To Whom It May Concern:

Thank you for launching Open Comment Period and providing clients, non-clients, and industry participants the opportunity to submit feedback about the policy changes that you have proposed for your 2025 policies.

We noticed that ISS did not make any policy changes to its U.S. Benchmark Policy around system stewardship, racial equity, and boardroom accountability for mitigating climate change. Below are the recommendations that we have for ISS around these topics – specifically for ISS' U.S. Benchmark Policy.

System Stewardship

It is commonly understood that investors are best served by diversifying their portfolios. Diversification allows investors to reap the increased returns available from risky securities while greatly reducing that risk. This core principle is reflected in federal law, which requires fiduciaries of federally regulated retirement plans to "diversify[] the investments of the plan." Similar principles govern other investment fiduciaries.

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"). In other words, the financial return to such diversified investors chiefly depends on the performance of the market, not the performance of individual companies. As one work describes this, "[a]ccording to widely accepted research, alpha [over- or under-performance of individual securities] is about one-tenth as important as beta [and] drives some 91 percent of the average portfolio's return." (Davis, Lukomnik and Pitt-Watson, *What They Do with Your Money*)

But the social and environmental costs created by companies pursuing profits without regard for broader environmental and social factors, can burden the economy. This drag on GDP directly reduces the return on a diversified portfolio over the long term. Indeed, in 2018, publicly listed companies around the world imposed social and environmental costs on the economy with a value of $2.2 trillion annually—more than 2.5 percent of global GDP. This cost was more than 50 percent of the profits those companies reported.

Racial equity

Corporate actions that perpetuate systemic racial inequities can create risks and harms at both the issuer and portfolio levels – ameliorating those disparities can lead to opportunities and benefits for issuers and portfolios. We encourage ISS to modify its Benchmark Policy to generally recommend votes in favor of proposals asking a company to conduct an independent racial equity and/or civil rights audit. The company must implement the proposal by hiring a qualified independent third party to perform a comprehensive racial equity audit that evaluates not only diversity, equity and inclusion ("DE&I") programs and philanthropic efforts but also impacts of the company's business operations and activities on external stakeholders; an audit assessing only DE&I/non-discrimination policies and programs and/or philanthropic efforts is not considered comprehensive.

We encourage ISS to generally recommend votes in favor of shareholder proposals that substantially foster racial and social equity, including those that call for further action or disclosure related to racial equity or civil rights audits, board diversity, political spending and lobbying activity, human capital management, consumer product safety, climate and environmental justice, executive compensation, and oversight of tech company product and services.

Climate

In the hottest year on record when the United States is warming faster than the rest of the world, it is irresponsible to maintain the status quo for boardroom accountability at US climate critical companies.

We are strongly in favor of analysis on company climate performance in ISS Benchmark reports to assess whether a company's current and future business plans, capital allocation, and political activity are aligned with a 1.5°C scenario and/or science-based sectoral decarbonization plans.

Companies' climate transition plans should include, at minimum, all of the following:

- Acceptable emissions targets – both medium-term targets that are compatible with the global imperative to cut absolute emissions in half by 2030, and a net-zero commitment by 2035 at the latest for OECD utilities or 2050 at the latest for all companies.
- Corporate strategy that is aligned with achieving these targets.
- Capital expenditure plans that are consistent with achieving the targets.
- Political spending and lobbying policies and practices that are consistent with the targets.

Failing to meet these standards should result in recommendations to vote against responsible board members at the company in question on the basis of inadequate climate performance.

Furthermore, the scope of companies considered to be high-emitting should include financial sector actors such as banks and insurance companies, in virtue of their financed, facilitated, and/or insured emissions.

Additionally, find at this link a redlined version of ISS' U.S. Benchmark Policy with the recommended edits and changes we think would be appropriate to address the feedback above.

We hope that you take this feedback into consideration. Thank you!

Active Shareholder