Zevin Asset Management, LLC
PIONEERS IN SOCIALLY RESPONSIBLE INVESTING

April 25, 2017

VIA E-MAIL

Representative Stephen Lynch
United States House of Representatives
2268 Rayburn HOB
Washington, DC 20515
(via Legislative Counsel Jaclyn Cahan, jaclyn.cahan@mail.house.gov)

RE: Protecting investor rights by opposing Section 844 of the proposed Financial Choice Act & any changes to SEC Rule 14a-8

Dear Representative Lynch,

This message responds to the discussion draft legislation that the House Financial Services Committee will consider during the April 26 hearing on the Financial Choice Act. I am concerned about multiple aspects of the bill that would affect my firm's work as a responsible investor, but I write today to draw your specific attention to the provisions of Section 844, effectively eliminating fundamental rights of investors to file shareholder proposals. I urge you to oppose those provisions and, as a committee member, to defend the rights of investors by opposing any attempt to modify or limit the Securities and Exchange Commission's shareholder proposal rule, SEC Rule 14a-8.

I write on behalf of Zevin Asset Management, a socially responsible investment manager — based in the heart of Boston — which integrates financial and environmental, social, and governance (ESG) research in managing investment portfolios for our clients. We manage approximately $600 million in assets for a wide range of individual and institutional clients.

Our clients engage our firm to protect and grow their capital and also to work with companies in their portfolios to improve those companies' approach to material ESG issues. That work — called shareholder advocacy or investor engagement — is essential for socially responsible investors who seek to decrease the long-term risk profile of their investment portfolios and, in the process, create a positive social impact.

On behalf of our clients, we routinely meet with company executives to suggest management changes and improvements in the way those firms address ESG risks

and opportunities. Usually, Zevin Asset Management and our peer socially responsible investment firms make positive progress through direct dialogue and collaborative meetings with management. However, when company managers choose to ignore investors' concerns or refuse to make reasonable changes in the interests of shareholders and other stakeholders, we frequently find it necessary to file shareholder proposals.

The decision to file a shareholder proposal is not taken lightly. Indeed, proposing a resolution for an up-or-down vote by a company's shareholder base sends a strong signal to management about the importance of material environmental, social, and governance issues. When those proposals win support from fellow investors (even less than a majority), companies are often convinced to reckon with the underlying issue. In this way, the shareholder proposal process channels and amplifies legitimate investor concerns, empowers shareholders to learn about and support issues raised by other investors, and serves as a critical check against the inertia and groupthink that can develop among the executives and largest investors of publicly traded companies.

The effect of the proposed legislation, would be to cripple the healthy process of communication and risk identification that I have described above. This would silence our clients and take away a key investment risk management tool.

Specifically, the proposed legislation would damage shareholders' rights by:

1. <u>Altering the threshold for filing proposals to an impossible level so that only the very wealthiest investors could file proposals</u>. To file a proposal one would be required to hold 1 percent of shares over a three year period. In contrast, the longstanding current and well functioning rule allows shareholders holding $2,000 for one year. While updating this threshold to account for inflation could be reasonable, the proposal at hand eliminates this fundamental shareholder right. Smaller shareholders, whether individuals or institutional investors, would be cut out of the shareholder proposal process entirely, even though they have been among the most important filers in the process. Depending on the size of the company, the holdings required by the proposed threshold would be in the millions or even billions of dollars, cutting out all but the largest shareholders from access to corporate democracy.

   The shareholder proposal rule was created to support the ownership interests of <u>all</u> shareholders. As I have described, the shareholder proposal process gives us an essential tool to engage with boards and management on risk and governance concerns, and then if necessary, to spur debate among investors. In the absence of the right to file a proposal, most shareholders

may be ignored, and companies will act as if they are "too big to listen."

2. Altering the resubmission threshold for proposals. Current rules require that for a proposal to be resubmitted a subsequent year, it must receive at least 3 percent support on its first year voted, 6 percent in the second year, and 10 percent in the third year. The legislative proposal would raise these thresholds to 6 percent, 15 percent, and 30 percent, respectively. Yet, support growing to 10 percent over 3 years is already proven to be a significant show of investor interest. For emerging issues and risks, the existing thresholds represent a significant growth in investor interest to merit continued discussion and disclosure on an issue. The proposed change would substantially undermine important discussions of emerging risks and opportunities.

3. Prohibiting filing proposals on behalf of another person. Currently it is common and well-functioning practice for investment advisors like our firm to file proposals on behalf of their clients. The proposed legislation mistakenly seeks to eliminate this traditional practice, undermining a right of state law to appoint an agent on one's behalf.

   The SEC's shareholder proposal rule allows us to work on behalf of our clients to defend their interests by aiding them in raising risk and governance issues at their portfolio companies, and to suggest needed innovations and reforms. Moreover, clients often ask our firm to file proposals on their behalf. They count on our expertise to navigate the complex rules of the SEC. As investment advisors, we act as agents for our clients in filing proposals — a right that exists under state law. The provision in the proposed legislation seeking to prevent "filing by proxy" apparently attempts to preempt this existing state law right, and is inappropriate. The proposed changes through the Financial Choice Act would eliminate our ability to carry out these tasks as an agent of our clients and thus endanger our ability to perform our fiduciary obligations to each of our clients.

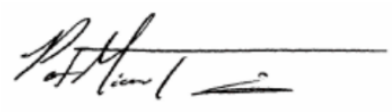
We urge you to oppose the radical changes embedded in the proposed legislation. The shareholder proposal process is working and does not need any purported fixes.

The proposed legislation would upset 70 years of SEC rulemaking and deliberations on this important and well-functioning corporate democracy process. The existing balance of rights and responsibilities in our investments supports a relationship of trust between capital providers and corporations. Stripping away shareholder rights as proposed by Chairman Hensarling would undermine that relationship. Indeed, radically altering the rights associated with share ownership could ultimately

undermine investor confidence.

I would be glad to speak with your staff and answer any questions as you prepare for Wednesday's hearing, including providing additional briefing materials and questions to ask during the hearing. In any event, I urge you to oppose section 844 in Chairman Hensarling's proposed Financial Choice Act discussion draft that attempts to limit shareholders' property rights.

Sincerely,



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