BRUNEL
Pension Partnership

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street N. E.
Washington, D. C. 20549

Laura Chappell
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CC: The Honourable Jay Clayton, Chair
The Honourable Robert J. Jackson, Jr., Commissioner
The Honourable Allison Herren Lee, Commissioner
The Honourable Hester M. Pierce, Commissioner
The Honourable Elad L. Roisman, Commissioner

03 February 2020

Dear Ms. Countryman,

Re: SEC Rule 14a-8 Proxy Advisor Regulation File No. S7-22-19 & S7-23-19

We write to express our deep concern over proposed changes to the Securities and Exchange Commission rules governing proxy voting under SEC rule 14a-8.

Brunel Pension Partnership represents views from the perspective of pension funds and their beneficiaries. Brunel brings together £30 billion ($40bn) investments of 10 like-minded UK Local Government Pensions Scheme funds, which provide for around 700,000 pension beneficiaries. We are long term, responsible investors and this is reflected in our 12 investment principles, which include a commitment to *Responsible Stewardship*.

Our key points in response to the consultation are that:

- much more is needed to support the exercise of good stewardship, but the SEC proposals risk aggravating rather than support this change.
- we strive to get more investors to be good stewards, no matter what size, the SEC proposals risk creating a barrier to progress.
- it is our role, as investors who employ Proxy Advisory providers, not regulators to hold them to account for quality and professionalism with which they execute their services.
- shareholder resolutions are a vital part of the investor tool kit and are an opportunity to companies to be made aware of investor concerns.
- there can be valid reasons for changes in legal title of ownership, whilst the intrinsic beneficial ownership is more long-term.
- improvements in the 'voting system' itself could address concerns of transparency and conflict of interest.

In summary, the evidence does not support the proposals being presented, and if implemented, would significantly suppress good governance, the exercise of shareholder rights and our ability to act as good stewards.

Specific feedback

Rule 14 a-8 S7-22-19: Amendments to Exceptions from the Proxy Rules for Proxy Voting Advice

Many investors make use of the information from proxy advisors in conjunction with other sources of information when assessing how to vote their shares. This has been interpreted, in your consultation, that these proxy advisors are directing voting and thus not representative of shareholder views. We set out our own voting policy, the principles are embedded into the process and the recommendations emanating from them. We also retain and use full discretion on any vote. As an investor in thousands of companies Proxy Voting Advisors provide us with a platform to efficiently access independent research, including company reports, board composition analysis and ready access to the views and evidence provided by the company for which the advice pertains.

Furthermore, we find your conclusion confusing as most recommendations made by Proxy Advisors are supportive of management with shareholder proposals often receiving lower levels of support.

Requiring proxy advisory firms to allow companies to review and comment on recommendations before investors even see them removes the impartiality in the service we are paying to receive.

Proxy timescales are already short, this review process would severely delay the timescales for delivering the information to those who represent the end beneficial owner.

The consultation fails to address the real problem which is the proxy voting system itself which is in much needed modernisation and would more readily address the concerns raised by the SEC on conflicts of interest and transparency.

The proposals would impede investors ability to receive independent advice and restrict timeframes to appropriately review the information provided. If this proposal were to be implemented it would lead to uninformed decisions and could result in support of proposals which are not in the best interest of all shareholders and the company. The evidence provided does not support or warrant these intrusive changes which will severely damage rather than protect shareholders interests.

Rule 14 a-8 S7-23-19: Procedural Requirements and Resubmission Thresholds under Exchange Act

Shareholder proposals are an important engagement tool for all types of investors to inform the company what they think as a collective. The new ownership thresholds do not protect the rights of shareholders and would severely hamper the rights of small shareholders who should have equal voting rights.

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The sale of company shares is not always a result of short termism, they can be driven by a multitude of other reasons. Legitimate reasons where the legal ownership changes include in regulation, strategy and asset management capacity or capability.

For example, in the UK, Local Government Pension Schemes were required to pool their assets together. Where FCA regulated firms were established assets have been transitioned into new assets pools. These pools reinvested (or indeed had assets transferred *In-specie*) but the legal name has been changed to represent the regulatory and tax structure of the larger pool. In many instances the assets will have been 'held' by the beneficial owner for a long time. Therefore, differentiated holding timeframes may not always be reflective of long termism and could act as a barrier to good stewardship.

The proposal to continue permitting co-filling or co-sponsorship of shareholder proposals as a group is strongly supported. However, the requirement to meet the eligibility thresholds penalises small shareholders and diminishes the ability to show breadth of support for the resolution to the company. This is not in the best interests of shareholders.

The consultation highlights that the level and ease of engagement between US companies and their shareholders has improved. This is not the experience of many investors. Whilst some companies do engage and there have been improvements, on the whole engagement meetings are notoriously difficult to obtain, and it is not uncommon for investors to be spuriously informed that no other investor has raised the same issues.

Shareholder resolutions are vital part of the investor tool kit and are an opportunity to companies to be made aware of investor concerns. Shareholder Proposals should not be perceived as an abuse, or cost. Often requests made of companies improve governance, disclosure, management of environmental and social risks or identify opportunities. These create extra financial benefit to the company. This extra financial benefit has not been factored when calculating the cost impact of shareholder proposals, we would recommend further cost analysis. Furthermore, small shareholders under the three-year holding period requirement will likely face higher barriers to engagement with companies.

The resubmission thresholds could also pose headwinds to proposals that take time to be understood and supported. Shareholder proposals for board diversity first emerged in the 90's and typically gained 6% support, but it wasn't until recent years that the importance and benefit of board diversity gained higher support and wider adoption in the industry. Under the new thresholds shareholders must gain an improvement in support by 200%, yet a 10% decrease in support is enough to block resubmission. This rule would have prevented a proposal at Boeing for an independent chair, whilst this didn't pass (34% voted in favour), it was enough that the company recognised the value of splitting the role, which it did in the latter part of the year.

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It has been highlighted several times that the proposed changes would significantly impact on smaller shareholders. An alternative approach which could be considered in conjunction to existing rules is the introduction of a minimum number of shareholders e.g. 100, with no minimum holding threshold.

There is insufficient evidence to support the concern that the current system is being abused or is not fit for purpose. As highlighted above, shareholder proposals are an instrumental part of the engagement process, particularly in the US. As long-term investors careful consideration is given to ensure alignment before any proposal is supported.

We strongly encourage you to re-consider the proposed changes, to take into consideration our view that it would remove our ability to access independent research, diminish shareholder rights and therefore inhibit the exercise of our fiduciary duty. We also think that it will place burdensome costs and legal liabilities on companies.

We would be delighted to follow-up on any of the comments made in our response and provide further support to the SEC. **Please contact our Chief Responsible Investment officer, Faith Ward at ri.brunel@brunelpp.org.**

Regards,

Laura Chappell
Chief Executive
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