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Via electronic mail

Office of Chief Counsel
Division of Corporation Finance
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: State Street Corporation; Shareholder Proposal of James McRitchie (John Chevedden)
Securities Exchange Act of 1934 ("Exchange Act")—Rule 14a-8

Ladies and Gentlemen:

James McRitchie (the "Proponent") is beneficial owner of common stock of State Street Corporation (the "Company") and has submitted a shareholder proposal (the "Proposal") to the Company. I have been asked by the Proponent to respond to the letter dated January 15, 2020 ("Company Letter") sent to the Securities and Exchange Commission (the "SEC") by Lillian Brown ("Company Counsel"). In that letter, the Company contends that the Proposal may be excluded from the Company's 2021 proxy statement. A copy of the Proposal is attached to this letter.

Based on the Proposal, as well as the letter sent by the Company, we respectfully submit that the Proposal must be included in the Company's 2021 proxy materials and that it is not excludable under Rule 14a-8. A copy of this letter is being emailed concurrently to Company Counsel.

The Proposal requests a study of the how the Company's voting and engagement policies, which focus solely on individual corporation materiality to the exclusion of capital markets materiality, affect the majority of its clients and shareholders, who rely primarily on overall stock market performance for their returns, rather than upon the returns of individual companies. The Company asserts that the Proposal is excludable (1) under Rule 14a-8(i)(7) for being vague and misleading, (2) under Rule 14a-8(i)(2) and Rule 14a-8(i)(6) because implementing the Proposal would be illegal under both state and federal law and thus beyond its authority to implement, (3) under Rule 14a-8(i)(10), because it has been substantially implemented, and (4) under Rule 14a-8(i)(7), because it relates to the Company's ordinary business.

According to the "kettle logic"[1] of the Company Letter, then, the following three things are true: the Proposal cannot be understood, the Proposal can be understood well enough to know that it would be illegal to implement, and the Company has implemented the illegal Proposal. This contradictory tangle of arguments results from a clear misconstruction of the Proposal, as discussed below.

A. The Proposal asks the Company to report whether its policies of maximizing the value of individual portfolio companies harms its clients, which is neither illegal nor outside the Company's authority, and thus should not be excluded under Rules 14a-8(i)(2) or (6)

1. *The proposal does not propose subordinating the interests of beneficiaries to any other interests.*

Much of the Company Letter springs from the false idea that the Proposal asks the Company to put any interests before those of its clients. The Company Letter claims that the Proposal suggests that the Company "can or should, in its engagement and voting activities on behalf of clients place the interests of the 'global commons' before the interests of its clients." This is specious. First, the Proposal only suggests a report, and not any action at all. More to the point, however, is the nature of the requested report, which is disclosure of how ignoring the global commons will "affect the majority of its clients and shareholders." Rather than suggesting that the interests of its clients be subjugated, the Proposal asks for a report on whether the Company is *harming its clients* with its current policy of maximizing shareholder value at individual companies.[2] In other words, the Proposal seeks to determine whether the company is subjugating the interests of its clients to those of individual portfolio companies.

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[1] Slavoj Zizek, IRAQ: THE BORROWED KETTLE ("In order to render the strange logic of dreams, Freud quoted the old joke about the borrowed kettle: (1) I never borrowed a kettle from you, (2) I returned it to you unbroken, (3) the kettle was already broken when I got it from you. Such an enumeration of inconsistent arguments, of course, confirms exactly what it attempts to deny—that I returned a broken kettle to you.")

[2] *Global Proxy Voting and Engagement Policies* (March 2020) available at https://www.ssga.com/library-content/pdfs/ic/proxy-voting-and-engagement-guidelines-principle.pdf ("At State Street Global Advisors, we take our fiduciary duties as an asset manager very seriously. . . . The underlying goal is to maximize shareholder value" and "Proposals that are in the best interests of shareholders, demonstrated by enhancing share value or improving the effectiveness of the company's operations, will be supported.")

The Company letter cites a number of fiduciary standards to which it is subject; in each case the Proposal complies with the standard:

- *It must "place its client's interest before its own or the interests of others."* The Proposal is in keeping with this standard as it seeks to discover whether the Company is harming the interests of its clients, who rely not on individual company performance, but on market performance.[3]

- *"[T]o satisfy its fiduciary duty in making any voting determination, the investment adviser must make the determination in the best interests of the client."* As the quotes in the margin show,[4] the Company's own description of its voting and engagement strategies focus first on the interests of the individual companies, apparently believing that will best serve its clients. The goal of the Proposal is to study whether the interests of those companies is entirely aligned with the interests of clients.

- *The Company must "administer the trust solely in the interest of the beneficiaries."* Again, the Proposal asks that the Company ensure that its current policies, which focus on individual portfolio companies, protect the interests of its clients/beneficiaries when the value-maximizing conduct of individual companies harms the portfolios of those investors.

The Company Letter cites additional expressions of the fiduciary standard they are held to as an asset manager, but they all boil down to the same critical point: they must put the interests of their clients first. Because the Proposal is in fact designed to further the interests of those clients, the Company Letter can only make the illegality argument by proposing a hypothetical that is not even remotely suggested by the Proposal: "if [the Company] engaged portfolio companies in discussions regarding the interests of the 'global commons' ahead of the direct interests of the beneficiaries, it would be in violation of its first duty of loyalty."

Of course it would. But the Proposal never suggests putting the global commons "ahead of beneficiaries." Instead, it asks the Company to investigate whether the Company's failure to engage with companies directly in relation to their impact on the global commons will harm those beneficiaries. As discussed in the next section, this is a critical concern.

2. *The Company's focus on maximizing the value of individual companies risks harming investors who hold diversified portfolios,*

[3] To be clear, the Proposal only requests a report; if that report were to show that, contrary to the Proponent's concern, the Company's current policies in fact were in the best interest of beneficiaries, no law would be broken.
[4] *Supra,* n.2; *see also id.* ("When voting, we fundamentally consider whether the adoption of a shareholder proposal addressing a material sustainability issue would promote long-term shareholder value.")

a. Diversification and the importance of overall market return

Sound investing practice mandates that fiduciaries adequately diversify their portfolios.[5] This allows investors to reap the increased returns available from risky securities while greatly reducing their overall risk—it is this insight that defines Modern Portfolio Theory.[6] This core principle is reflected in ERISA (the source of some of the standards cited in the Company Letter), which requires plan fiduciaries to act prudently "by diversifying the investments of the plan."[7] The wisdom of a diversified investment strategy can be summarized through the philosophy of the late John Bogle, founder of one of the largest mutual funds companies in the world: "Don't look for the needle in the haystack; instead, buy the haystack."[8]

Thus, adequate diversification is required by accepted investing theory and fiduciary standards. However, once a portfolio is diversified, the most important factor determining return will not be how the companies in that portfolio perform relative to other companies ("alpha"), but rather how the market performs as a whole ("beta"). As one work describes this, "[a]ccording to widely accepted research, alpha is about one-tenth as important as beta [and] drives some 91 percent of the average portfolio's return."[9]

b. Beta and ESG

This distinction between individual company returns and overall market return is critical because shareholder return at an individual company does not reflect "externalized" costs, i.e., those costs it generates but does not pay. Externalized costs include harmful emissions, resource depletion, and the instability and lost opportunities caused by inequality. The collective costs of such externalities are absorbed by diversified shareholders (including the Company's clients) because they degrade and endanger the stable, healthy systems upon which corporate financial returns depend. Thus, while individual companies can "efficiently" externalize costs from their own narrow perspective in order to "maximize shareholder value" (as contemplated by the Company's Governance Principles), diversified shareholders pay these costs through a lowered return on their portfolios.[10] Stewardship of the externalizing companies reduce externalities (even profitable ones) and provides an opportunity to increase return at the portfolio level.

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[5] *See generally*, Burton G. Malkiel, A Random Walk Down Wall Street (2015)
[6] *Id.*
[7] 29 USC Section 404(a)(1)(C).
[8] John C. Bogle, The Little Book of Common Sense Investing: The Only Way to Guarantee your Fair Share of the Stock Market, 86 (2007).
[9] Stephen Davis, Jon Lukomnik and David Pitt-Watson, *What They Do with Your Money* (2016).
[10] *Externalities and Corporate Objectives in a World with Diversified Shareholder/Consumers,* Robert G. Hansen and John R. Lott, JOURNAL OF FINANCIAL AND QUANTITATIVE ANALYSIS, 1996, vol. 31, issue 1, 43-68 (abstract) ("If shareholders own diversified portfolios, and if companies impose externalities on one another, shareholders do not want value maximization to be corporate policy. Instead, shareholders want companies to maximize portfolio values. This occurs when firms internalize between-firm externalities.")

Thus, if a fiduciary like the Company focuses only on the effect that environmental, social, and governance ("ESG") behaviors have on the performance of companies whose activity is at issue, and not on the external costs created by the behavior, the fiduciary may be sacrificing the 91% of potential return attributed to market return in order to optimize the 9% that comes from outperformance. Externalized social and environmental costs can play an outsized role in that 91%. A recent study (the "Schroders Report") by a major asset manager was able to discern that 55% of the profits attributed to publicly listed companies globally were consumed by external costs absorbed by the rest of the economy:

> *In total, the earnings listed companies generate for shareholders currently total US$4.1 trillion, which would fall by 55% to US$1.9 trillion if those social and environmental impacts crystallised as financial costs. One third of companies would become loss-making.*[11]

But those costs will crystalize: as the economy absorbs them, growth and productivity will fall, leading to decreasing overall market returns.[12] The PRI, an investor initiative whose members (including the Company) have $89 trillion in assets under management, recently explained how the pursuit of profit by an individual company can reduce the return of diversified owners even if the company is included in their portfolio, highlighting problems that arise from optimizing for too narrow a scope:

- *A company strengthening its position by externalising costs onto others. The net result for the [diversified] investor can be negative when the costs across the rest of the portfolio (or market/economy) outweigh the gains to the company;*
- *A company or sector securing regulation that favours its interests over others. This can impair broader economic returns when such regulation hinders the development of other, more economic companies or sectors;*

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[11] *Foresight,* Schroders, *available at* https://www.schroders.com/en/sysglobalassets/digital/insights/2019/pdfs/sustainability/sustainex/sustainex-short.pdf

[12] On the economic cost of climate change, s*ee, e.g.,* Kahn, M., Mohaddes, K., Ng, R., Hashem Pesaran, M., Raissi, M, and Yang, J*., Long-Term Macroeconomic Effects of Climate Change: A Cross-Country Analysis*, IMF Working Paper (2019) (abstract) (" Our counterfactual analysis suggests that a persistent increase in average global temperature by 0.04°C per year, in the absence of mitigation policies, reduces world real GDP per capita by more than 7 percent by 2100. On the other hand, abiding by the Paris Agreement, thereby limiting the temperature increase to 0.01°C per annum, reduces the loss substantially to about 1 percent."); as to the economic cost of inequality*, see, e.g., Dana Peterson and Catherine Mann, Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S*. (2020) (closing racial gaps could lead to $5 trillion in additional GDP over next five years) available at https://ir.citi.com/%2FPRxPvgNWu319AU1ajGf%2BsKbjJjBJSaTOSdw2DF4xynPwFB8a2jV1FaA3Idy7vY59bOtN2lxVQM%3D; *Inequality is Slowing U.S. Economic Growth,* Economic Policy Institute (December 12, 2017) (Inequality reduces demand by 2-4% annually) available at https://www.epi.org/publication/secular-stagnation/; Heather Boushey, Unbound: How Inequality Constricts Our Economy and What We Can Do about It (2019).

- *A company or sector successfully exploiting common environmental, social or institutional assets. Notwithstanding greater harm to societies, economies, and markets on which investment returns depend, the benefits to the company or sector can be large enough to incentivise and enable them to overpower any defence of common assets by others.*[13]

c. The Need for Systems Stewardship

Given the critical importance of overall market return, and the danger to that return from company activities that damage social and environmental systems, the Company's clients/beneficiaries clearly need protection from individual portfolio companies that improve their own performance in ways that damage overall market return. In order to protect the interest of plans and beneficiaries, plan fiduciaries must consider whether they can effectively engage and vote in order to limit or eliminate conduct that threatens the social and economic systems on which investors with diversified portfolios rely.

Because investors collectively have the power to vote against the management at companies that endanger systems that are critical to all companies, they have the power to steward companies away from negative sum activities and towards authentically productive profits. The PRI report cited above reaches the conclusion that collective investor action to manage social and environmental systems is needed in order to satisfy the fiduciary duties of investment trustees:

> *Systemic issues require a deliberate focus on and prioritisation of outcomes at the economy or society-wide scale. This means stewardship that is less focused on the risks and returns of individual holdings, and more on addressing systemic or 'beta' issues such as climate change and corruption. It means prioritising the long-term, absolute returns for universal owners, including real-term financial and welfare outcomes for beneficiaries more broadly.*[14]

Thus, the Proposal simply asks the Company to report on an issue raised by two investor alliances of which it is a member. Providing the requested report would not violate state or federal law and is fully within the Company's authority.

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[13]PRI, *Active Ownership 2.0: The Evolution Stewardship Urgently Needs,* available at https://www.unpri.org/download?ac=9721. *See also Addressing Climate as a Systemic Risk: A call to action for U.S. financial regulators, available at* https://www.ceres.org/resources/reports/addressing-climate-systemic-risk ("The SEC should make clear that consideration of material environmental, social and governance (ESG) risk factors, such as climate change, to portfolio value is consistent with investor fiduciary duty."). Ceres is a non-profit organization with a network of investors with more than $29 trillion under management. The Company is a member of its Investor Network.
[14] *Supra,* n.13 (emphasis added.)

B. <u>The Proposal is not misleading or vague and is therefore not excludable pursuant to Rule 14a-8(i)(3)</u>

1. The statements in the Proposal are not false.

The Company claims that four statements in the Proposal are false. We take them in order.

First, the Company Letter says, "*Contrary to the assertion in the Resolved clause in the proposal, the Company's policies do not focus on individual companies.*" This is simply a mischaracterization of what the Proposal says. As described in the preceding section, the Proposal addresses the Company's focus on company-by-company value maximization, which the Company's own policies make clear.[15] The fact that those issues may extend across the market does not change the fact that the Company supports them only to the extent that they increase individual company profitability. For example, the Company Letter cites gender diversity and racial diversity as examples of issues that it covers "industry-wide and market-wide" rather than individually. But the recent letter of the Company's CEO to the board members of portfolio companies clearly states that its support of diversity is intended to increase returns at the companies that improve their diversity, and not to improve social systems on which other companies rely:

> *Research has shown the positive impacts diverse groups can have on improved decision making, risk oversight, and innovation, as well as how management teams with a critical mass of racial, ethnic, and gender diversity are more likely to generate above-average profitability.*
>
> *Likewise, companies that promote workforce diversity and inclusion through transparent hiring, promotion, and wage practices have seen improved productivity, revenues, and market share . . .*[16]

Second, the Company Letter claims that the Proposal falsely states that "a majority of the Company's shareholders rely primarily on one particular measure of overall stock market performance." In order to make the Proposal appear misleading, the Company Letter gratuitously adds the phrase "one particular measure." The Proposal makes no such claim and simply posits the uncontroversial idea that almost all shareholders generally spread their investments among different securities[17] (and indeed, funds that perform that diversification are the very product for

[15] *Supra*, n.2 &4.
[16] *CEO's Letter on our 2021 Proxy Voting Agenda* (January 11, 2021) available at https://www.ssga.com/us/en/institutional/ic/insights/ceo-letter-2021-proxy-voting-agenda

[17] *See* n.5-7 and accompanying text.

which the Company is known.) In such cases, market performance will matter because of overall correlations among investments and the economy.[18] While there is of course "no one measure" for every investor, it is clear that healthy social and environmental systems support for-profit enterprises generally. Indeed, the very purpose of the Proposal is to ask the Company to gather information about how to find a variety of measures that will allow it to vote its shares and engage with portfolio companies in the way that best serves its clients.

Third, the Company Letter argues that the Proposal is misleading because it asserts that the Company stewards portfolio companies to improve ESG performance only if it improves their own performance. The Company's argument that this claim is misleading is as follows: "the Company's engagements address a number of industry-wide and market-wide issues and are focused on long-term value enhancement." That statement is not contrary to the Proposal, however, because such issues may affect the individual company value of the companies being engaged. The issue raised by the Proposal is not whether an issue pertains to one company or many companies; *it is whether it will be advanced at any one company even if it lowers that company's financial return in order to enhance market return*, and based on the many discussions of shareholder value in the Company's materials, the answer appears to be "no."

Finally, the Company claims that the assertion that it is focused on company-by-company materiality is false. As with the previous claim, however, the Company Letter only offers a non-denial denial, stating that its analyses include "the impact of these ESG issues across industries and market sectors and not only on the impact of these ESG issues on an individual company." But again, this is perfectly consistent with a focus on materiality to companies, rather than the focus of the proposal, which is materiality to systems. Indeed, the Company's proprietary R-Factor™ system relies on materiality models that stretch across industries, but which are still focused on materiality to companies, and not to systems.[19] That system leverages "widely accepted, transparent materiality frameworks from the Sustainability Accounting Standards Board (SASB) and corporate governance codes to generate a unique ESG score for listed companies."[20]

SASB itself is known for focusing solely on Company materiality. As it describes its own standards, "SASB standards address the sustainability topics that are reasonably likely to have material impacts on the financial condition or operating performance of companies in an industry."[21] A recent collaborative effort among disclosure standard setters distinguished between disclosure that addressed impacts beyond companies themselves and the narrower, company-only standards created by SASB:

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[18] *See* n.9 and accompanying text

[19] *See R-Factor™ — A Roadmap to Build Sustainable Companies* available at https://www.ssga.com/us/en/institutional/ic/capabilities/esg/data-scoring/r-factor-transparent-esg-scoring

[20] *Id.*

[21] *SASB Conceptual Framework* (February 2017) available at https://www.sasb.org/wp-content/uploads/2020/02/SASB_Conceptual-Framework_WATERMARK.pdf. As a result, SASB's standards treat data on race and gender as material in only 13 or the 77 industries for which it establishes disclosure standards, even though racial and gender injustice in any industry can harm the social fabric. (see https://www.sasb.org/blog/exploring-diversity-inclusion-in-the-sasb-standards/)

> *The SASB Standards . . . focus exclusively on enabling companies to identify the sub-set of sustainability information that is material for enterprise value creation.*[22]

Thus, none of the statements in the Proposal are misleading: they are all consistent with the question that underlies the Proposal: are clients well-served by the Company's focus on improving shareholder value at individual companies without accounting for the harm they impose on other companies?[23]

2. *The Proposal is not vague*

The Company's argument that the Proposal is vague grasps at straws to try to find vagueness in a clearly written proposal. As the Company Letter correctly states: "The Staff consistently has taken the position that vague and indefinite shareholder proposals are inherently misleading and therefore excludable under Rule 14a-8(i)(3) because 'neither the [share]holders voting on the proposal, nor the company in implementing the proposal (if adopted), would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires.'" In contrast, the Proposal is quite clear.

First, the Company argues that "market materiality" is not defined, and then throws out the names of different stock indices the term might apply to. But in context, it is clear that the Proposal is not referring to a specific index—it is referring to the fact that company behavior does not only affect the financial performance of that company itself, but the broader markets as well. The exact same point is true with respect to the Company's claim that the term "global commons" is vague. This reference is included in the supporting statement and simply explains how an engagement based on preserving market value would operate—by preserving common goods upon which all companies depend. What the Company Letter calls "vague" is actually just "unknown," which is the very point the Proponent wants the Company to address. The Proposal asks the Company to investigate just what type of behavior by the companies in its portfolios may be harming the commons and its clients.

The Company claim that the Proposal is vague because it does not specify the harms to the economy that affect its clients' portfolios is similarly circular. The Company is essentially saying that the Proposal's request for a report is vague because it does not specify what the report will say.

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[22] Statement of Intent to Work Together Towards Comprehensive Corporate Reporting (September 2020) available at https://29kjwb3armds2g3gi4lq2sx1-wpengine.netdna-ssl.com/wp-content/uploads/Statement-of-Intent-to-Work-Together-Towards-Comprehensive-Corporate-Reporting.pdf.

[23] *Global Proxy Voting and Engagement Policies* (March 2020) ("In all cases, we use our discretion in order to maximize shareholder value.") available at https://www.ssga.com/library-content/pdfs/ic/proxy-voting-and-engagement-guidelines-principle.pdf.

The last claim of vagueness simply makes no sense. The Proposal notes that a study may cause shareholders to rethink a number of characteristics of the Company. Based on this innocuous statement, the Company claims that the Proposal is vague because the shareholders voting on the Proposal and the Company in preparing the report would not "be able to determine with any certainty exactly what actions or measures the Proposal requires." This is a *non sequitur*: the Proposal requires the study it asks for; that the completed study may have consequences that are not already known does not mean the Proposal is vague—it just means that it is potentially useful.

There is no question that compilation of the report described in the Proposal will require discretion and business judgment on the part of the Company because it will have to make decisions as to the best methodologies to follow. But that does not make the request vague. The Proposal presents a fairly simple request: that the Company investigate whether its clients and shareholders are harmed by its focus on maximizing shareholder value of portfolio companies while ignoring the systemic effects of their externalities. Being asked to report on these issues may be difficult and perhaps uncomfortable for the Company's management, but it there is nothing vague about it.[24]

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[24] The Company also argues that the "thumbs up" image intended to encourage votes in favor of the Proposal should be excluded. Although the Letter references SLB 14I, it fails to quote its clear standards for excluding images:

> *2. The use of images in shareholder proposals.*
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> *Questions have recently arisen concerning the application of Rule 14a-8(d) to proposals that include graphs and/or images. In two recent no-action decisions. the Division expressed the view that the use of "500 words" and absence of express reference to graphics or images in Rule 14a-8(d) do not prohibit the inclusion of graphs and/or images in proposals. Just as companies include graphics that are not expressly permitted under the disclosure rules, the Division is of the view that Rule 14a-8(d) does not preclude shareholders from using graphics to convey information about their proposals.*
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> *The Division recognizes the potential for abuse in this area. The Division believes, however, that these potential abuses can be addressed through other provisions of Rule 14a-8. For example, exclusion of graphs and/or images would be appropriate under Rule 14a-8(i)(3) where they:*
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> - *make the proposal materially false or misleading;*
> - *render the proposal so inherently vague or indefinite that neither the stockholders voting on the proposal, nor the company in implementing it, would be able to determine with any reasonable certainty exactly what actions or measures the proposal requires;*
> - *directly or indirectly impugn character, integrity, or personal reputation, or directly or indirectly make charges concerning improper, illegal, or immoral conduct or association, without factual foundation; or*

C. The Proposal does not relate to ordinary business and thus cannot be excluded under Section 14a-8(i)(7)

The Proposal is not excludable pursuant to Rule 14a-8(i)(7) because it is solely directed to a significant social policy issue posed by the Company's ongoing business, namely *the question of how corporations account for the systemic and other costs they impose on stakeholders when they prioritize the interests of their shareholders and ignore the costs that they externalize*. These externalized costs harm the economy and diversified investors such as the Company's clients. The Company Letter fails to acknowledge that this policy issue is at the heart of the Proposal, and therefore fails to address the key question of whether that issue transcends the ordinary business question upon which the Proposal touches.

1. Background

The Staff has indicated that a shareholder proposal that might otherwise be excludable as relating to ordinary business under Rule 14a-8(i)(7) may not be excludable if it raises significant social policy issues. Amendments to Rules on Shareholder Proposals, Exchange Act Release No. 34-40018, (May 21, 1998). In addressing the ordinary business exclusion, the Release noted:

> *Certain tasks are so fundamental to management's ability to run a company on a day-to-day basis that they could not, as a practical matter, be subject to direct shareholder oversight. Examples include the management of the workforce, such as the hiring, promotion, and termination of employees, decisions on production quality and quantity, and the retention of suppliers. However, proposals relating to such matters but focusing on sufficiently significant social policy issues (e.g., significant discrimination matters) generally would not be considered to be excludable, because the proposals would transcend the day-to-day business matters and raise policy issues so significant that it would be appropriate for a shareholder vote.*
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> ***
>
> *The determination as to whether a proposal deals with a matter*

- *are irrelevant to a consideration of the subject matter of the proposal, such that there is a strong likelihood that a reasonable shareholder would be uncertain as to the matter on which he or she is being asked to vote.*

Staff Legal Bulletin No. 14I (November 1, 2017) (footnotes omitted). The image in the Proposal is not excludable under this standard.

> *relating to a company's ordinary business operations is made on a case-by-case basis, taking into account factors such as the nature of the proposal and the circumstances of the company to which it is directed.*

As we will discuss below, in the present matter, the reporting on the question raised by the Proposal relates to an underlying significant policy issue: the appropriate manner of accounting for the external costs of corporate behavior that benefits a company's shareholders but may harm social and environmental systems and other stakeholders.

2. *Significant policy issue: externalizing costs to stakeholders*

The Company's argument to exclude the Proposal under Rule 14a-8(i)(7) is based on a failure to acknowledge the underlying significant policy issue addressed by the Proposal, which is clear on its face: the pursuit of corporate financial returns to shareholders that cause harm to other stakeholders. The Company's clients (and all diversified shareholders) are stakeholders in the social and environmental systems that support their investments, and thus, while they may be shareholders in a particular company, they are also stakeholders in that company to the extent that its impacts affect their other investments. The Proposal highlights this issue by citing a specific study that quantifies the social harm that corporate-induced racial inequality can cause, and also cites a study showing how environmental damage harms diversified shareholders. Yet in arguing that that the Proposal does not address a transcendent policy issue, the Company Letter fails to acknowledge the debate over shareholder primacy and stakeholder values. Below, we explain how this issue has become a central feature of the policy debate in the United States and beyond.

a. <u>Corporate Law and Shareholder Primacy</u>

The directors of U.S. corporations have long focused their efforts on improving the financial return of their corporations to their shareholders. While there has been a fierce, ongoing debate as to whether corporations should in fact be managed for the benefit of only shareholders or for a broader group of stakeholders,[25] the concept of shareholder primacy has dominated corporate law. This doctrine eschews consideration of the external costs of a business unless those costs affect the corporation's own financial return to its shareholders. A series of decisions by the Delaware courts cemented the place of shareholder primacy in the United States.[26] Indeed, the Company's own materials support the shareholder primacy side of this debate.[27]

The most important of these was the famous *Revlon* case decided by the Delaware

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[25] Frederick Alexander, BENEFIT CORPORATION LAW AND GOVERNANCE: PURSUING PROFIT WITH PURPOSE (2018) at 21-26.
[26] Joan MacLeod Heminway, *Corporate Purpose and Litigation Risk in Publicly Held U.S. Benefit Corporations,* 40 Seattle Univ. L. Rev. 611, 613 (2017) ("Delaware decisional law is arguably particularly unfriendly to for-profit corporate boards that fail to place shareholder financial wealth maximization first in every decision they make.")
[27] *Supra,* n.2 ("In order to achieve this fundamental principle, the role of the board is to carry out its responsibilities in the best long-term interest of the company and its shareholders.")

Supreme Court in 1985.[28] Other Delaware authority has established that corporations exist primarily to generate shareholder value.[29] *eBay Domestic Holdings, Inc. v. Newmark*[30] is a more recent example of the focus on shareholder wealth maximization, even outside the sale context. The court embraced shareholder primacy, finding that it was a violation of the directors' fiduciary duties to make decisions primarily for the benefit of users of the corporation's platform:

> *Having chosen a for-profit corporate form, the craigslist directors are bound by the fiduciary duties and standards that accompany that form. Those standards include acting to promote the value of the corporation for the benefit of its stockholders. The "Inc." after the company name has to mean at least that. Thus, I cannot accept as valid . . . a corporate policy that specifically, clearly, and admittedly seeks not to maximize the economic value of a for-profit Delaware corporation for the benefit of its stockholders.*[31]

Toward the end of the twentieth century, many jurisdictions in the United States adopted "constituency statutes," fully or partially opting out of shareholder primacy.[32] None of those states mandates consideration of stakeholder interests, however.[33]

Shareholder primacy has caused great consternation regarding the harm that it poses to stakeholders and the public.[34] In response, a new corporate form, the "benefit corporation," was created to provide an option to ensure directors would prioritize interests other than those of shareholders. Beginning in 2010, U.S. jurisdictions began to adopt these provisions. The Chief Justice of the Supreme Court of Delaware described this as a "movement:"

> *[T]he benefit corporation movement represents a refreshing and substantial step forward for those who believe that corporations—and all business entities—not only can, but should both do well by their investors, but also their workers and the societies in which*

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[28] *Revlon, Inc. v. MacAndrews & Forbes Holdings, Inc*., 506 A.2d 173 (Del. 1986) (holding that when a corporation is to be sold in a cash-out merger, the directors' duty is to maximize the cash value to shareholders, regardless of the interests of other constituencies, because there is no long term for the shareholders).

[29] *See Katz v. Oak Indus. Inc*., 508 A.2d 873, 879 (Del. Ch. 1986) ("It is the obligation of directors to attempt, within the law, to maximize the long-run interests of the corporation's stockholders; that they may sometimes do so 'at the expense' of others [*e.g.*, debtholders] . . . does not . . . constitute a breach of duty."); Leo E. Strine, Jr., *The Social Responsibility of Boards of Directors and Stockholders in Change of Control Transactions: Is There Any "There" There?*, 75 S. Cal. L. Rev. 1169, 1170 (2002) ("The predominant academic answer is that corporations exist primarily to generate stockholder wealth, and that the interests of other constituencies are incidental and subordinate to that primary concern.")

[30] 16 A.3d 1 (Del. Ch. 2010).

[31] *Id*. at 34-35 (referring to corporate justification for shareholder rights plan meant to forestall a change in control that might threaten platform users' interests).

[32] Alexander, *supra* n.2, at 135–148.

[33] *Id.*

[34] *See generally,* Lynn Stout, THE SHAREHOLDER VALUE MYTH: HOW PUTTING SHAREHOLDERS FIRST HARMS INVESTORS, CORPORATIONS AND THE PUBLIC (2012).

> *they operate.*[35]

The clearest signal of the significance of the policy issue is legislative action to address the issue around the nation and the world. Legislatures have acted in 39 U.S. jurisdictions, the Canadian province of British Columbia, and the countries of Italy, Colombia, Rwanda, and Ecuador[36] over the last decade to make this new form available. In addition, legislation was introduced in the last U.S. Congress in both houses that would have imposed benefit corporation duties on the directors of all billion-dollar companies.[37] The issue even surfaced in the most recent U.S. presidential election, as one candidate decried "the era of shareholder capitalism."[38]

b. Trust Law

This policy issue has also appeared in recent regulatory and legislative activity relating to trustees for retirement plans and other investment advisors. The Department of Labor (the "DOL") recently proposed a Rule that would have made it more difficult for trustees to account for environmental and social costs, but, after receiving public comments, revised the final rule in a manner that gives trustees the ability to address corporate activity that imposes the type of social costs described in the Proposal when the trustees believe that those costs would affect their diversified portfolios—exactly the type of costs on which the Proposal seeks a report:

> *In addition, Final Rules should also permit stewardship that discourages portfolio companies from engaging in behaviour that harms society and the environment, and consequently the value of shareholders' diversified portfolios (For example, plan fiduciaries might vote to encourage all companies to lower their carbon footprint, not because it will necessarily increase return at each and every company, but because it will promote a strong economy and thus increase the return of their diversified portfolio).*[39]

The Company Letter in fact acknowledges the relevance of this controversy to the Proposal, citing the DOL action.

Moreover, in 2020, a bill was introduced in the U.S. House of Representatives that included an express finding that plan fiduciaries should consider the costs that corporations in

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[35] Leo Strine, *Forward,* in Alexander, *supra,* n.2.
[36] These totals represent our own hand count based in part on the data available from *The Social Enterprise Tracker,* available at https://socentlawtracker.org/#/map.
[37] Copies of the legislation are available here: https://www.congress.gov/bill/116th-congress/senate-bill/3215?q=%7B%22search%22%3A%5B%22accountable+capitalism+act%22%5D%7D&s=1&r=1 (Senate) and here: House: https://www.congress.gov/bill/116th-congress/house-bill/6056?q=%7B%22search%22%3A%5B%22accountable+capitalism+act%22%5D%7D&s=2&r=2 (House)
[38] *Biden says investors 'don't need me,' calls for end of 'era of shareholder capitalism',* (CNBC) (July 9, 2020), available at https://www.cnbc.com/2020/07/09/biden-says-investors-dont-need-me-calls-for-end-of-era-of-shareholder-capitalism.html.
[39] Frederick Alexander, *The Final DOL Rules Confirm That Fiduciary Duty Includes 'Beta Activism,'* RESPONSIBLE INVESTOR (December 15, 2020) available at https://www.responsible-investor.com/articles/the-final-dol-rules-confirm-that-fiduciary-duty-includes-beta-activism.

their portfolios impose on the financial system:

> *The Congress finds the following:*
>
> *(1) Fiduciaries for retirement plans should*
> . . . .
> *(D) consider the impact of plan investments on the stability and resilience of the financial* system; . . .[40]

While the bill specifically related to costs to the financial system, it was clearly focused on the same policy concern: costs that a company's profit-seeking activities impose on stakeholders—including shareholders in other companies.

c. The Statement of the Purpose of a Corporation

In addition to the activity noted in the prior section regarding political and legislative activity around the issue of external costs to stakeholders, the business community has addressed the importance of the consideration of stakeholder interests through the Business Roundtable's Statement on the Purpose of a Corporation (the "Statement"), which purports to make significant commitments to stakeholders.[41] Here we quote the Statement, which eloquently describes the critical nature of the social policy issue raised by the Proposal:

> *Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all. . . .*
>
> *While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:*
>
> - *Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations. . . .*
>
> - *Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses. . . .*

[40] H.R. 8959 (116th): Retirees Sustainable Investment Policies Act of 2020
[41] https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.

- *Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.*[42]

Thus, the Statement explains exactly why the Proposal is a critical policy question: it asks the Company to report on the failure to consider costs externalized by its portfolio companies, which fall upon "Americans," "customers," "people in our community," and "our country," just as they fall upon its clients.

The reaction to the Statement's issuance (as well as the number of companies signing on) in August 2019 demonstrated the policy significance of addressing external costs. One dubious commentator noted that "For many of the BRT signatories, truly internalizing the meaning of their words would require rethinking their whole business."[43] Others noted the importance of the change, but also that it was meaningless without ending shareholder primacy:

> *Ensuring that our capitalist system is designed to create a shared and durable prosperity for all requires this culture shift. But it also requires corporations, and the investors who own them, to go beyond words and take action to upend the self-defeating doctrine of shareholder primacy.*[44]

Other commentators were worried not that the Statement failed to go far enough, but rather that it went too far:

> *Asking corporate managers to focus more on improving society and less on making profits may sound like a good strategy. But it's a blueprint for ineffective and counterproductive public policy on the one hand, and blame-shifting and lack of accountability on the other. This is a truth Milton Friedman recognized nearly five decades ago — and one that all corporate stakeholders ignore today at their peril.*[45]

The author was referring to Friedman's famous article, which stated:

> *[T]he doctrine of 'social responsibility' taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why, in my book Capitalism and Freedom, I have called it a 'fundamentally subversive doctrine' in a free society, and have said*

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[42] *Supra*, n. 1 (emphasis added).
[43] Andrew Winston, *Is the Business Roundtable Statement Just Empty Rhetoric?* HARVARD BUSINESS REVIEW (August 30, 2019).
[44] Jay Coen-Gilbert, Andrew Kassoy, and Bart Houlihan, *Don't Believe the Business Roundtable Until It's CEO's Actions Match Their Words,* FAST COMPANY (August 22, 2019).
[45] Karl Smith *Corporations Can Shun Shareholders, But Not Profits,* BLOOMBERG OPINION (August 27, 2019).

> *that in such a society, 'there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*[46]

Showing that the controversy is long-lived, the 50th anniversary of the essay in 2020 set off another round of commentary.[47]

d. The Proposal Addresses the Policy Issue of Stakeholder Interests

The outpouring of legislative activity around benefit corporations, regulatory and legislative activity around trustee obligations to consider external corporate costs, and commentary around the Statement raises two related but distinct significant policy issues: first, should corporations focus more on stakeholders' interests and if so, how? The Proposal addresses these issues. All of the Company's positions, from its focus on maximizing shareholder value to its use of SASB materiality metrics to its most recent letter to boards, show a continued prioritization of shareholder value.

Shareholder primacy is clearly an issue of great policy significance being addressed in legislatures around the country and the world, and even in the latest race for the U.S. presidency. Moreover, Company actions that prioritize shareholders over stakeholders and systems matter deeply to all of us. The Schroders Report determined that publicly listed companies imposed social and environmental costs on the economy with a value of $2.2 trillion annually—more than 2.5% of global GDP and more than half of the profits those companies earned.[48] This is a shocking statistic that represents a problem that far transcends the Company's ordinary business.

By participating in this common corporate practice of prioritizing the financial return at companies above all stakeholder concerns, the Company is contributing to a shareholder primacy culture. While corporations may increase their isolated return to shareholders under the rule of shareholder primacy, their diversified shareholders—and the company's clients and its own shareholders—will ultimately pay these costs through a damaged economy and the consequent reduction in equity values. Such investors (along with the world's population and economy) would benefit from stewardship that enabled corporations to prioritize social and environmental systems and the stakeholders to whom the Statement refers.

e. <u>The Committee analysis</u>

The Committee analysis of the ordinary business question described in the Company Letter demonstrates the failure of the Company to address the significant policy issues raised by

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[46] Milton Friedman, *The Social Responsibility of Business Is to Increase Its Profits* N.Y. TIMES, Sept. 13, 1970 (magazine).
[47] See, e.g., *Friedman 50 Years later,* PROMARKET (collecting 27 essays about Friedman's article and its legacy) (Stigler Center for the Study of the Economy and the State).
[48] *Supra,* n.11.

the Proposal. For example, the analysis points to the "roll-out of R-Factor" as integral to the Committee's "delta analysis . . . [that] does not identify gaps that present a significant policy issue." Yet, as discussed above, the R-Factor system is built on the SASB model, which is expressly designed only to address the effect that a company's ESG behavior has on the financial returns of the company, and not the effect that such behavior has on society, the environment, or other companies. This distinction is the essence of the policy issue raised by benefit corporation law, trust law, and the Statement. Thus, R-Factor is the strongest evidence that <u>there is</u> a gap between Company practice and the Proposal, and that the gap presents a critical policy issue.[49]

Furthermore, the Committee's conclusion that the policy issue presented by the Proposal is unsupported by shareholders belies the fact that the PRI—the world's largest alliance of investors (including the Company itself)—has focused its new "Active Ownership 2.0" initiative on exactly this distinction.[50] It also may be the case that the motivating factor behind some of the shareholder engagements with the Company was in fact a concern that the Company's portfolio companies should reduce their negative externalities, even if they did not propose a study of the broad issue. There is simply no way for us to know.

The Proposal will confront this issue directly by asking the Company to evaluate the external costs that its portfolio companies impose on stakeholders, including its clients. Thus, the Proposal's request for a report on how the Company externalizes social costs addresses the significant policy issue of whether corporations should account for stakeholder interests and is therefore not excludable for purposes of Rule 14a-8(i)(7).

f. The Proposal does not attempt to micromanage the Company

The Company Letter claims that the Proposal would micromanage the Company and should thus be excluded even though it relates to a significant policy issue. However, the Proposal simply does not do so. The Company Letter correctly states the test, but makes no real attempt to show how the Proposal would constitute micromanagement under that standard:

> *When considering whether a proposal micromanages a company, SLB 14K indicates that the Staff looks at "whether the proposal <u>seeks intricate detail or imposes a specific strategy, method, action, outcome or timeline</u> for addressing an issue, thereby supplanting the judgment of management and the board." In addition, SLB 14K notes that "if the method or strategy for implementing the action requested by the proposal is <u>overly prescriptive, thereby potentially limiting the judgment and discretion of the board and management,</u> the proposal may be viewed as micromanaging the company." The Staff also noted in*

[49] We note again that it is difficult to reconcile the conclusion of the Committee "that the difference, or delta, *if any,* between what the Proposal requests and what the Company already does is minor," with the Company's extensive argument that "implementation of the Proposal would cause the company to violate law" (emphasis added).
[50] *Supra,* n.13.

> *SLB 14K that "[w]hen a proposal prescribes specific actions that the company's management or the board must undertake without affording them sufficient flexibility or discretion in addressing the complex matter presented by the proposal, the proposal may micromanage the company to such a degree that exclusion of the proposal would be warranted."* (Emphasis added.)

The Proposal does not propose any "strategy, method, action, outcome or timeline," let alone "intricate detail" with respect to the tension between shareholder value and systemic activism: it simply requests a study on the effect of focusing on the latter to the exclusion of the former. Nor is it "overly prescriptive," because it prescribes nothing, at least nothing beyond examining this significant policy issue, and how it affects the Company and its clients and shareholders. Even with respect to the report itself, the Proposal does not ""prescribe[] specific actions that the company . . . must take without affording [it] sufficient flexibility or discretion." In fact, as is completely appropriate, the Proposal leaves the details of the report in the hands of the board and management, whose detailed understanding of the business will afford them the ability to design this important task.[51]

* * * * *

Effecting the Proposal will leave problem-solving firmly in the hands of the board and management—it does not address any particular product, service, or decision. Instead, it asks the Company, through disclosure, to address a significant policy issue by providing its shareholders with sufficient context to understand how the Company's business fits into the policy debate around corporate responsibility to stakeholders. As the 1998 Release quoted above says:

> *However, proposals relating to such [day-to-day] matters but focusing on sufficiently significant social policy issues (e.g., significant discrimination matters) generally would not be considered to be excludable, because the proposals would transcend the day-to-day business matters and raise policy issues so significant that it would be appropriate for a shareholder vote.*

The Company's business sits squarely in the center of that debate, as the media covers matters such as "greenwashing" by its funds,[52] gender discrimination against its own

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[51] Once again, the internal inconsistency of the Company Letter is jarring: in Section B.2, it asks that the Proposal be excluded for using "an inherently vague and indefinite term that could implicate a [*sic*] myriad of [*sic*] social, economic, political or other considerations without providing any detail to what is specifically contemplated" and for not suggesting "specific considerations or metrics to evaluate potential harm to the economy," while in Section B.3, the Company Letter requests exclusion because the Proposal "seeks to dictate the standards . . without affording [the Company] sufficient flexibility or discretion in addressing the complex matter." One is reminded of the diner who complained the food was inedible and the portions too small.

[52] *State Street's greenwash ethical ETF (E200) could struggle in Australia,* ETF Stream (August 10, 2020) available at https://www.etfstream.com/features/state-street-s-greenwash-ethical-etf-e200-could-struggle-in-australia/.

employees,[53] and whether its ESG rhetoric is more marketing than practice.[54] The controversy over responsibility for such social costs of business activity[55] surely transcends the Company's ordinary business and is not excludable under Rule 14a-8(i)(7).

C. The Proposal has not been substantially implemented and thus should not be excluded under Rule 14a-8(i)(10).

As is made clear throughout this letter, the Company Letter fails to acknowledge the simple distinction made in the PRI's Active Ownership 2.0 initiative: the difference between the effects that ESG issues have on companies (including on companies composing an entire industry) and the effect that companies have on ESG issues. The Proposal is concerned entirely with the latter:

> *If corporate practices reduce demand or GDP, decreased diversified portfolio returns result.*

In Appendix B, the Company provides more than five pages of internal material that purports to show that the Proposal has been substantially implemented. *But none of that material addresses the issue of how corporate ESG practices affect the environment, society, stakeholders, or the economy.* Instead, it is all focused on how corporate practice affects the performing companies. For example:

- "Thematic environmental, social, and governance (ESG) issues that the team identifies as potential risk facing investee companies." *Rather than on risks created by investee companies.*

- "We explored ways in which companies communicate the value of investing in their workforce." *Rather than the cost to the economy of failure to do so.*

- "Our focus in recent years has been on good governance and other practices that affect a company's ability to generate positive returns for investors over the long-run." *Rather than on the social or environmental costs of creating those long-run financial returns.*

- "We focus on sectors that are meaningfully impacted by wider systemic challenges we

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[53] *Fearless Girl—a Hypocrite as well as a Shil! State Street Advisors Settles $5 Million Gender Discrimination Lawsuit* (October 7, 2017) available at https://hintsandechoes.com/2017/10/07/fearless-girl-a-hypocrite-as-well-as-a-shil-state-street-investors-settles-5-million-gender-discrimination-lawsuit/.
[54] *The firm behind Wall Street's Fearless Girl statue isn't as pro-woman as it could be,* Vox (April 3, 2019) ("according to a new report from the investment research company Morningstar, State Street might not be putting its money — or rather, its shareholder votes — where its mouth is on promoting women in the upper echelons of corporations.") available at https://www.vox.com/business-and-finance/2019/4/3/18293611/fearless-girl-state-street-etf-she-nyse.
[55] *See, e.g., Dana Peterson and Catherine Mann, Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.* (2020) (closing racial gaps could lead to $5 trillion in additional GDP over next five years) available at https://ir.citi.com/%2FPRxPvgNWu319AU1ajGf%2BsKbjJjBJSaTOSdw2DF4xynPwFB8a2jV1FaA3Idy7vY59bOtN2lxVQM%3D; *Inequality is Slowing U.S. Economic Growth,* Economic Policy Institute (December 12, 2017) (Inequality reduces den=mand by 2-4% annually) available at https://www.epi.org/publication/secular-stagnation/.

observe in the market." *Rather than on the impact of those sectors on the systemic challenges.*

The focus on systemic impacts on companies rather than on company impacts on systems is of course consistent with the Company material not cited in Appendix B that clearly links the Company's philosophy with the doctrine of shareholder primacy.[56] The Company has not even partially implemented the Proposal, and it should not be excluded under Rule 14a-8(i)(10).

CONCLUSION

Based on the foregoing, we believe it is clear that the Company has provided no basis for the conclusion that the Proposal is excludable from the 2021 proxy statement pursuant to Rule 14a-8. As such, we respectfully request that the Staff inform the Company that it is denying the no-action letter request. If you have any questions, please contact me at rick@theshareholdercommons.com or 302-593-0917.

Sincerely,

Frederick Alexander

Frederick Alexander

cc: Lillian Brown
James McRitchie

[56] *Supra, n.2 & 4.*

PROPOSAL

RESOLVED, shareholders ask that the board provide a report as to how its voting and engagement policies, which focus solely on individual corporation materiality to the exclusion of capital markets materiality, affect the majority of its clients and shareholders, who rely primarily on overall stock market performance for their returns, rather than upon the returns of individual companies.

Our Company provides investment management services and has more than $3 trillion in assets under management, primarily weighted towards indexed strategies. Its clients, like its shareholders, are almost all broadly diversified. (Indeed, as of September 2020, the Company itself, along with Vanguard and BlackRock, two asset owners with similarly diversified client bases, own more than 20% of the Company's shares.)

Such diversified shareholders, like the Company's diversified clients, rely on healthy social, economic, and environmental systems to support all corporations. If corporate practices reduce demand[1] or GDP,[2] decreased diversified portfolio returns result.[3] As manager for more than $3 trillion in assets, the Company's stewardship activities—engaging with portfolio companies and voting their shares—could significantly affect overall market performance by ensuring that corporations do not seek profit from activities that degrade the global commons.

However, the Company's position on environmental, social and governance matters focuses largely on "materiality," which only takes into account how those matters affect an individual company.[4] This means that portfolio companies are stewarded to improve ESG performance only if it improves their individual performances. Thus, where a portfolio company can profit through irresponsible social and environmental practices, the Company's stewardship policy may fail to advance the interests of both its clients and its shareholders.

Because the Company's engagement strategy is only focused on company-by-company materiality, it allows corporations in its portfolio to continue practices that externalize costs (thereby harming overall market performance) without harming the individual corporation. The Company's clients and shareholders should be provided with information about corporate practices that harm the economy while increasing individual corporate financial returns.

The difference between company materiality and market materiality is an issue of great social importance. A study would help shareholders determine whether to seek a change in corporate direction, structure, or form in order to better serve their interests.

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[1] See, e.g., https://www.epi.org/publication/secular-stagnation/ (inequality has reduced demand by 2-4% of GDP.)

[2] See, e.g., *Closing the Racial Inequality Gaps: The Economic Cost of Black Inequality in the U.S.*, available at http://citi.us/3olxWH0 (closing racial disparity would add $5 trillion to the US economy over the next five years).

[3] See *Universal Ownership: Why Environmental Externalities Matter to Institutional Investors,* Appendix IV (demonstrating linear relationship between GDP and a diversified portfolio) available at https://www.unepfi.org/fileadmin/documents/universal_ownership_full.pdf; cf. https://www.advisorperspectives.com/dshort/updates/2020/11/05/market-cap-to-gdp-an-updated-look-at-the-buffett-valuation-indicator (total market capitalization to GDP "is probably the best single measure of where valuations stand at any given moment") (quoting Warren Buffet).

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