NORGES BANK
INVESTMENT MANAGEMENT

MSCI, Inc.
7 World Trade Center
250 Greenwich Street
New York, NY 10007
United States

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Consultation on the treatment of unequal voting structures in the MSCI equity indexes

We refer to the *consultation on the treatment of unequal voting structures in the MSCI equity indexes*, from January 2018, and we welcome the opportunity to contribute our perspective.

Norges Bank Investment Management (NBIM) is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global[1]. NBIM is a globally diversified investment manager with assets of NOK 8,488 billion (USD 1,038 billion) at the end of 2017. We work to safeguard and build financial wealth for future generations. We regard the protection of minority shareholder rights as a necessary requirement to promote the fund's long-term financial interests.

Our point of departure is that a well-functioning shareholder approval regime is best maintained when shareholder voting power is proportional to capital invested. Voting is one of the most important tools for investors to exercise their ownership rights. Any deviation from the principle of "one share, one vote" should be demonstrably beneficial to all shareholders.

We have observed an increase in unequal voting structures as more markets modify their listing regimes. While NBIM is supportive of measures that motivate companies to go public, especially at an earlier stage in their life cycle[2], we take into consideration any decision affecting the protection of minority shareholder rights.

We share MSCI's concern about the impact of unequal voting structures on investors who want to exercise formal influence on the companies in which they invest, and we appreciate

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[1] NBIM's investments are measured against a benchmark index defined by the Norwegian Ministry of Finance on the basis of indices from FTSE Group and Bloomberg Barclays Indices. For more information on NBIM's investment mandate, see https://www.nbim.no/en/investments/investment-strategy/.

[2] Norges Bank Investment Management, "The Listings Ecosystem: Aligning Incentives", Asset Manager Perspectives 1/2016

efforts to address these concerns. At the same time, we believe that indices should appropriately reflect the international investable opportunity set of equities.

Although the methodology proposed by MSCI to adjust the weights of unequal voting stocks in the index appears sound and may create an additional incentive for individual companies to move towards the "one share, one vote" principle, the implementation of the proposal would have far-reaching and potentially unintended consequences for investors and the broader market. Apart from one-off effects, such as the trading costs associated with the one-way portfolio turnover, we are particularly concerned about structural changes that would skew the composition of the index, departing from its original principle of objective representation of investable markets.

The proposed approach would remove approximately 4 percent of the market capitalisation of the current MSCI World Index. Such a reduction would limit portfolio diversification for investors following the broader index. Unequal voting structures tend to be used by certain types of companies, particularly those recently listed, in innovation-driven sectors such as technology or health care, and with active owners. As these types of companies would be weighted down in the index, they would be less represented in 'passive' investors' portfolios. This would leave portfolios concentrated in more mature companies, in more traditional industries, with dispersed and passive ownership.

Furthermore, it is difficult to predict the potential impact of this proposal on the equity market, especially if other index providers follow a similar approach. As companies with unequal voting structures would be weighted down in indices, this may have unexpected consequences for equity prices and liquidity. Finally, weighting down companies with unequal voting structures may dis-incentivise early-stage companies from listing.

While we understand MSCI's objectives and we appreciate its effort to develop a coherent methodology, we are concerned about the potential impact on investors' portfolios, taking into consideration longer-term risk, return and turnover, and on the wider market. The proposal is based on a sound methodology and would be suitable for a parallel set of indices that investors can follow at their discretion. However, we do not think it should be applied to Standard Indexes whose main purpose is to appropriately reflect the international investable opportunity set of equities.

We appreciate your willingness to consider our perspective, and we remain at your disposal should you wish to discuss these matters further.

Yours faithfully

Carine Smith Ihenacho
Chief Corporate Governance Officer

Séverine Neervoort
Senior analyst, Policy Development