Friends Fiduciary

ADDING VALUES TO STRONG PERFORMANCE.

DELIVERY VIA ELECTRONIC MAIL

April 25, 2017

Dear Chairman Hensarling and Ranking Member Waters,

I am writing in response to the House Financial Services Committee consideration of legislation that would effectively stop shareholders from engaging corporations through the shareholder proposal process. On behalf of Friends Fiduciary, I am asking you to oppose any attempt to limit the current shareholder proposal rule, as contemplated by Chairman Hensarling in Section 844 of the Discussion Draft of the Financial CHOICE Act.[1] The existing shareholder proposal process under Securities and Exchange Commission rule 14a-8 is well functioning - it should not be changed as proposed in Section 844.

Friends Fiduciary Corporation manages $400 million in assets for more than 360 Quaker meetings, churches and organizations across the country. Our investment philosophy and process is grounded in the beliefs of the Religious Society of Friends (Quakers), among them the testimonies of peace, simplicity, integrity, equality, and justice. We are long term investors and take our responsibility as shareholders seriously. When we engage with companies we own, we seek to witness to the values and beliefs of Quakers as well as to protect and enhance the long-term value of our investments. We file shareholder proposals on crucial environmental, social, and governance issues from a unique position as an outsider stakeholder with a long-term business perspective, and consider our ability to file a crucial aspect of responsibly owning our shares.

While we are deeply concerned about a number of parts of the Discussion Draft of the Financial CHOICE Act and will be sharing those concerns later, for the time being we want to express our concerns on Section 844. Section 844 changes the SEC shareholder proposal by (1) changing the holding requirement to 1% ownership over a three year period (vs. 1% or $2000 for one year) to submit a proposal; (2) dramatically increasing resubmission thresholds to unreasonable levels; and (3) prohibiting proposal by a proxy other than the shareholder.

As investors, we are adamantly opposed to these recommendations that would interfere with shareholder rights. For over 45 years the shareholder proposal process has served as a cost effective way for corporate management and boards to gain a better understanding

[1] https://financialservices.house.gov/uploadedfiles/choice_2.0_discussion_draft.pdf

of shareholder priorities and concerns. For an overview of some of the issues considered in shareholder proposals this year, I refer you to the ICCR Proxy Book.

Below are several benefits of the current shareholder proposal rule:

- **Facilitates communication between shareholders and companies**. It provides shareholders of all types and sizes, from large pension funds to individual investors, an opportunity to communicate directly with corporate boards and management on issues of importance. Resolutions that are not withdrawn can be voted on by all holders of voting stock – giving the board and management input far beyond that of the shareholder(s) who initially filed the resolution.

- **Shareholder value and financial performance.** Over the years, the shareholder proposal process has contributed 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. A 2015 study found that successful shareholder engagements can generate cumulative excess returns of +7.1%.[2] In another example, a 2012 and 2014 Credit Suisse Research Report "Gender Diversity and Corporate Performance", links board diversity – an issue that has been raised through dozens of shareholder proposals – to better stock market and financial performance (higher return on equity, lower leverage, and higher price/book ratios).[3]

- **Protects shareholder rights.** The right to file a proposal is part of the bundle of rights that an investor acquires when acquiring shares. Radically curtailing those rights and taking away this process through which investors can bring concerns to management's attention would undermine investor confidence in the stability of our arrangement of rights associated with share ownership. All trustees and fiduciaries have a duty to monitor risk, many extend that duty to filing proposals when necessary to probe risks and potential weaknesses, as well as improve performance.

It is clear that Section 844 is an overreach, representing radical and dramatic interference with an important shareholder right:

- 1% ownership over a three year period to submit a proposal: This would require an investor in Wells Fargo to own $2.5 billion in shares in order to file a proposal. Only 11 investors have held those shares long enough: Berkshire Hathaway, Vanguard, State Street, BlackRock, Fidelity, Capital Research & Management, Wellington, JPMorgan, Dodge & Cox, Northern Trust, and State Street. Those investors do not file shareholder proposals at all, let alone shareholder proposals that have been filed at Wells Fargo on matters such as customer fraud, independent board chairman, proxy access, and irregularities in mortgage

[2] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2154724
[3] https://www.credit-suisse.com/us/en/articles/articles/news-and-expertise/2015/06/en/diveristy-on-board.html

practices. The language in the discussion draft effectively kills any ability of shareholders to file proposals on these important issues. Improvements in business are driven by the marketplace of ideas, and minority shareholders are also important stakeholders.

- Increase resubmission thresholds consistent with previous SEC proposal: This would mean resubmission thresholds of 6% (year 1, from 3%); 15% (year 2, from 6%); and 30% (year 3, from 10%). From 2007 through 2009 only about 17 percent of the proposals that came to a vote achieved the support of 30 percent of the shares voted, and from 2010 onwards, this has been approximately 30 percent of proposals filed.[4] This amendment would negatively impact shareholder re-filing of proposals on new and emerging issues. Change does not come quickly to large and complex corporations and ideas often require years of consideration before they are accepted. Take for example the issue of declassified boards where directors stand for election each year – support of shareholder proposals on this issue was regularly below 10% in 1987 and below 30% for many years, but eventually grew to 81% in 2012. With 15% and 30% resubmission thresholds these proposals would have died long before they had the chance to be adopted. Declassified boards are now common practice, with two-thirds of S&P 500 companies holding annual votes, up from 40% 10 years ago.

- Prohibit proposal by a proxy other than the shareholder: Investors have a fundamental right to empower their representatives to act on their behalf and the proxy is a basic mechanism for well-functioning corporate governance.

To learn more about this issue, I refer you to a letter from organizations representing $65 trillion in opposition to these proposals and an in-depth briefing document. I am happy to speak about this at your convenience and can provide additional details on the impact of shareholder proposals. I urge you to oppose this attempt to limit shareholder rights.

Sincerely,

Jeffery W. Perkins
Executive Director

cc: Jason Powell, Legislative Director
Kyle Jackson, Deputy Chief of Staff, Legislative Director
Katelynn Bradley, Senior Counsel, House Committee on Financial Services

[4] Report on US Sustainable, Responsible and Impact Investing Trends, 2016 - http://www.ussif.org/trends