May 15, 2023

Gary Retelny
President and Chief Executive Officer
ISS
1177 Avenue of the Americas, 14th Floor, New York, NY 10036

Dear Gary Retelny,

We, the undersigned state treasurers and financial officers, have been elected to serve as fiduciaries of our States' public funds. Those funds may include, among other things, public money affected by your proxy-advisory services—either because you advise state pension or retirement funds directly or because public money is managed by asset-management firms that pay for your proxy-advisory services being provided. Because this advice may influence decisions made by those who manage our public money, our fiduciary duties oblige us to examine whether proxy-voting advice is prudent, open, honest, and consistent with our public constituents' long-term economic interests.[1]

Of particular interest is proxy-voting advice and recommendations related to environmental, social, and political matters, which recently have dominated shareholder proposals.[2] Some of the ESG proposals are plainly ancillary to a company's principal business, while others appear flatly contradictory to it. To take just a few examples, some recent shareholder proposals would require oil companies to pledge fealty to the Paris Climate Agreement,[3] social media companies to crack down

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[1] We recognize that not all of the states represented in this letter directly use your service, and some states have already been in communication with you regarding their individual concerns. As states, we are in different stages of evaluating how our proxies are voted and the implications of third-party proxy-voting advice on public money. The information you provide in response to this letter will help in our individual evaluation processes.
[2] *See* Hannah Orowitz, Rajeev Kumar & Lee Anne Hagel, GEORGESON, *An Early Look at the 2022 Proxy Season*, June 7, 2022, at 4, 12, 14, https://corpgov.law.harvard.edu/wp-content/uploads/2022/06/Georgeson_EPS_whitepaper_2022_v6.pdf.
[3] Exxon Mobil Corp., Definitive Proxy Statement (Schedule 14A), Apr. 7, 2022, at 71, https://www.sec.gov/Archives/edgar/data/34088/000119312522098314/d280259ddef14a.htm.

on "hate speech,"[4] insurance companies to consider race in underwriting insurance policies,[5] and retailers to take a position on state abortion policy.[6] At best, those kinds of ESG proposals require expensive audits, time-consuming reports, and cumbersome policies with no apparent link to a targeted company's business. At worst, they require the targeted companies to spend significant management time and corporate resources pursuing goals untethered to shareholder value, or to relinquish parts of their business—including the very products or services that investors deemed worthy investments of their hard-earned capital in the first place.

Proxy-advisory firms play an influential role in the proxy-voting system generally and in the shareholder-proposal process more specifically. These firms provide voting advice to thousands of clients that exercise voting authority.[7] In the 2020 proxy season alone, 114 institutional investors with over $5 *trillion* in assets under management voted in line with ISS and Glass Lewis guidance on 99.5% or more of proposals.[8] Proxy-advisory firms influence significantly affects the voting outcomes of millions of votes at public companies. That, in turn, meaningfully affects the financial well-being of millions of retail investors over time—including the taxpayers who have elected us to safeguard their public funds.

Given the significant influence your firm exercises over those proxy votes, and those votes' immediate impact on corporate practices, we are concerned that your firm does not publicly disclose data on its actual vote recommendations with respect to specific shareholder proposals. We are also concerned that you might base some of your influential recommendations, in whole or in part, on factors other than enhancing or protecting shareholder value. Although ISS voting guidelines state that that its recommendations should enhance or protect shareholder value,[9] and although Glass Lewis's guidelines recommend that firms "vote case-by-case, examining primarily whether implementation of the proposal is likely to enhance or protect shareholder value,"[10] we question whether some of your firms' influential recommendations are based on factors other than the economic best interest of shareholders.

To help us understand your firm's voting recommendations—with their inescapable impact on the value of investments consisting of public funds—please respond to the attached questionnaire by June 29, 2023. To aid in an efficient dialogue on these topics, please tailor your responses to shareholder proposals related to the issues described below and submitted for a vote at annual meetings conducted in 2022 and 2023 (through the date of this letter).

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[4] Meta Platforms, Inc., Definitive Proxy Statement (Schedule 14A), Apr. 8, 2022, at 74, https://www.sec.gov/Archives/edgar/data/1326801/000132680122000043/meta2022definitiveproxysta.htm.
[5] The Travelers Companies, Inc., Definitive Proxy Statement (Schedule 14A), Apr. 8, 2022, at 79, https://www.sec.gov/Archives/edgar/data/86312/000008631222000019/a2022proxystatement.htm.
[6] Walmart, Inc., Definitive Proxy Statement (Schedule 14A), Apr. 21, 2022, at 90, https://www.sec.gov/Archives/edgar/data/0000104169/000010416922000019/a2022proxystatement.htm.
[7] *See* SEC Release No. 34-89372, *Exemptions from the Proxy Rules for Proxy Voting Advice*, July 22, 2020, at 8, https://www.sec.gov/rules/final/2020/34-89372.pdf.
[8] *See* Paul Rose, *Proxy Advisors and Market Power: A Review of Institutional Investor Robovoting*, MANHATTAN INSTITUTE, Apr. 2021, at 10, https://media4.manhattan-institute.org/sites/default/files/proxy-advisors-market-power-review-investor-robovoting-PR.pdf.
[9] *See* ISS, U.S. PROXY VOTING GUIDELINES 63 (Dec. 13, 2022), https://www.issgovernance.com/file/policy/active/americas/US-Voting-Guidelines.pdf?v=1 ("While a variety of factors goes into each analysis, the overall principle guiding all vote recommendations focuses on how the proposal may enhance or protect shareholder value in either the short or long term.").
[10] *Id.* at 44.

Thank you for your careful attention to these important requests. Your candid, prompt responses are critical to helping us properly discharge the fiduciary duties we owe to our constituents. If you have any questions about the contents of this letter, please contact the Utah Office of State Treasurer by phone (801-538-1042) or email (sto@utah.gov).

Respectfully,

Alaska Commissioner of Revenue Adam Crum

Arizona Treasurer Kimberly Yee

Florida Chief Financial Officer Jimmy Patronis

Idaho Treasurer Julie Ellsworth

Indiana Treasurer Dan Elliott

Iowa Treasurer Roby Smith

Kansas Treasurer Steven Johnson

Louisiana Treasurer John Schroder

Mississippi Treasurer David McRae

Missouri State Auditor Scott Fitzpatrick

Missouri Treasurer Vivek Malek

Nebraska Treasurer John Murante

Nebraska Auditor Mike Foley

North Carolina Treasurer Dale Folwell

North Dakota Treasurer Thomas Beadle

Ohio Treasurer Robert Sprague

Oklahoma Auditor & Inspector Cindy Byrd

Oklahoma Treasurer Todd Russ

South Carolina Treasurer Curtis M. Loftis, Jr.

Utah Treasurer Marlo Oaks

West Virginia Treasurer Riley Moore

Wyoming Treasurer Curt Meier

Proxy Voting Questionnaire

I. Evaluating Shareholder Proposals Generally

1. Does your firm make recommendations on shareholder proposals based solely on factors that your firm believes will enhance or protect shareholder value? If so, what is your firm's process for evaluating whether a shareholder proposal's request will enhance or protect shareholder value? If not, what other factors do you consider when formulating your recommendations?

2. Does your firm conduct economic analysis to determine whether a shareholder proposal will enhance or protect shareholder value? If so, please describe it. If not, please explain why, and please explain on what basis you determine whether a shareholder proposal would be in the best interest of shareholders.

3. When evaluating a shareholder proposal, in addition to considering long-term risks to a business associated with the concern raised by a shareholder proposal, do you also evaluate the short-term costs involved in implementing the proposal's request? If so, please explain your analysis and how you balance the potential long-term risks and the near-term costs.

4. Does your firm evaluate shareholder proposals by forecasting the expected impact of the proposal on the economic interests of the shareholders? If so, what timeframe does your forecast consider? Do you back-test your forecasts to evaluate whether they were accurate?

5. If your economic analysis concludes that a shareholder proposal will not enhance or protect shareholder value, does your firm have a policy in place to recommend against that shareholder proposal? If not, please explain why.

6. Does your firm clearly inform clients about any noneconomic factors that you consider when recommending action on shareholder proposals? If so, please describe the process by which you inform the client of those noneconomic factors.

7. How does your firm determine whether noneconomic factors will affect shareholder value?

8. Does your firm's team that provides vote recommendations have discretion in making such recommendations? If so, please describe the level of that discretion and what level of management oversight is in place to ensure that the discretion is applied appropriately and that vote recommendations are made in the best economic interest of shareholders.

9. What process does your firm have in place for determining what vote recommendation to provide with respect to a proposal when your firm agrees with only a portion of the proposal's request?

10. With respect to a shareholder proposal, when your firm considers a vote recommendation that is not aligned with the recommendation of a board of directors composed of a majority of independent directors, how do you determine whether your vote recommendation is more in line with the best economic interests of shareholders than with the independent board's recommendation? And how, if at all, do you consider the fact that an independent board of directors is bound by its fiduciary duties to shareholders to make a vote recommendation based on the best economic interests of shareholders?

11. Does your firm always engage with a company subject to a shareholder proposal before recommending a vote against a recommendation of that company's board of directors?

12. Does your firm have controls in place to ensure that your firm's recommendations on shareholder proposals do not discourage legal activities (such as businesses associated with fossil fuels, guns, or tobacco) for noneconomic reasons? If so, please describe them. If not, please explain why your firm lacks such controls.

13. Does your firm have an established set of ESG goals against which you measure shareholder proposals? If so, what are those goals?

14. Does your firm have voting recommendation policies with respect to ESG or political shareholder proposals? If so, please describe those policies and explain the process for developing those policies, including whether such process involved an economic analysis to determine whether such proposals would increase shareholder value. Please also identify any processes you have in place to override any of those policies, and explain in what circumstances your firm would override those policies.

15. The Wall Street Journal reported on February 26, 2023, that Vanguard CEO Tim Buckley has concluded that "ESG investing does not have any advantage over broad-based investing," and as a result, Vanguard has pulled out of the Net Zero Asset Managers Initiative.[1] Do you agree with his conclusion? If not, please explain your disagreement.

16. T. Rowe Price's 2023 proxy-voting guidelines acknowledge that shareholders might not be "the optimal stakeholders" to "address the core issue that is the subject of" a resolution, noting that"[s]ome resolutions ask companies to address social or environmental concerns that are already subject to regulation."[2] And when "a proposal asks an individual issuer to adopt a standard that is higher than the regulatory requirement and peers' practices," T. Rowe Price "will take potential competitive harm into consideration in [its] voting decision." Does your firm also consider competitive harm in your voting decisions in such circumstances? If not, why not?

[1] Terrence Keeley, *Vanguard's CEO Bucks the ESG Orthodoxy*, WALL ST. J. (Feb. 26, 2023), https://www.wsj.com/articles/vanguards-ceo-bucks-the-esg-orthodoxy-tim-buckley-net-zero-emissions-united-nations-initiative-nzam-f6ae910d.

[2] T. ROWE PRICE, PROXY VOTING GUIDELINES (Feb. 2023) 17, https://www.troweprice.com/content/dam/trowecorp/Pdfs/proxy-voting-guidelines-TRPA.pdf.

17. T. Rowe Price's 2023 proxy-voting guidelines acknowledge that shareholders might not be "the optimal stakeholders" to "address the core issue that is the subject of" a resolution, as "[s]ome resolutions ask investors to impose company-level, private-market solutions to problems that are clearly better addressed by other stakeholders, including regulators, legislators, the courts, or communities."[3] And when "a proposal seeks to apply company-level solutions to a broad societal problem, and the company has little influence over the problem," T. Rowe Price "may deem the resolution to be poorly crafted or misdirected." Does your firm also deem such proposals to be poorly crafted or misdirected? If not, why not?

II. Conflicts of Interest

1. Does your firm provide consulting services to corporations seeking to improve their ESG ratings? If so, please explain how you resolve conflicts of interest regarding your role in determining those same ESG ratings.

2. Does your firm have controls in place to ensure that personal views on ESG issues or political issues are not reflected in your firm's recommendations on shareholder proposals? If so, please describe them. If not, please explain why your firm lacks such controls.

3. Is your firm a signatory to the Glasgow Financial Alliance for Net Zero, the Net Zero Investment Consultants Initiative, or other related organizations?[4] If so, how do you ensure that your commitment to those organizations is in the best economic interest of shareholders and does not present any conflicts of interest?

4. Is your firm a signatory to the U.N.'s Principles for Responsible Investment?[5] If so, how do you reconcile your fiduciary duty to shareholders with your commitment to an organization that seeks to "establish that asset owners' responsibilities to their beneficiaries extend beyond the risk/return profile of their investments to include making decisions that benefit the world beneficiaries live in."[6]

5. Has your firm committed to pursuing the goals or initiatives of any other ESG-related organizations? If so, please provide the name of these organizations and indicate how you ensure that your commitment to these organizations is in the best economic interest of shareholders and does not present any conflicts of interest.

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[3] *Id.*
[4] *See* Our Members, GLASGOW FINANCIAL ALLIANCE FOR NET ZERO, https://www.gfanzero.com/membership/ (last visited Feb. 13, 2023); Leading Investment Consultants Form Global Initiative to Push for Net Zero, PRINCIPLES FOR RESPONSIBLE INVESTMENT, Sept. 20, 2021, https://www.unpri.org/climate-change/leading-investment-consultants-form-global-initiative-to-push-for-net-zero/8549.article.
[5] PRINCIPLES FOR RESPONSIBLE INVESTMENT, A BLUEPRINT FOR RESPONSIBLE INVESTMENT, https://www.unpri.org/download?ac=5330.
[6] *Id.* at 14.

6. Do your firm's voting policies or recommendations request that companies join these or any other ESG-related organizations? If so, please provide the name of these organizations and explain how you have determined that becoming a signatory or member of such organizations is in the best economic interest of shareholders and does not present any conflicts of interest.

III. Evaluating Shareholder Proposals on Specific Topics

A. Shareholder Proposals Relating to Climate Reporting

1. At what rate did your firm recommend voting in favor of shareholder proposals requiring the company to perform climate-related audits or to prepare reports on climate-related risks? For any "yes" votes, please explain whether and how your firm determined whether such reports or audits would promote the best economic interests of the shareholders at the company receiving the proposal. In your explanation, please include an assessment of the costs and benefits associated with such reports or audits, and how you determined whether the existing climate reporting of such companies was insufficient.

2. In considering shareholder proposals related to climate reports or audits, please explain whether and how your firm determines whether such reports or audits would promote the best economic interests of the shareholders at the company receiving the proposal. In your explanation, please include an assessment of the costs and benefits associated with such reports or audits, and how you determine whether the existing climate reporting of such companies is insufficient.

3. Do you have empirical evidence that any climate report or audit that your firm recommended supporting has in fact increased shareholder value? If so, please provide that evidence.

4. In considering shareholder proposals requiring a net-zero emissions-analysis report, did your firm consider the broadly applicable concern, as expressed by Chevron, that "[w]e consider the likelihood of the IEA's NZE 2050 scenario to be remote… [y]our Board believes it would not be a responsible use of Company resources to produce a further report to address a speculative scenario"?[7] Regardless of whether you have previously considered the concern, please explain your present consideration of the concern. Additionally, what was your firm's recommendation on this proposal and similar proposals?

[7] Chevron Corp., Definitive Proxy Statement (Schedule 14A), Apr. 7, 2022, at 93, https://www.sec.gov/Archives/edgar/data/0000093410/000119312522098301/d292137ddef14a.htm.

5. In considering shareholder proposals requiring insurance companies to report how they measure, disclose, and reduce the greenhouse gas (GHG) emissions associated with underwriting, insurance, and investment activities, did your firm consider the broadly applicable concern, as expressed by Chubb, that "we are not aware of any method by which we could reasonably measure the GHG emissions of our insureds"?[8] Regardless of whether you have previously considered the concern, please explain your present consideration of the concern. Additionally, what was your firm's recommendation on this proposal and similar proposals?

6. In considering shareholder proposals requiring reporting on Scope 3 GHG emissions, did your firm consider the broadly applicable concern, as expressed by Dollar Tree, that "[t]he proponent's suggestion that such goal include Scope 3 emissions in particular is premature and very difficult to do given the level of information available across the Company's global value chain"?[9] Regardless of whether you have previously considered the concern, please explain your present consideration of the concern. Additionally, what was your firm's recommendation on this proposal and similar proposals?

B. Shareholder Proposals Relating to Actions to Reduce Greenhouse-Gas Emissions

1. At what rate did your firm recommend voting in favor of shareholder proposals requiring a company take actions to reduce GHG emissions? For any "yes" vote, please explain whether and how your firm determined whether such proposals would be in the best economic interests of the shareholders at the company receiving the proposal. In your explanation, please include an assessment of the costs and benefits associated with proposals requesting a reduction of GHG emissions.

2. Do you have empirical evidence that any GHG emission-reduction requirement that your firm recommended supporting has in fact increased shareholder value? If so, please provide that evidence.

3. In considering shareholder proposals relating to actions to reduce GHG emissions, please explain whether and how your firm determines whether such proposals would be in the best economic interests of the shareholders at the company receiving the proposal. In your explanation, please include an assessment of the costs and benefits associated with proposals requesting a reduction of GHG emissions.

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[8] Chubb Limited, Definitive Proxy Statement (Schedule 14A), May 19, 2022, at 51, https://www.sec.gov/Archives/edgar/data/0000896159/000110465922042195/tm2135945-3_def14a.htm#tI.

[9] Dollar Tree, Inc., Definitive Proxy Statement (Schedule 14A), May 18, 2022, at 105, https://www.sec.gov/Archives/edgar/data/0000935703/000110465922062246/tm223490-2_def14a.htm.

4. In considering shareholder proposals relating to actions to reduce GHG emissions, did your firm consider the broadly applicable concern, as expressed by DTE Energy, that "[t]he Board considers that the science behind measuring Scope 3 emissions is currently too unsettled for full incorporation into the company's emissions reduction goals"?[10] Regardless of whether you have previously considered the concern, please explain your present consideration of the concern. Additionally, what was your firm's recommendation on this proposal and similar proposals?

5. In considering shareholder proposals relating to actions to reduce GHG emissions, did your firm consider the broadly applicable concern, as expressed by Chevron, that "[w]e could reduce our GHG emissions by changing our portfolio and selling our emissions-producing assets, but that would not serve our stockholders, who benefit from our strong asset base,"[11] and the similar concern, as expressed by Exxon, that "the proponent has confirmed in an interview available on its website that their proposal is designed with the explicit intent to constrain Exxon Mobil's future investments in oil and gas"?[12] Regardless of whether you have previously considered the concern, please explain your present consideration of the concern. Additionally, what was your firm's recommendation on this proposal and similar proposals?

6. In considering shareholder proposals relating to actions to reduce GHG emissions, did your firm consider the broadly applicable concern, as expressed by Phillips 66, that "[s]etting targets that require even more significant technological and social transformation outside our control could create reputational risk and potential harm to shareholders"?[13] Regardless of whether you have previously considered the concern, please explain your present consideration of the concern. Additionally, what was your firm's recommendation on this proposal and similar proposals?

7. The Wall Street Journal reported on February 26, 2023, that Vanguard CEO Tim Buckley "knows that Vanguard can't promise to be a fiduciary to its clients while also committing to align its assets with the 2050 net-zero target," and as a result, Vanguard has pulled out of the Net Zero Asset Managers Initiative.[14] Do you agree with his conclusion? If not, please explain your disagreement.

8. According to Vanguard CEO Tim Buckley, "[p]oliticians and regulators have a central role to play in setting the ground rules to achieve a just transition." The Wall Street Journal reported that "Mr. Buckley understands that progress toward net-zero emissions doesn't depend on how people invest."[15] Do you agree with his conclusion? If not, please explain your disagreement.

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[10] DTE Energy Co., Definitive Proxy Statement (Schedule 14A), Mar. 17, 2022, at 60, https://www.sec.gov/Archives/edgar/data/936340/000093634022000105/def14a2022.htm.
[11] Chevron Corp., Definitive Proxy Statement, *supra* note 9, at 91.
[12] Exxon Mobil Corp., Definitive Proxy Statement, *supra* note 2, at 72.
[13] Phillips 66, Definitive Proxy Statement (Schedule 14A), Mar. 31, 2022, at 96, https://www.sec.gov/Archives/edgar/data/0001534701/000120677422000928/psx3965551_def14a.htm.
[14] Keeley, *supra* note **Error! Bookmark not defined.**.
[15] *Id.*

C. Shareholder Proposals Relating to Diversity or Racial Equity

1. Is it your firm's position that diversity or racial equity should be a factor in forming decisions on shareholder proposals? If so, please provide your firm's definition of racial equity, and explain the role it plays in your decisions on shareholder proposals.

2. Does your firm have a policy to generally recommend voting in favor of proposals requiring companies to increase diversity among its board of directors or workforce? If so, please explain the reasoning behind your conclusion that such proposals generally enhance or protect shareholder value.

3. Do you have empirical evidence that any diversity requirement that your firm recommended supporting has in fact increased shareholder value? If so, please provide that evidence.

4. At what rate did your firm recommend voting in favor of shareholder proposals requiring the company to increase racial diversity among its board of directors or workforce?

5. Does your firm have a policy to generally recommend voting in favor of proposals requiring companies to perform a racial-equity or civil-rights audit? If so, please explain the reasoning behind your conclusion that such proposals generally enhance or protect shareholder value.

6. Do you have empirical evidence that any racial-equity or civil-rights audit that your firm recommended supporting has in fact increased shareholder value? If so, please provide that evidence.

7. At what rate did your firm recommend voting in favor of shareholder proposals requiring the company to perform a racial-equity or civil-rights audit?

8. In considering shareholder proposals relating to diversity or racial equity, please explain whether and how your firm determines that such proposals will enhance or promote shareholder value. In your explanation, please include an assessment of the costs and benefits associated with performing a racial-equity or civil-rights audit, and how you determine whether such companies' existing efforts regarding racial equity or civil rights are insufficient.

9. In considering shareholder proposals relating to diversity or racial equity, did your firm consider the concern, as expressed by Travelers, an insurance company, that "[t]aking race into account in underwriting or rate-setting … is unlawful under the insurance laws of virtually every state and would improperly inject racial considerations into a heavily regulated decision-making process?"[16] Regardless of whether you have previously considered the concern, please explain your present consideration of the concern. Additionally, what was your firm's recommendation on this proposal and similar proposals?

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[16] The Travelers Companies, Inc., Definitive Proxy Statement, *supra* note 3, at 80.

IV. Your Recommendations on Proposals by Specific Proponents

1. At what rate did your firm recommend voting in favor of proposals submitted by the National Legal and Policy Center in 2022 and in 2023 (through the date of this letter)?

2. At what rate did your firm recommend voting in favor of proposals submitted by the National Center for Public Policy Research in 2022 and in 2023 (through the date of this letter)?

3. At what rate did your firm recommend voting in favor of proposals submitted by Steven Milloy in 2022 and in 2023 (through the date of this letter)?

4. At what rate did your firm recommend voting in favor of proposals submitted by proponents *other than* the National Legal and Policy Center, the National Center for Public Policy Research, and Steven Milloy in 2022 and in 2023 (through the date of this letter)? If there is any discrepancy between your answer to this question and your answers to questions IVII.1 through III.3, please explain those discrepancies.

5. At what rate did your firm recommend voting in favor of proposals submitted by the National Center for Public Policy Research in 2022 and in 2023 (through the date of this letter), requesting that the company conduct a racial-equity or civil-rights audit?

6. At what rate did your firm recommend voting in favor of proposals submitted by proponents *other than* the National Center for Public Policy Research in 2022 and in 2023 (through the date of this letter), requesting that the company conduct a racial-equity or civil-rights audit? If there is any discrepancy between your answer to this question and your answer to question III.5, please explain that discrepancy.

7. At what rate did your firm recommend voting in favor of proposals submitted by the National Center for Public Policy Research in 2022 and in 2023 (through the date of this letter), requesting that the company issue a report on the congruency of political spending with company values and priorities?

8. At what rate did your firm recommend voting in favor of proposals submitted by proponents *other than* the National Center for Public Policy Research in 2022 and in 2023 (through the date of this letter), requesting that the company issue a report on the congruency of political spending with company values and priorities? If there is any discrepancy between your answer to this question and your answer to question III.7, please explain that discrepancy.