

May 20, 2019

John Zecca
Senior Vice President
General Counsel North America and Chief Regulatory Officer
NASDAQ Stock Market
805 King Farm Boulevard
Rockville, MD 20850

Sent via email to: john.zecca@nasdaq.com

RE: Support of petition to amend listing standards on multi-class share structures

Dear Mr. Zecca:

I am writing on behalf of the Los Angeles County Employees Retirement Association (“LACERA”) to support the Council of Institutional Investors’ (“CII”) petition, dated October 24, 2018, regarding multi-class share structures. We endorse CII’s request that the NASDAQ Stock Market take the appropriate steps to amend its listing standards, per below, to require sunset provisions on multi-class share structures on a forward-looking basis, absent an extension approved by a majority vote of investors for each share class:

The company’s certificate of incorporation or equivalent document must specify provisions requiring the share structure to convert automatically to one-share, one-vote no more than seven years after IPO date, subject to extension by additional terms of no more than seven years each, by vote of a majority of outstanding shares of each share class, voting separately, on a one-share, one-vote basis.¹

LACERA is the largest county pension system in the United States, with about \$57 billion in plan assets as of April 30, 2019, including equity holdings in over 3,000 U.S. companies. Our mission is “to produce, provide, and protect the promised benefits” for nearly 170,000 beneficiaries. LACERA believes that sound corporate governance practices at the firms in which we invest help generate long-term economic performance and safeguard the fund’s economic interests. As articulated in LACERA’s [Corporate Governance Principles](#), LACERA considers core investor rights and protections to be vital in both safeguarding our investments and fostering a stable investment environment in the capital markets where we invest. Central to robust investor rights is the ability to exercise voting rights proportionate to an investor’s economic interests in a company. Multi-class share structures, by which investors may have weighted voting rights or no voting rights at all, risk entrenching certain investors and management, thereby insulating them from acting in the interests of all investors. The principle of “one-share/one-vote,” in our view, promotes fair and equitable treatment of investors and helps to instill investor confidence, thereby facilitating capital formation and economic stability to the benefit of all market participants.

Mr. Zecca, Senior Vice President

May 20, 2019

Page 2 of 2

Research highlights the risks associated with unequal voting rights and medium- to long-term value. CII has summarized six independent studiesⁱⁱ outlining the disconnect between ownership and control in multiclass share structures, which over time may erode accountability, integrity, and value. This detachment risks manifesting itself in corporate scandals and mismanagement, such as at Viacom and Facebook, where investors are left with little or no recourse to hold a corporate board or management accountable, to the prospective detriment of financial value.

LACERA considers CII's request to be a prudent, pragmatic, and market-oriented approach that balances the ability of entrepreneurial, founder-led initial public offerings to access public market capital while protecting investors from entrenchment over the medium- to long-term.ⁱⁱⁱ Amending the listing standards to require provisions by which multi-class share structures with differential voting rights might "sunset" would be consistent with both expanding empirical research^{iv} and evolving market practice.^v Allowing investors to weigh in with a vote provides market participants with a degree of flexibility without permitting insider control to continue in perpetuity without investor input.

We consider sunset provisions in otherwise perpetual multi-class share structures to be an idea whose time has come. The stock exchanges of the world's most dynamic capital market serve a crucial role in promulgating and protecting basic investor rights. CII's petition provides NASDAQ with a pragmatic, balanced approach to ensure investors' right to a meaningful, equitable vote on important corporate matters and support basic and sound market practices. We urge NASDAQ to give prompt and serious consideration to acting on CII's petition.

Thank you for your consideration. If we might provide any further information or perspectives, please contact me at 626-564-6000 or jgrabel@lacera.com.

Sincerely,



Jonathan Grabel

Chief Investment Officer

ⁱ Council of Institutional Investors. *NASDAQ Petition on Multiclass Sunsets*. October 24, 2018. https://www.cii.org/files/issues_and_advocacy/correspondence/2018/20181024%20NASDAQ%20Petition%20on%20Multiclass%20Sunsets%20FINAL.pdf.

ⁱⁱ Council of Institutional Investors. *CII Summaries of Key Academic Literature on Multi-Class Structures and Firm Value*. July 18, 2018. <https://www.cii.org/files/CII%20Summary%20of%20DC%20Studies.pdf>

ⁱⁱⁱ CFA Institute. *Dual-Class Shares: The Good, the Bad, and the Ugly*. August 2018. https://www.cii.org/files/misc_files/CFAI-Dual%20Class%20Shares-05092018v2.pdf

^{iv} Lucian A. Bebchuk and Kobi Kastiel. *The Untenable Case for Perpetual Dual-Class Stock*. *Virginia Law Review*; Vol. 103, pp. 585-631. June 2017. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2954630; Martijn Cremers, Beni Lauterbach and Anete Pajuste. *The Life Cycle of Dual-Class Firms*. December 19, 2018.

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3062895; Lindsay Baran, Arno Forst and M. Tony Via. *Dual Class Share Structure and Innovation*. January 18, 2019. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3183517; Robert Jackson.

Perpetual Dual-Class Stock: The Case Against Corporate Royalty. February 15, 2018. <https://www.sec.gov/files/case-against-corporate-royalty-data-appendix.pdf>; Hyunseob Kim and Roni Michaely. *Sticking Around Too Long? Dynamics of the Benefits of Dual-Class Structures*. March 13, 2019. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3145209.

^v Council of Institutional Investors. *Time-Based Sunset Approaches to Dual-Class Stock*. October 11, 2018. <https://www.cii.org/files/10-11-18%20Time-based%20Sunsets.pdf>.