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August 3, 2020

The Honorable Jeanne Klinefelter Wilson
Acting Assistant Secretary
U.S. Department of Labor
Employee Benefits Security Administration
200 Constitution Ave NW
Washington, DC 20210

Re: ***Notice of Proposed Rulemaking on Financial Factors in Selecting Plan Investments Amending "Investment duties" Regulation at 29 CFR 2550.404a-1 (RIN 1210-AB95)***

Dear Acting Assistant Secretary Klinefelter Wilson:

AllianceBernstein L.P. ("AB" or "we") provides research, diversified investment management and related services to diverse clients globally, including retirement plans. Our global team of research professionals, with disciplines including economic, fundamental equity and fixed income and quantitative analysis, deliver high-quality, in-depth research. It's the foundation of our business, and we believe that it gives us a competitive advantage in achieving investment success for our clients.

Responsible investing is part of who we are. We're a responsible firm with a deep research culture that integrates environmental, social and governance (ESG) considerations throughout our investing process. Because we're committed to acting and investing responsibly, we integrate ESG risk factors into our investment process.

While AB generally supports the Comment Letter submitted by Groom Law Group on July 30, 2020, we would like to make two additional comments on the Department of Labor's (the "Department") proposed rule "Financial Factors in Selecting Plan Investments" (the "Proposed Rule"). We appreciate the Department's efforts to comply with the President's Executive Order by escalating its views on the consideration of environmental, social, and governance ("ESG") factors from sub regulatory guidance and to notice and comment rule making. We also appreciate the Department's efforts to define the duty of loyalty that plan fiduciaries are subject to when making investment decisions. We submit this comment letter in the hope that the final rule, when issued, will take our comments into account.

Our comments relate to the Department's reference to "ESG fund" in its proposal and its statement in the Proposed Rule's preamble that it does not believe "investment funds whose objectives include non-pecuniary goals—even if selected by fiduciaries only on the basis of objective risk-return criteria consistent with paragraph (c)(3)— should be the default investment option in an ERISA plan." We provide more detail on our comments below.

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I. The Proposed Rule Fails to Define What Constitutes an "ESG Fund."

The Proposed Rule fails to define what constitutes an "ESG fund," which could potentially cause a negative effect on DC plan sponsors selecting funds as a general matter and including those that incorporate ESG risk factors. AB encourages the Department to clarify any use of the term "ESG" or "ESG fund" as used in any rulemaking. The Proposed Rule makes generic references to ESG without conveying the precise intended usage of ESG for the purposes of the Proposed Rule. This is problematic. As a singular term, ESG is used to refer to strategies and approaches along a wide spectrum of financial and social benefits: From one end of the spectrum, of seeking strategies that integrate ESG risk factors from a risk/return perspective to the explicit targeting of specific social or environmental goals. Precision in drafting is important, as the usages of ESG along the spectrum are materially different. For example, the integration of ESG risk factors in the investment decision process or the implicit usage of ESG is materially different than portfolios with a purpose or impact investing. We believe that, if not carefully defined, the use of term ESG (or ESG fund) in the Proposed Rule is likely to make fiduciary compliance more challenging and raise questions of whether it will be possible to draw meaningful distinctions as to which funds or investment strategies actually trigger (or do not trigger) the presumption requiring additional scrutiny and documentation by plan fiduciaries.

I. AB Does Not Agree with the Department that Certain Options Should be Disqualified as QDIAs on the Basis Only of ESG Risk Factors.

AB takes issue with the Department's statement in the Proposed Rule's preamble that it does not believe "investment funds whose objectives include non-pecuniary goals—even if selected by fiduciaries only on the basis of objective risk-return criteria consistent with paragraph (c)(3)— should be the default investment option in an ERISA plan."[1] The problem with this prohibition is that it does not reflect that all manner of managers and investment funds, including managers and funds that are well suited to be default options, incorporate ESG risk factors in many different ways to help achieve the fund's stated goals and strategy. For example, ESG risk factors can be used in manager selection, such as to assess manager risk. If the selected manager or fund otherwise has objectives and/or strategies that make it well suited as a default option fund manager or default fund, it is not clear why usage of an ESG risk factor would render the option no longer appropriate for default investment as a QDIA. The Department's proposal also fails to reflect that there are QDIAs that include multi-strategy and multi-manager solutions. In such strategies, the QDIA may incorporate ESG principles, after appropriate consideration, when prudent to do so in some strategies but not others. Again, if the overall QDIA multi-strategy or multi-manager solution is well suited as a default option, it is not clear why an ESG component would render the option no longer appropriate for default investment as a QDIA.

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[1] Financial Factors in Selecting Plan Investments, 85 Federal Register 39113, 39119 (June 30, 2020).

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AB appreciate the opportunity to provide our views on the Proposed Rule and appreciates your consideration of suggestions.

Sincerely,

Michelle Dunstan
SVP, Global Head of Responsible Investment

Jennifer DeLong
SVP, Head of Defined Contribution