

June 14, 2017

Dear Members of the FTSE Russell Governance Board:

I am writing in response to FTSE Russell's May 2017 [voting rights consultation](#). Here we provide our responses in written form and will do the same through the [online survey tool](#).

The Council of Institutional Investors (CII) is a nonprofit, nonpartisan association of public, corporate and union employee benefit funds, and other employee benefit plans, foundations and endowments with combined assets under management exceeding \$3 trillion. Our member funds include major long-term shareowners with a duty to protect the retirement savings of millions of workers and their families. Our associate members include a range of asset managers with more than \$20 trillion in assets under management.

We would note that our answers to the consultation questions are informed in particular on the U.S. market, which is our primary focus.

CII expresses its sincere appreciation to FTSE Russell for its consideration of requests from investors and investor organizations, including our March 24 letter, requesting a public consultation regarding the eligibility of non-voting equities for inclusion in your indexes. We believe the consultation put forward represents a thoughtful, realistic response to the concerns we and others have communicated, although we have suggestions on additions to the framework, as indicated below.

1. Do you agree with FTSE Russell's analysis of the issue?

- "Yes, voting rights matter and some minimum threshold with respect to voting rights in the hands of non-restricted shareholders should be set."*

Comment

Our members are deeply concerned about a trend in initial public offerings (IPOs) toward unequal and especially non-voting shares. We believe unequal voting rights diminish accountability and are detrimental to public markets over the long-term.

While we agree with the suggested new policy, we urge FTSE Russell to add three additional elements. Specifically, we request that there be four prongs to the FTSE Russell policy. However, for all four prongs, we would exempt securities if there is a "one share, one vote" equity structure in place OR a true "sunset" provision that would collapse the share structure to one-share, one-vote in no more than five years, subject to potential extension by shareholders voting on a one-share, one-vote basis.

The additional elements are Prongs 2, 3 and 4 below, which are explained further in the response to Question 9:

1. Require index free float to represent at least 25% of voting power
2. Exclude future non-voting share classes entirely
3. Exclude future share classes with inferior voting rights unless they have true sunset provisions, requiring collapse to one-share, one-vote in a term of no more than five years unless the structure is extended for the same term by shareholders
4. Exclude future share classes at controlled companies at which the publicly traded share class elects less than 25% of the board

Together, these reforms would mark a significant and prudent response to the degradation of public shareowners' rights we have witnessed in the capital markets, of which Snap Inc. is one extreme example.

As discussed in our response to Question 4 of this consultation, we believe constituent companies can adjust to the proposed free float voting power requirement as proposed by FTSE. However, we suggest the additional requirements (Prongs 2 through 4) for prospective index constituents only. We recognize that removal of existing index constituents based on policies in Prongs 2 through 4 could lead to excessive disruption.

2. For those index series where you believe a threshold for the minimum percentage of voting rights in non-restricted hands is appropriate (please see Questions 6 and 7), where should this threshold be set?

- “25% (consistent with the minimum free float UK Index Series for UK incorporated companies).”

Comment

A 25% threshold (“25% floor”) balances two primary objectives:

- 1) Permitting the index to continue to uphold its core function (i.e. track broad market performance); and
- 2) Establish a substantive threshold that affords minimal protection for public shareholders.

We believe a 25% floor would be meaningful but not overly disruptive to the goal of breadth of coverage for core indexes, and the existing 25% free float requirement for the FTSE UK Index Series is a useful precedent for this.

We would do the floor calculation using index free float of voting rights, as seems to be implied in the stated FTSE Russell policy. We note that the table on page 6 of the consultation document appears to use voting rights in any shares held in public markets, even if they are not included in the index. If a class of shares lacks sufficient float or otherwise does not meet other rules for

inclusion in an index, we would exclude those from consideration for purposes of calculating the voting rights floor.

In supporting the use of the percentage of a company's voting rights in the hands of non-restricted shareholders as the key criterion, we considered FTSE Russell's definition of free float, which we understand to exclude shares restricted under lock-up provisions, ESOPs, shares held by public companies, shares held by a government, and shares held by directors and officers, as well as shares held by their families. We also considered the consultation's observation that it would be feasible to rely on this measurement from an operational perspective.

3. For constituents that fail to meet the voting rights hurdle, what restrictions on the index eligibility of their securities should be imposed?

- “All of the company's securities, including all classes of common stock and non-voting securities such as preference shares, savings and investment certificates, should be considered ineligible for index inclusion.”*

Comment

We support declaring ineligible all securities if a constituent does not comply with the 25% Floor. To deem only non-voting securities ineligible would create a loophole inviting the assignment of nominal voting rights to every security for the sole purpose of qualifying as a voting security, resulting in no material impact.

4. For new index constituents, for what period do you believe that the restrictions from Question 3 should be applied?

- “Until such time as the company restructures its securities to meet the voting rights threshold.”*

Comment

Exemptions from the 25% floor unnecessarily undermine the purpose of the threshold.

5. For existing constituents, when do you believe that the restriction for Question 3 should be applied?

- “Existing constituents should be tested against the new rule at the next index review/constitution cut-off/rank date following a grandfathering period of three years.”*

Comment

We believe giving existing constituents ample opportunity (such as three years) to comply with the 25% floor is a superior approach to giving existing constituents indefinite release from complying with this reasonable threshold. The proposed FTSE Russell minimum vote threshold lends itself to company adaptation. We note the consultation identifies seven companies from that sample as currently out of compliance with a 25% threshold, and the majority of those seven are within 10 percentage points of reaching the 25% mark.

6. To which FTSE Russell indexes do you believe the minimum voting rights criterion should be applied? Please tick all that apply.

[All boxes checked:]

- FTSE Russell global indexes including FTSE Global Equity Index Series, Russell Global Index and indexes directly derived from these.*
- Russell US Indexes.*
- FTSE UK Index Series.*
- Other local index series, for example FTSE exchange partner indexes where FTSE is the administrator (all)*
- FTSE EPRA/NAREIT Global Real Estate indexes.*
- FTSE Hong Kong Mandatory Provident Fund indexes.*
- All other FTSE Russell equity indexes.*

Comment

We believe the threshold should apply as broadly as possible, particularly in light of exemptions for all one-share, one-vote companies and those with dual-class sunset provisions described elsewhere in our response.

7. Are there any FTSE Russell indexes where you believe a voting rights eligibility rule should explicitly not apply?

- No*

8. If your answer to Question 1 was no, please state why.

N/A

9. What other ways of dealing with the problem should FTSE Russell consider?

- “Some other approach. Please state which”*

As noted in the response to Question 1, we would supplement the FTSE Russell proposal as follows:

Exempt companies with one-share, one-vote structures. Float requirements should provide a sufficient mechanism for companies that are controlled by virtue of holdings in a one-share, one-vote structure.

Prohibit future no-vote share classes. We believe shares with zero voting rights lack an essential and definitional characteristic of “common equity,” and it was a mistake to permit no-vote shares in indexes. We worry that the FTSE Russell proposal as described in the consultation document could actually encourage companies to use zero-vote structures, as long as they have sufficient voting power publicly traded share classes to meet the 25% floor.

Sunsets: We advocate requiring that prospective constituent members with differential voting rights be admitted into the index only if their governing documents ensure that for a term no greater than five years following the company’s IPO, either (1) the share structure dissolves to a single one-share, one-vote class, or (2) common shareholders cast a binding vote on a “one share, one vote” basis on whether to (a) convert all common shares to a one share, one vote structure, or (b) retain the multi-class structure for another five years.

Company control through election of directors: Rather than assigning differential voting rights per share, some dual class companies permit the controlling holder to exercise that control, despite limited equity ownership, through structures that provide that a superior class may appoint a majority of the board. So, for example, Molson Coors has multiple classes with one vote per share, except that Class A holders are entitled to elect 12 board members, and the Class B holders may elect up to three board members. In this case, both classes are publicly traded and we believe likely to meet the FTSE Russell test as being largely unrestricted. Moreover, we would grandfather such existing share classes to avoid disruption. But we believe FTSE Russell should avoid this end-run around its revised rules from companies creating future share structures.

Thank you for considering our views. If we can answer any questions or provide additional information on this important matter, please do not hesitate to contact me at 202.822.0800 or ken@cii.org.

Sincerely,



Kenneth A. Bertsch
Executive Director
Council of Institutional Investors