

DaltonInvestments

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655 U.S. Department of Labor
200 Constitution Avenue NW
Washington, DC 20210

July 30, 2020

Re: Financial Factors in Selecting Plan Investments
Proposed Regulation (RIN 1210-AB95)

Dear Director Canary:

On behalf of Dalton investments LLC (“Dalton” or “we”), we thank you for the opportunity to submit comments on the notice of proposed rulemaking entitled “Financial Factors in Selecting Plan Investments” (the “Proposal”). We are committed to integrating environmental, social and governance (“ESG”) factors into our investment activities because we believe that ESG integration is essential to fulfil our obligations to engage in appropriate risk management. We believe, however, that the Proposal misconstrues ESG integration and potentially might lead to confusion and costs for retirement plan fiduciaries. We, therefore, urge you to allow the existing guidance to remain in effect and not to move forward with the Proposal.

Despite the aim of providing clarity for ERISA fiduciaries, we believe that the Proposal creates confusion. The reason appears to be, in part, because of a failure to distinguish ESG integration and economically targeted investing (“ETI”). ESG integration is the consideration of ESG factors as part of prudent risk management and a strategy to take investment actions aimed at responding to those risks. ETIs are investments that aim to provide financial returns as well as collateral, non-financial benefits. For example, ETIs often advertise job creation or climate impact as goals of the investment.

ESG Integration

The Proposal states that an ERISA fiduciary has fulfilled its obligations if it has “selected investments and/or investment courses of action based solely on pecuniary factors.” It also states that “ESG factors and other similar factors may be economic considerations.” There is now an extensive body of research that makes clear that ESG factors are an important investment consideration. This is the basis for our decision to integrate ESG factors into our investment actions.

A policy by the Department of Labor that clarifies that fiduciaries must integrate ESG factors is important and would be appropriate. We are concerned, however, that the remaining components

of the proposal create confusion and could cause fiduciaries to believe they are not permitted to consider ESG factors in their investment analysis.

The “All Else Being Equal Test”

We are concerned that the Proposal creates new burdens for fiduciaries using the “all else being equal test” that might lead to unnecessary costs for plan participants. It also creates confusion about what activities the Department is attempting to regulate.

Under the “all else being equal test,” which has been in place since 1994, fiduciaries may select an investment that provides collateral benefits only after they have determined that the risk and return profile of that investment option is substantially similar to that of competing options that would meet the financial needs of the fund just as well.

The Proposal raises questions about whether fiduciaries would, in reality, ever have the opportunity to select between multiple investment options. It proposes the retention of the “all things being equal” test but adds new recordkeeping requirements for fiduciaries to document their analysis that multiple options were equal and that it was, therefore, appropriate to make a decision based on collateral benefits.

The Proposal’s discussion of the all things being equal test is cause for confusion because, although the test was originally developed to guide the consideration of ETIs and the discussion in the Proposal appears to envision the selection of an ETI investment, the language of the Proposal does not distinguish the application of this test from the broader discussion of ESG integration.

Defined Contribution Plan Investment Options

The Proposal clarifies that ERISA fiduciaries may select “ESG-themed funds” as an investment option for a participant-directed plan but that an “ESG-themed fund” cannot be selected as the default investment option. This determination appears to be informed by confusion between ESG integration and ETIs. In our view, all investment options should be required to consider ESG factors, as part of prudent investment decision-making. In addition, it may be appropriate for ERISA fiduciaries to offer ETIs as options that participants may select in participant-directed plans.

The Department’s stated rationale for prohibiting an “ESG-themed fund” from being selected as the default investment option is that it is not appropriate to select “investment funds whose objectives include non-pecuniary goals.” This statement shows a fundamental misunderstanding of the purpose of ESG integration, which is to integrate all factors into investment decision-making. In addition, it is likely to cause confusion for fiduciaries as they attempt to rationalize the Department’s statements earlier in the Proposal that ESG factors are likely to have an

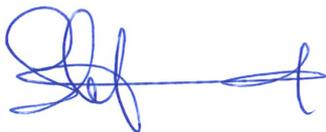
economic impact with the discussion of ESG factors in this context, in which the Department has deemed them “non-pecuniary.”

Conclusion

The Proposal mischaracterizes ESG integration and fails to distinguish between ESG integration and economically targeted investing. This is likely to lead to confusion for ERISA fiduciaries and cost to plan savers. If the Proposal is finalized in its current form, we are concerned that fiduciaries will struggle to fulfil their obligations to integrate all risk factors while also trying to respond to the language in the Proposal that appears aimed at preventing fiduciaries from taking account of these same risks.

As institutional investors, we have a duty to act in the best long-term interests of our clients. In this regard, we believe that integrating ESG factors is necessary to investment decision-making. If the Proposal becomes effective, it could undermine our ability to act in the long-term best interest of our clients. As such, we urge you to you to allow the existing guidance to remain in effect and not move forward with a final rule.

Respectfully,



Sarah Alfandari
Chief Executive Officer
Dalton Investments LLC