Council of Institutional Investors
The Voice of Corporate Governance

FOR IMMEDIATE RELEASE
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INSTITUTIONAL INVESTORS CALL ON IPO COMPANIES TO ADOPT EQUITY STRUCTURES, GOVERNANCE PROVISIONS THAT PROTECT SHAREHOLDERS

Washington, D.C., March 23, 2016 — A company going public should have a "one share, one vote" structure, simple majority vote requirements, independent board leadership and annual elections for board directors. Council of Institutional Investors (CII) members, who collectively hold more than $3 trillion in assets, today adopted these expectations in an effort to protect shareholder interests.

The new CII policy was prompted by investor concern about high-profile initial public offerings (IPOs) on U.S. markets using dual-class structures. Companies that went public with multiple classes of shares include Alibaba, First Data, Groupon, LinkedIn, Square and Zynga. In 2015, according to Dealogic, dual-class IPOs raised more than twice as much capital than the year before. CII believes that even high-performing multi-class companies, such as Facebook, incur long-term risks because of the misalignment between equity and voting power.

"When a company goes to the capital markets to raise money from the public, investors are entitled to certain protections and basic rights, including a vote that's proportional to the size of their investment," said Ken Bertsch, CII's new executive director. "It is particularly troubling when companies tapping public markets insulate controlling shareholders forever, with lack of reasonable sunset requirements on provisions that disempower public shareholders."

CII urges companies that are going public to adopt fundamental corporate governance best practices from the outset. Newly public companies that lack these basics should adopt them over a reasonable period of time.

CII maintains that companies tapping the public markets should have an equity structure and governance provisions that protect public shareholders' rights equally.

Key practices that undermine that shareholder accountability include:

- Multi-class equity structure with unequal voting rights;
- Plurality vote requirement for uncontested director elections;
- Lack of independent board leadership, whether the chair or lead director
- Classified board structure; and
- Super-majority vote requirements for bylaw amendments and other proposals.

The Council of Institutional Investors (CII) is a nonprofit association of pension funds, other employee benefit funds, endowments and foundations, with combined assets that exceed $3 trillion. CII is a leading voice for effective corporate governance and strong shareowner rights. CII educates its members, policymakers and the public about corporate governance, shareowner rights and related investment issues, and advocates on its members' behalf.

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"CII is setting forth a sensible set of investor expectations that ultimately are in the best interest of shareholders and companies alike," said Charles Elson, director of the University of Delaware's Weinberg Center for Corporate Governance. "Special protections for insiders and disparities between economic ownership and voting power become increasingly problematic as IPO companies mature. Moreover, it is just shortsighted for investors to accept dual-class voting structures because when something goes wrong – and at every company something eventually will go wrong – shareholders have no power to make change."

Most U.S. companies have "one share, one vote" capital structures that ensure voting power is directly proportional to an investor's capital at risk. At some companies, however, voting power is concentrated through the use of different share classes to allow insiders or founders to control votes for board directors and other voting matters.

A 10-year study, available here, finds that these controlled companies generally underperformed non-controlled firms, and that director tenure typically runs longer, board refreshment is generally slower and boardrooms are less diverse at controlled companies.

View here CII's policy statement, "Investor Expectations for Newly Public Companies."

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