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October 5, 2020

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
Attn: Attention: Proxy Voting and Shareholder Rights NPRM

U.S. Department of Labor
200 Constitution Avenue NW
Washington, DC 20210

Submitted via Federal eRulemaking Portal: www.regulations.gov

Re: Proposed Rule on 'Fiduciary Duties Regarding Proxy Voting and Shareholder Rights' [RIN 1210-AB91]

Dear Sir/Madam:

State Street Global Advisors, the investment management arm of State Street Corporation[1], appreciates the opportunity to provide comments on the Department of Labor's (the "Department's") proposed rule entitled "Fiduciary Duties Regarding Proxy Voting and Shareholder Rights" (the "Proposed Rule").[2]

With $3.054 trillion in assets under management, State Street Global Advisors is the world's third-largest asset manager[3]. As a fiduciary, State Street Global Advisors has a duty to act prudently and in the best interest of our clients, an obligation that extends to the proxy voting activity we undertake on our clients' behalf. As a long-term investor in more than 10,000 public companies across the world, State Street Global Advisors believes that voting on proxy issues is an important tool in driving long-term shareholder value for our clients. Our dedicated team of corporate governance professionals is focused on ensuring that this responsibility is implemented in a thoughtful, efficient manner.

By imposing requirements that will discourage the voting of proxies by private sector retirement plans covered by the Employee Retirement Income Security Act ("ERISA"), the Proposed Rule will diminish the ability of plan participants and their beneficiaries to derive the value that we believe can be obtained from voting on

[1] Headquartered in Boston, Massachusetts, State Street Corporation is a global custodian bank which specializes in the provision of financial services to institutional investor clients. This includes the provision of investment servicing, investment management, data and analytics, and investment research and trading. With $33.515 trillion in assets under custody and administration and $3.054 trillion of assets under management, State Street operates in more than 100 geographic markets globally as of June 30, 2020. State Street is organized as a United States bank holding company, with operations conducted through several entities, primarily its wholly-owned state-chartered insured depository institution, State Street Bank and Trust Company.

[2] *Available at* https://www.govinfo.gov/content/pkg/FR-2020-09-04/pdf/2020-19472.pdf

[3] As of June 30, 2020.

issues affecting long-term shareholder value. In addition, the Proposed Rule would increase, rather than decrease, costs for ERISA plans, further eroding the long-term value that U.S. plan participants and their beneficiaries are able to realize. Therefore, we respectfully urge the Department to withdraw the Proposed Rule and engage with a broad range of stakeholders—including plan sponsors, investment advisers and managers, advocates for plan participants and beneficiaries—regarding the voting of proxies.

The Proposed Rule Disenfranchises Plan Participants

The proxy vote is a fundamental right of corporate shareholders and provides a mechanism for the owners of companies to have a say in the matters affecting the future value of their investment. By voting on items such as the election of directors, executive compensation and shareholder proposals, investors create an incentive for management teams to act in the best interest of shareholders. As such, the proxy vote has historically been an important plan asset that, along with the actual investment of capital, has been put in the care of plan fiduciaries.

Instead of acknowledging this important asset, the Proposed Rule seeks to minimize the impact of voting and potentially eliminate it in certain spaces. Indeed, the Proposed Rule seemingly prejudges the voting of proxies as imprudent unless the applicable proposals relate to certain enumerated topics, such as corporate events, corporate repurchases of shares, issuances of additional securities with dilutive effects on shareholders or contested elections for directors. By deeming only these explicitly enumerated categories of proposals as being considered to have a significant impact on plan investments in the “permitted practices” sub-section, the Proposed Rule will have the effect of rendering votes on other categories of proxy proposals presumptively imprudent. This presumption could pressure fiduciaries to categorically avoid voting on such matters, even when such votes may be material to and in the best interest of plan participants.

Further, by discouraging ERISA plans from voting the shares of the companies they own, the Proposed Rule would effectively redistribute the influence of ERISA plans to other investors. Non-ERISA investors would be free to vote in their own best interest, which could focus on, for example, short-term vs. long-term gains. This could disadvantage the priorities of non-voting ERISA investors who are seeking long-term value for their retirement security.

Plan Assets Are Already Being Prudently Expended to Vote Proxies

State Street Global Advisors agrees with the Department’s position that managing plan assets as a fiduciary includes the management of voting rights, and that fiduciaries must carry out their duties relating such voting rights prudently.[4] We respectfully disagree, however, with the Department’s view that there is a

[4] See 85 Fed. Reg. 55,220 (2020) (Proposal).

"…persistent misunderstanding among some stakeholders that ERISA fiduciaries are required to vote all proxies…," and that such a misunderstanding is resulting in the expenditure of plan assets "…unnecessarily on matters not economically relevant."[5]

Studies have demonstrated the positive impact of proxy voting and shareholder engagement on investment returns.[6] In prudently carrying out its duties related to the management of voting rights, State Street Global Advisors utilizes an approach to proxy voting designed to consider the long-term economic value of our clients' investments. More specifically, our "Proxy Voting and Engagement Guidelines for Environmental and Social Issues" explains that our primary fiduciary obligation to our clients is to maximize the long-term returns of their investments.[7] As such, we cast our votes in a manner that supports and is designed to build shareholder value.

At the same time, we recognize that every voting matter does not have an equal impact on long-term value. We therefore refrain from voting when we believe the costs to do so may exceed the benefit, such as when investors are charged excessive meeting-specific fees. We have also developed a systematic prioritization process to align resources expended with the potential material impact of voting. Our understanding is that this approach is consistent with practices across the market. As explained more fully below, although we see the value in undertaking a cost-benefit analysis in deciding when and how to vote on certain voting matters, we believe that the structure and barriers created by the Proposed Rule would increase costs significantly for our clients without providing any new benefits beyond the analysis we already undertake today.

The Proposed Rule Creates Additional Costs for ERISA Plans

By introducing additional prescriptive requirements that will result in substantial new compliance burdens, the Proposed Rule would create additional costs for ERISA plans. In addition to introducing new compliance costs, we do not believe the Proposed Rule would achieve its objective of removing existing systematic costs, which are necessarily incurred today and which would still be incurred under the Proposed Rule. As a result, the Proposed Rule would increase costs for ERISA plans and their fiduciaries and ultimately have a negative impact on long-term returns for plan participants.

The Proposed Rule appears to require plan fiduciaries to make a proactive determination regarding the pecuniary impact of each agenda item on a per plan

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[5] *See* 85 *Fed. Reg.* 55,220 & 55221 (2020) .

[6] The Council of Institutional Investors has compiled a bibliography that captures many of these studies, which we have attached as Appendix A.

[7] Available at https://www.ssga.com/library-content/pdfs/ic/global-Proxy-Voting-and-engagement-guidelines-es-issues.pdf

basis.[8] Further, the Proposed Rule creates an expectation that managers justify and communicate their decisions regarding the pecuniary benefit of each agenda item to each plan sponsor, thereby introducing millions of new data points that must be generated, documented and reported.[9] We believe that this requirement would be extraordinarily and unduly burdensome. To illustrate this point, a plan fiduciary that is responsible for investing a single ERISA plan in a strategy that tracks the MSCI ACWI Investable Market Index (IMI) would need to assess and document nearly 90,000 decisions regarding the pecuniary impact of individual proposals regarding companies comprising the index constituents.[10] Thus, even a small asset manager responsible for the assets of just twelve ERISA plans with investments that track the MSCI ACWI IMI index would have an obligation to document more than a million decisions on how they decided to vote.[11] Creating technology infrastructure that can capture the data necessary to conduct such a review and report on it will require considerable additional investment by plan fiduciaries. While the Proposed Rule purports to seek to minimize the costs associated with these decisions through the introduction of "permissible practices," compliance with the permitted practice provisions would still require investment in technology infrastructure and other burdensome review practices and result, to the detriment of plans, in less opportunity for the exercise of plan voting rights.

Finally, we do not believe the Proposed Rule would alleviate costs associated with existing proxy voting practices as intended. The primary costs for plan fiduciaries are associated with the receipt of ballots and the acquisition of information necessary to take action on the ballots.[12] Neither of these costs would be eliminated, or even reduced, under the Proposed Rule.

Thus, plans will be negatively impacted because the Proposed Rule does not reduce the costs currently allocated to voting proxies, and it introduces new compliance

[8] See the requirements of proposed sub-section29 C.F.R. § 2550.404a-1(e)(2)(ii)(B) requiring that a plan fiduciary do the following before voting a proxy: "Consider the likely impact on the investment performance of the plan based on such factors as the size of the plan's holdings in the issuer relative to the total investment assets of the plan, the plan's percentage ownership of the issuer, and the costs involved."

[9] See the requirements of proposed subsection 404a-1(e)(2(iii): "Where the authority to vote proxies or exercise shareholder rights has been delegated to an investment manager pursuant to ERISA section 403(a)(2), or a proxy voting firm or other person performs advisory services as to the voting of proxies, a responsible plan fiduciary shall require such investment manager or proxy advisory firm to document the rationale for proxy voting decisions or recommendations sufficient to demonstrate that the decision or recommendation was based on the expected economic benefit to the plan, and that the decision or recommendation was based solely on the interests of participants and beneficiaries in obtaining financial benefits under the plan."

[10] Example assumes approximately 10 agenda items per meeting. The MSCI ACWI Investable Market Index (IMI) captures large, mid and small cap representation across 23 Developed Markets (DM) and 26 Emerging Markets (EM) countries*. With 8,768 constituents, the index is comprehensive, covering approximately 99% of the global equity investment opportunity set. https://www.msci.com/acwi

[11] Example assumes 12 plans making 90,000 decisions each based on the rationale described in the preceding footnote.

[12] The information necessary to take action on a ballot is frequently packaged with additional information by proxy service providers, such as a voting recommendation, however there is no source of disaggregated information available at scale.

costs associated with overly prescriptive research, reporting and recordkeeping obligations.

This Flawed Rule Would Create, Rather than Solve, Problems

Over fifty percent of Americans own shares of public companies through an ERISA plan.[13] Research shows that it is in the long-term interest of plan beneficiaries for their fiduciaries to engage in active ownership through the thoughtful exercise of proxy voting rights.[14] The Proposed Rule introduces new hurdles to the exercise of those rights based on what we believe to be a flawed premise that the current voting practices of plan fiduciaries are resulting in unnecessary expenditures of plan assets. These hurdles would cause ERISA plans and their fiduciaries to incur new, unavoidable compliance costs without reducing existing expenses. Further, the Proposed Rule would, to the detriment of ERISA plan beneficiaries, reduce plan voting activity and shift influence to other investors that may not have the long-term, sustainable value creation objectives of most plan beneficiaries.

For all of the reasons described in this letter, we respectfully urge the Department to withdraw the Proposed Rule. Once again, State Street Global Advisors appreciates the opportunity to comment on the Proposed Rule. Please do not hesitate to contact us with any questions, or if we can be of further assistance in any way.

Sincerely,

Lynn S. Blake, CFA

[13] http://www.pensionrights.org/publications/statistic/how-many-american-workers-participate-workplace-retirement-plans

[14] See Appendix A

Council of Institutional Investors®
The voice of corporate governance

Appendix A

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EMPIRICAL RESEARCH ON ESG FACTORS AND ENGAGED OWNERSHIP

A Bibliography

Collected by Lucy Nussbaum and Glenn Davis

Lucy Nussbaum is senior research analyst at the Council of Institutional Investors. Glenn Davis is deputy director of the Council of Institutional Investors.

Summary

This concise collection of research identifies empirical studies connecting improved firm performance and risk mitigation with three general categories: shareholder-friendly corporate governance, sustainability performance material to investors and engaged ownership. These studies generally align with CII's policy perspective and advocacy work. Member organizations may wish to consider these and other studies to support their unique investment and stewardship strategies.

I. Shareholder-friendly corporate governance

1. **Companies generally with owner-friendly governance practices outperformed companies with less owner-friendly governance.**

   Gompers, P. A., Ishii, J. L. and Metrick, A. 2003. Corporate Governance and Equity Prices. *Quarterly Journal of Economics*, Vol. 118, No. 1, pp. 107-155. https://ssrn.com/abstract=278920.

2. **Firms with owner-friendly governance were shown to be relatively more profitable, more valuable and pay out more cash to their shareholders.**

   Brown, L. D., Caylor, M. L. 2004. Corporate Governance and Firm Performance. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=586423.

3. **Companies that engage in fraudulent financial reporting were found to have weak corporate governance practices relative to other companies.**

   Beasley, M., Carcello, J.V., Hermanson, D.R., Lapides, P.D. 2000. Fraudulent Financial Reporting: Consideration of Industry Traits and Corporate Governance Mechanisms. *Accounting Horizons: A Quarterly Journal of the American Accounting Association.* 14: 441-452. https://aaapubs.org/doi/10.2308/acch.2000.14.4.441.

4. **Aggressive financial reporting was more likely to be found at companies with weak corporate governance structures.**

   Dechow, P.M., Sloan, R.G., Sweeney, A.P. 1996. Causes and Consequences of Earnings Manipulation: An Analysis of Firms Subject to Enforcement Actions by the SEC. *Contemporary Accounting Research* 13:1-21. https://ssrn.com/abstract=2607.

5. **Stakeholder governance would increase the insulation of corporate leaders from shareholders, reduce accountability and hurt economic performance.**

   Bebchuk, L. A., Tallarita, R. 2020. The Illusory Promise of Stakeholder Governance. https://ssrn.com/abstract=3544978.

6. **More outside directors and higher institutional ownership was found to be associated with lower bond yields and higher corporate bond ratings.**

   Bhojraj, S., Sengupta, P. 2001. Effect of Corporate Governance on Bond Ratings and Yields: The Role of Institutional Investors and Outside Directors. https://ssrn.com/abstract=291056.

7. **Target companies with majority-independent boards were found to obtain higher initial premiums and higher revised premiums than those without majority-independent boards.**

   Cotter, J.F., Shivdasani A., Zenner, M. 1997. Do Independent Directors Enhance Target Shareholder Wealth During Tender Offers? *Journal of Financial Economics* 43: 195-218. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=10106.

8. **High audit committee quality was shown to have incremental value in driving better financial reporting, internal controls and firm value.**

   Almaquoshi, W., Powell, W. 2017. Audit Committee Indices, Firm Value, and Accounting Outcomes. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2959718.

9. **The adoption of majority voting was associated with positive abnormal returns and an increase in boards implementing majority-supported resolutions.**

   Ertimur, Y., Ferri, F. Oesch, D. 2011, updated 2013. Does the Director Election System Matter? Evidence from Majority Voting. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1880974.

10. In an international study, the adoption of improvements in corporate governance beyond legal requirements or prevailing market practices was positively associated with firm value.

Laeven, L. A., Chhaochharia, V. 2008. Corporate Governance, Norms and Practices. *Journal of Financial Intermediation,* Vol. 18, Issue 3, p. 405-431. https://ssrn.com/abstract=1103608.

11. Board reforms involving increased board and audit committee independence were found to increase firm value, according to a study of 41 countries.

Fauver, L., Hung, M., Li, X.. Taboada, A.G. 2016. Board Reforms and Firm Value: Worldwide Evidence. *Journal of Financial Economics*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2607785&rec=1&srcabs=2990292&alg=1&pos=1.

12. A strong positive association was found between the authors' board governance index and firm operating performance, including total shareholder return, according to a study in the UK.

Shaukat, A., Trojanowski, G. 2017. Board Governance and Corporate Performance, Journal of Business Finance & Accounting. See https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3074861.

13. Owner-friendly governance practices have a positive and significant impact on returns, among a study sample of European industrial companies.

Bellavite Pellegrini, C., Romelli, D. 2011. Do Productivity and Governance Matter? Their Impact in Stock Returns in European Industrial Companies. http://ssrn.com/abstract=1735949.

Anti-takeover provisions

14. Companies with significant anti-takeover provisions (classified board structures, supermajority vote requirements, poison pills, golden parachutes, etc.) had lower firm value than those that did not.

Bebchuk, L., Cohen, A., Ferrell, A. 2004, updated 2009. What Matters in Corporate Governance? *Review of Financial Studies* Vol. 22, No. 2: 783-827. https://ssrn.com/abstract=593423.

15. **The claim that the trend toward annual director elections is value-destructive was shown to be spurious.**

    Catan, E., Kalusner. 2017. M. Board Declassification and Firm Value: Have Shareholders and Boards Really Destroyed Billions in Value? NYU Law and Economics Research Paper No. 17-39. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2994559.

16. **To the extent that insiders' voting rights exceed their equity stake (i.e. "cash flow rights") due to dual-class structures, firms were shown to underperform.**

    Gompers, P., Ishii, Joy, Metrick, A. 2008. Extreme Governance: An Analysis of Dual-Class Firms in the United States. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=562511.

17. **Any valuation premiums that multi-class firms had over single-class firms at IPO were found to dissipate over time and turn into discounts six to nine years after the IPO.**

    Cremers, K. J. M., B. Lauterbach, A. Pajuste. 2018. The Life-Cycle of Dual-Class Firm Valuation. European Corporate Governance Institute (ECGI) - Finance Working Paper No. 550/2018, https://ssrn.com/abstract=3062895.

18. **Financially constrained companies with multi-class stock may be more innovative in the early years, but these benefits were shown to disappear within 10 years after the IPO.**

    Baran, L., A. Forst, M. Via. 2019. Dual Class Share Structure and Innovation. https://ssrn.com/abstract=3183517.

19. **After managers were insulated by the adoption of an antitakeover law, they were found to reduce risk taking and pursue actions that destroy value.**

    Gormley, T. A. and Matsa, D. A. 2016. Playing It Safe? Managerial Preferences, Risk, and Agency Conflicts. *Journal of Financial Economics (JFE).* Forthcoming. https://ssrn.com/abstract=2465632.

20. When public pension fund ownership is high, a portfolio that buys firms with high takeover vulnerability and shorts firms with the lowest vulnerability generates abnormal positive returns.

Cremers, M., Nair, V. 2006. Governance Mechanisms and Equity Prices. *Journal of Finance,* Vol. 60, No. 6. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=938528.

Executive Compensation

21. Executive compensation was found to be not only higher, but also less sensitive to performance, at companies where corporate governance was weaker.

Bebchuk, L.A., Fried, J. 2004. Pay without Performance. Cambridge, MA: Harvard University Press. https://ssrn.com/abstract=537783.

22. Say on pay was shown to lead to increases in companies' market value and improvements in long-term profitability.

Cuñat, V., Giné, M. and Guadalupe, M. 2015. Say Pays! Shareholder Voice and Firm Performance. Review of Finance, 20 (5). pp. 1799-1834. ISSN 1572-3097. http://eprints.lse.ac.uk/63331/.

23. Companies with more owner-friendly corporate governance were associated with less "pay for luck" and less CEO capture of the pay setting process.

Bertrand, M., Mullainathan S. 2001. Are CEOs Rewarded for Luck? The Ones Without Principles Are. *Quarterly Journal of Economics* 116:901-932. https://inequality.stanford.edu/sites/default/files/media/_media/pdf/Reference%20Media/Bertrand%20and%20Mullainathan_2001_Elites.pdf.

24. Clawback provisions enabling the recoupment of erroneously awarded CEO compensation resulted in increased accounting quality and lower audit risk.

Chan, L., Chen, K. C. W., Chen, T. and Yu, Y. 2011. The Effects of Firm-Initiated Clawback Provisions on Earnings Quality and Auditor Behavior. *Journal of Accounting and Economics Conference*, 2011. http://ssrn.com/abstract=1965921.

25. Interlocking directorships were found to be associated with certain fraudulent activity in variable compensation, specifically option backdating.

Bizjak, J.M., Whitby, R., Lemmon, M. 2009. Option Backdating and Board Interlocks. Review of Financial Studies 22: 4821-48247. https://ssrn.com/abstract=1519264.

26. Executive pay was shown to be higher at companies that have significant anti-takeover provisions.

Hartzell, J.C., Starks, L. T. 2003. Institutional Investors and Executive Compensation. Journal of Finance 58: 2351-2374. https://ssrn.com/abstract=236592.

27. Long-term pay orientation was associated with an increase in firm value and firm investment in long-term strategies.

Flammer, C., Bansal, P. 2016. Does a Long-Term Orientation Create Value? Evidence from a Regression Discontinuity. *Strategic Management Journal*, Volume 38, Issue 9. https://ssrn.com/abstract=2511507.

28. A ten-year study of S&P 500 companies looking at total shareholder return over three-year periods found companies with performance share plans underperformed, relative to peers granting straight restricted stock or options.

Hodak, Marc. 2019. Are Performance Shares Shareholder Friendly? Journal of Applied Corporate Fiance, Volume 31, Number 3. 126-130. https://ssrn.com/abstract=3604438

29. A ten-year study of 423 large U.S. companies found about three-fifths had poor alignment between cumulative long-term shareholder return and realized executive pay.

Marshall, Ric. 2017. Out of Whack: U.S. CEO Pay and Long-term Investment Returns. *MSCI ESG Research LLC.* https://www.msci.com/documents/1296102/7330587/Research_Insight_Out_of_Whack.pdf/46baa603-a503-42c1-91c0-d0ef19b754b2

II. Sustainability performance material to investors

Human Capital Management

1. **Over a period of more than 30 years, firms with human capital management strategies that result in higher levels of employee satisfaction were shown to have higher long-term shareholder returns than their peers.**

   Edmans, A. 2012. The Link Between Job Satisfaction and Firm Value, with Implications for Corporate Social Responsibility. *Academy of Management Perspectives*, Vol. 26 No. 4: 1-19. https://ssrn.com/abstract=2054066.

2. **The presence of women on a company's board was found to have a positive effect on company performance.**

   Conyon, M., He, L. 2017. Firm Performance and Boardroom Gender Diversity: A Quantile Regression Approach. Journal of Business Research Vol. 79. p. 198-211. https://ssrn.com/abstract=2748558.

3. **A more diverse leadership team, in terms of gender and racial diversity, was found to have a significant positive effect on financial performance, as measured by EBIT, with companies in the top quartile of racial/ethnic diversity being 35 percent more likely to have financial returns above their national industry median.**

   Hunt, V., Layton, D., Prince, S. 2015. Diversity Matters. McKinsey & Company, http://www.insurance.ca.gov/diversity/41-ISDGBD/GBDExternal/upload/McKinseyDivmatters-201501.pdf.

Sustainability factors, including climate change risk

4. **Firms with favorable ratings on sustainability issues that are material to their industry were shown to significantly outperform firms with poor ratings on these issues.**

   Mozaffar K., Serafeim, G., Yoon, A. 2016. "Corporate Sustainability: First Evidence on Materiality," The Accounting Review, Vol. 91, No. 6, 2016., 1697-1724. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2575912.

5. **Companies that voluntarily adopted environmental and social policies many years ago significantly outperformed firms that adopted almost no such policies, both in terms of stock market and accounting performance.**

   Eccles, R. G., Ioannou, I., Serafeim, G. 2014. "The Impact of Corporate Sustainability on Organizational Processes and Performance." Management Science 60, no. 11. 2835–2857. https://ssrn.com/abstract=1964011.

6. **Better ESG performance on material issues was linked to a lower incidence of material credit events and lower credit risk.**

   Henisz, W.J., McGlinch, J. 2019. ESG, Material Credit Events, and Credit Risk. Journal of Applied Corporate Finance, Vol. 31, Issue 2, pp. 105-117 https://ssrn.com/abstract=3604421.

7. **Commercial banks that had higher scores on financially material ESG factors outperformed banks that had low scores on the same issues, marked by higher average risk-adjusted returns.**

   Global Alliance for Banking on Values, European Investment Bank, Deloitte, KKS Advisors. 2020. Do Sustainable Banks Outperform? Driving Value Creation through ESG. http://www.gabv.org/wp-content/uploads/Do-sustainable-banks-outperform.pdf.

8. **ESG scores incorporating materiality were shown to be better predictors of investment return than traditional ESG scores.**

   Steinbarth, E. 2018. Materiality Matters: Targeting the ESG Issues that Can Impact Performance. Russell Investments. https://russellinvestments.com/-/media/files/us/insights/institutions/governance/materiality-matters.pdf?la=en.

9. **Classifying stocks in the Russell 1000 into industries using sustainability factors was shown to have advantages over using traditional industry classifications.**

   Hildebrand, P., Deese, B., Mateos y Lago, I. Sustainable Investing: A 'Why Not' Moment: Environmental, Social and Governance Investing Insights. 2018. BlackRock. https://www.blackrock.com/corporate/literature/whitepaper/bii-sustainable-investing-may-2018-international.pdf.

10. According to a literature review, firms with higher ESG ratings tended to have lower costs of capital and higher credit ratings than firms with lower ESG ratings.

Henriksson, R., Livnat, J., Pfeifer, P., Stumpp, M., Zeng, G. 2018. "ESG Literature Review," QMA (Quantitative Management Associates LLC) and Stern School of Business Administration, New York University, https://www.qma.com/assets/pdf/QMA_ESG_Literature_Review_June2018.pdf.

11. In a literature review of more than 2000 studies, a majority of studies found a positive relationship between ESG and corporate financial performance, and about 90% of the studies found a non-negative relationship.

Friede, G., Busch, T., Bassen, A. 2015. ESG and Financial Performance: Aggregated Evidence from More than 2000 Empirical Studies, Journal of Sustainable Finance & Investment, 5:4, 210-233, https://doi.org/10.1080/20430795.2015.1118917.

12. A literature review of 39 studies found 80% of the studies documented a positive relationship between ESG factors and stock prices.

Clark, G., Feiner, A., Viehs, M. 2014. "From the Stockholder to the Stakeholder: How Sustainability can Drive Financial Outperformance," University of Oxford and Arabesque Partners. https://www.smithschool.ox.ac.uk/publications/reports/SSEE_Arabesque_Paper_16Sept14.pdf.

13. Certain ESG investment constraints, notably including diversity and governance criteria, were shown to enhance portfolio returns, while others did not enhance returns but added no costs to investors.

Geczy, C. C., Guerard, J., Samonov, M. 2018. Efficient SRI/ESG Portfolios. https://ssrn.com/abstract=3011644.

14. **Research from 2004 to 2018 showed that sustainable funds had lower downside risk than traditional funds and there were no financial trade-offs in the returns of sustainable funds compared to traditional funds.**

    Morgan Stanley Institute for Sustainable Investing. 2019. Sustainable Reality: Analyzing Risk and Returns of Sustainable Funds. https://www.morganstanley.com/content/dam/msdotcom/ideas/sustainable-investing-offers-financial-performance-lowered-risk/Sustainable_Reality_Analyzing_Risk_and_Returns_of_Sustainable_Funds.pdf.

15. **ESG performance was shown to be positively associated with return on assets. Of E, S and G, governance performance had the strongest impact on financial performance, based on evidence from Germany.**

    Velte, P. 2017. Does ESG Performance Have an Impact on Financial Performance? Evidence from Germany. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2916741.

II. Engaged shareownership

1. **Passive mutual funds were shown to influence firms' governance choices, resulting in more independent directors, removal of takeover defenses and more equal voting rights. Passive ownership was associated with improvements in firms' longer-term performance.**

   Appel I., Gormley, T., Keim, D. 2016. Passive Investors, Not Passive Owners. Journal of Financial Economics. https://ssrn.com/abstract=2475150.

2. **Investor-company engagement was found to be most effective in lowering downside risk when addressing governance or strategy topics and when changes in firms' environmental policies were coupled with governance improvements.**

   Hoepner, A., Oikonomou, I., Sautner, Z., Starks, L., Zhou, X. 2018. ESG Shareholder Engagement and Downside Risk. AFA https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2874252.

3. **Institutional investors should not be painted with a broad brush. When firms had "dedicated" institutional investor ownership (characterized by lower portfolio turnover and higher portfolio concentration), there was found to be less tail risk, less volatility in realized returns, better accrual quality and higher payout ratios than those firms with more "transient" institutional ownership.**

   Borochin, P., Yang, J. 2016. The Effects of Institutional Investor Objectives on Firm Valuation and Governance. https://www.federalreserve.gov/econresdata/feds/2016/files/2016088pap.pdf.

4. **Shareholder adoption of governance-related shareholder proposals was found to trigger positive short-term returns as well as long-term performance improvements.**

   Cuñat, V., Gine, M. and Guadalupe, M. 2010 (updated 2012). The Vote is Cast: The Effect of Corporate Governance on Shareholder Value. The Journal of Finance, Volume 67, Issue 5. http://ssrn.com/abstract=1555961.

5. **Successful engagements on ESG concerns, marked by achievement of a milestone, were followed by positive abnormal returns, as well as improvements in operating performance, profitability, efficiency, shareholding and governance.**

   Dimson, E., Karakaş, O., Li, X. 2015. Active Ownership. *The Review of Financial Studies*. Volume 28, Issue 12, Pages 3225–3268. https://doi.org/10.1093/rfs/hhv044.

6. **Better engagement and transparency around corporate social responsibility activity were found to be important factors in reducing capital restraints.**

   Cheng, B., Ioannou, I., Serafeim, G. 2011. Corporate Social Responsibility and Access to Finance. Strategic Management Journal, 35 (1): 1-23. https://ssrn.com/abstract=1847085.

7. **Targets of ESG activism were shown to have higher market share, stock returns and liquidity than non-engaged peer companies. Targets that sufficiently adjusted policies in response to the engagement generated higher returns than those that did not.**

   Barko, T., Cremers, K. J. M., Renneboog, L. 2018. Shareholder Engagement on Environmental, Social, and Governance Performance. CentER Discussion Paper Series No. 2017-040, European Corporate Governance Institute (ECGI) - Finance Working Paper No. 509/2017 , TILEC Discussion Paper No. DP 2017-021. https://ssrn.com/abstract=2977219.

8. **Targets of green hedge fund activists that reduced toxic chemical emissions were shown to experience higher stock returns after the activism.**

   Chu, Y., Zhao, D. 2019. Green Hedge Fund Activists. https://ssrn.com/abstract=3499373.

9. **Once company- and firm-specific factors important to investors were taken into consideration, the impact of vote recommendations by the world's largest proxy advisor was reduced greatly.**

   Choi, S. J., Fisch, J. E., Kahan, M. 2010. The Power of Proxy Advisors: Myth or Reality?. Emory Law Journal, Vol. 59, p. 869. University of Penn, Institute for Law & Economics Research Paper No. 10-24. https://ssrn.com/abstract=1694535.

10. Larger mutual fund families were found to exercise their voting rights in ways completely independent from proxy advisor recommendations.

Brav, A., Jiang, W., Li, T.. Pinnington, J. 2018. Picking Friends Before Picking (Proxy) Fights: How Mutual Fund Voting Shapes Proxy Contests. Columbia Business School Research Paper No. 18-16, European Corporate Governance Institute (ECGI) - Finance Working Paper No. 601/2019. https://ssrn.com/abstract=3101473.

11. Engagement on governance issues between underperforming portfolio companies and CalPERS resulted in significant cumulative excess returns over a five-year period from the time of initial engagement.

Junkin, A., Toth, T. 2009 (updated 2013). "The 'CalPERS Effect' on Targeted Company Price Shares." Wilshire Associates Inc. https://www.calpers.ca.gov/docs/board-agendas/201310/invest/item09e-01.pdf.

12. Activism by CalPERS targeting increases in shareholder rights was estimated to have generated about $3.1 billion between 1992 and 2005.

Barber, Brad M. 2006. Monitoring the Monitor: Evaluating Calpers' Activism. https://ssrn.com/abstract=890321.