Mr. Brent J. Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Via SEC internet submission form Re: File No. 4-725 - SEC Staff Roundtable on the Proxy Process

April 16, 2019

Dear Mr. Fields,

My name is Marie Reed. I am a retired public employee in California and am writing in response to a request for comments related to the Nov. 15, 2018, SEC Staff Roundtable on the Proxy Process.

Anyone who is as concerned as I am about the retirement of public employees dependent on their pensions, has to be alarmed at the activities in recent years of the organizations that should be fiduciaries of those pensions.

More and more, these organizations are making investment decisions that are ideological and political, rather than strictly financial. Those decisions are being deeply influenced by the proxy advisory (PA) firms whose activities the SEC is now examining. I believe the SEC should take steps to ensure that PA firms do not make recommendations for extraneous purposes.

Please understand that I have absolutely no objection to an individual deciding for himself or herself to make an investment based on ESG (for environment, social, and corporate governance) criteria, the new slogan for "social investing." But boards of public pension funds should have one objective and one alone: achieving the best risk-adjusted returns for the millions of public sector workers and retirees who depend on them.

For example, the board of the San Francisco Employees Retirement System (SFERS) proposed divesting its portfolio of fossil-fuel stocks.[1] The investment consultant NEPC, asked by the SFERS board to analyze the consequences of such a divestment, concluded "that divestment from Carbon Underground 200 fossil fuel companies will materially reduce the potential risk-adjusted returns from the SFERS public markets portfolio." Similarly, a study by Wilshire Associates found that the cost to CalPERS for divesting tobacco stocks has been $3.5 billion.[2]

[1] https://mysfers.org/wp-content/uploads/08092017-board-meeting-07-fossil-fuel-A.pdf

[2] https://www.ai-cio.com/news/calpers-forced-divest-private-prison-companies/

Despite the losses, the CalPERS board rejected the advice of its staff in 2016 to reinstate tobacco stocks.[3]

These are not isolated incidents. The NEPC analysis cited eight academic studies that show that "investment decisions to sell and permanently exclude portions of an investment universe have not been accretive to investors."[4]

There are real-life consequences to this kind of investment decision-making. In 2018, the CalPERS portfolio lost 3.7% of its value. Over the past decade, CalPERS has produced an average annual return of 7.9%[5] while Vanguard Balanced Index, a mutual fund whose assets are simply split 60-40 between a stock index and a bond index, returned 9.4%[6] -- a huge difference.

I agree with Commissioner Hester Peirce, who referred to public-employee pension funds in a speech in September. "The problems arise," she said, "when those making the investment decisions are doing so on behalf of others who do not share their ESG objectives. This problem is most acute when the individual cannot easily exit the relationship. For example, pension beneficiaries often must remain invested with the pension to receive their benefits. When a pension fund manager is making the decision to pursue her moral goals at the risk of financial return, the manager is putting other people's retirements at risk."[7]

This issue is especially relevant to your inquiries into the role of PA firms. These firms play a major role in the ESG ecosystem. They turn investment theory into reality through their domination of the business of providing recommendations on proxy voting to funds of all types, both public and private.

Two PA firms have a lock on the advice business, and, because of a misguided staff interpretation of an SEC regulation that is 16 years old,[8] fund and plan boards turn to these firms as an easy means to discharge what they see as their obligation to vote on nearly every question presented to shareholders of the literally thousands of companies they own.

The Department of Labor (DOL) last year cited its "longstanding view that, because every investment necessarily causes a plan to forego other investment opportunities, plan

---

3 https://www.rstreet.org/2016/12/20/calpers-considers-then-rejects-efforts-to-end-tobacco-divestment-2/

4 https://mysfers.org/wp-content/uploads/012418-special-board-meeting-Attachment-B-NEPC-Commentary.pdf

5 https://www.pionline.com/article/20190213/ONLINE/190219934/calpers-posts-net-return-of-35-for-2018

6 http://performance.morningstar.com/fund/performance-return.action?t=VBINX&region=usa&culture=en_US

7 https://www.sec.gov/news/speech/speech-peirce-092118

8 https://www.sec.gov/rules/final/33-8188.htm

fiduciaries are not permitted to sacrifice investment return or take on additional investment risk as a means of using plan investments to promote collateral social policy goals."[9]

DOL oversees private pension funds governed by the Employee Retirement Income Security Act of 1974 (ERISA), not the public-employee funds such as in which RPEA members are enrolled. In an executive order earlier this month, President Trump told DOL to ensure that "retirement plans engaging with energy companies on ESG issues comply with ERISA," wrote Hazel Bradford in Pensions and Investments.[10]

The SEC should require that PA firms discharge their fiduciary responsibility to make recommendations that demonstrably enhance shareholder value, not fulfill some other political or social purpose.

Others have noted abuses by PA firms, including conflicts of interest and a reluctance to fix mistakes. My concern is broader. I worry every day about the solvency and returns of public pension plans in California. Those worries are heightened by plan boards that make decisions that meet social and environmental agendas.

Proxy advisory firms must not aid and abet those decisions, but instead do the opposite: keep boards focused on the best financial results for their members. You, the SEC, have a perfect opportunity to ensure that PA firms discharge their true fiduciary responsibility.

Sincerely,

Marie Reed

[9] https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01

[10] https://www.pionline.com/article/20190411/ONLINE/190419956/white-house-energy-infrastructure-order-calls-for-erisa-proxy-voting-review