[endif]-->Workplace diversity and non-discrimination
All of the issues cited above – and many others raised in shareholder resolutions – are issues that affect the effective governance, risk management and business strategy of companies.

Perhaps most importantly, a 2015 study found that successful ESG engagements generate cumulative (1999-2009) excess returns of +7.1% (gradually flattening out after a year, when the objective has been accomplished). Moreover, unsuccessful engagements (ones that didn't result in any corporate action) experienced no change in market value.[2] This suggests that while proposals that lead to corporate action on an ESG issue can be significantly beneficial for companies, shareholders, and the economy, proposals that don't lead to action cause no harm.

Or consider the current efforts to increase board diversity. The 2012 Credit-Suisse Research Report Gender Diversity and Corporate Performance links board diversity to better stock market and financial performance (higher return on equity, lower leverage, and higher price/book ratios). It suggests several explanations for this better performance including a stronger mix of leadership skills, improved understanding of consumer preferences, a larger candidate pool from which to pick top talent, and more attention to risk. In 2014, Credit-Suisse observed similar results. Additionally, numerous studies suggest a critical mass of at least three women directors strengthens corporate governance.

A 2014 PwC survey of investors representing more than $11 trillion in assets observed that "Nine out of 10 investors believe boards should be revisiting their director diversity policies, and 85% believe doing so will require addressing underlying impediments…" This is consistent with growing investor engagement on board diversity, as evidenced by state and city pension funds from California, Connecticut, New York City and New York State.

Shareholder proposals have been a critical way to address this issue. Trillium, for example, has filed 15 shareholder proposals on board diversity over the past five years. More than half of those companies have added at least one woman to their board and the other half have committed to prioritizing gender diversity in their recruitment efforts.

For these reasons we urge the Committee to make preservation of the current SEC rule 14a-8 one of its legislative priorities. Doing so will promote economic growth as it encourages the well functioning of U.S. companies which are able add jobs and grow the U.S. economy. Similarly, it will have a positive impact on the ability of investors (market participants) and financial companies to participate in the economy. By maintaining this important channel of communication between shareholders, management, and the board, investors will be able to contribute to the growth of the economy.

Sincerely,

Jonas Kron

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<!--[if !supportFootnotes]-->[1]<!--[endif]--> http://www.cii.org/files/issues_and_advocacy/correspondence/2017/03_15_17%20-%20Letter%20to%20Gary%20Cohn%20-%2014a-8%20Shareholder%20Proposal%20Process.pdf

<!--[if !supportFootnotes]-->[2]<!--[endif]--> https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154724

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