THE
INVESTMENT
ASSOCIATION

The Investment Association
Camomile Court, 23 Camomile Street,
London, EC3A 7LL

T +44 20 7831 0898
E enquiries@theia.org
W theinvestmentassociation.org
Twitter @InvAssoc

Chair, Index Policy Committee
MSCI
7 World Trade Center
250 Greenwich Street
New York
NY
10007
United States

Date: 21st March 2017

Dear Sir/Madam,

RE: Corporate Governance standards in MSCI indices

I am writing to you on behalf of members of the Investment Association's Corporate Governance and Engagement Committee regarding the eligibility of companies that do not have any listed voting shares for inclusion in MSCI Global Investable Markets Indexes, MSCI US Equity Indexes, and MSCI ESG Universal Indexes. The Investment Association represents over 200 UK based asset managers, who collectively manage over £5.7 trillion on behalf of clients in the UK and around the world. Our members are long-term investors in companies listed in the UK and globally.

We welcome the opportunity to provide our views as MSCI reviews the eligibility of companies without listed voting rights following the Snap Inc IPO. Our members are long-term investors who see the analysis of the governance of investee companies as an integral part of the investment process. They believe that a well governed company will protect and enhance shareholder value over the long-term.

The Investment Association does not support the use of differential share ownership structures which offer limited or enhanced voting or other ownership rights to certain classes of shareholders. Our members instead have a preference for 'equality of ownership', and we strongly support the principle of 'One Share - One Vote'.

The Investment Association believes that the principle of One Share – One Vote ensures the equal treatment of all shareholders by allocating control of a company in direct proportion to total economic interest, and the level exposure to investment risk. This proportionate ownership means that management must remain accountable to all shareholders, protecting the rights and interests of minority shareholders in particular.

Equality of ownership also means that all shareholders are able to participate in voting activities and shareholder meetings to an equal degree. Differentiated share ownership structures could disenfranchise shareholders and prevent them from participating in company meetings. Exercising our voting rights is an integral part of our ownership responsibilities and allows our members to improve governance in investee companies.

Introducing separate share classes that do not align with One Share - One Vote could also have the unintended consequence of acting as an inappropriate incentive for shareholders wanting to increase their influence in a company, exercised through voting rights, without having to increase the size of their equity ownership and exposure to risk. Controlling shareholders may use enhanced ownership rights as anti-takeover mechanisms.

As we have seen with the IPOs of large companies like Facebook and LinkedIn in the US, enhanced voting rights have been used to concentrate votes with the founders and leaves other shareholders with little influence. In the extreme case of the recent Snap IPO, shares with no voting rights at all were issued. While 'good founders' may provide stability through greater control, there is no guarantee that future management will take the same view, and may actually use their enhanced power to take short-term decisions. We have concerns about the long-term governance risk of these companies as management become entrenched and are insulated from challenge from shareholders.

Due to the concerns we have outlined above, we do not support the inclusion of companies with no voting rights in the MSCI indices. We also believe that MSCI should review the inclusion criteria for companies with differential voting rights.

Our members believe that it would be beneficial for MSCI to hold a full and public consultation on the issue of a voting right requirement for index inclusion.

We hope that this overview of our position is helpful and we would be happy to provide any further information that may be useful.

Yours faithfully,

Andrew Ninian

Andrew Ninian

Director, Stewardship and Corporate Governance