

14 April 2017

Loh Boon Chye, Chief Executive Officer
Tan Boon Gin, Chief Regulatory Officer
Singapore Exchange Limited
11 North Buona Vista Drive
#06-07, The Metropolis Tower 2
Singapore 138589
Attention: Listing Policy & Product Admission

Via Email: listingrules@sgx.com

Re: SGX's Public Consultation on Dual Class Share Structure

Dear Messrs. Loh and Tan:

I am writing on behalf of the California State Teachers' Retirement System (CalSTRS) in response to your consultation request on whether the Singapore Stock Exchange (SGX) should introduce a dual class share (DCS) structure where some shares have higher voting rights than others. CalSTRS does not support creating a dual class share voting structure. As a long-term shareholder, CalSTRS supports the one-share, one-vote principle. We recommend the SGX preserve its current listing standard supporting equal voting rights for each share.

CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$202 billion as of February 28, 2017.¹ CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. We serve the investment and retirement interests of more than 914,454 plan participants and their beneficiaries.² The long-term nature of CalSTRS liabilities, the composition of its portfolio and the Teachers Retirement Board's fiduciary responsibility to its members, make the fund keenly interested in the rules and regulations that govern the stock market exchanges. CalSTRS has a commitment to healthy public markets and strong corporate governance. We are active shareholders and invest in more than 8,000 global equity securities valued at over \$118 billion. As of March 31, 2017 CalSTRS held shares listed on the Singapore Stock Exchange at an approximate market value of \$593 million.

¹ CalSTRS Current Investment Portfolio for the period ending February 28, 2017.
<http://www.calstrs.com/current-investment-portfolio>

² CalSTRS at a Glance, Fact Sheet: <http://www.calstrs.com/sites/main/files/file-attachments/calstrsataglance.pdf>

CalSTRS believes equal voting and control rights proportional to economic interest represents best governance practice. Consequently, we do not support the Committee on the Future Economy's (CFE) recommendation to explore the merits of DCS. We believe a structure that sustains "one-share one-vote" equally aligns shareowners' economic interests. CalSTRS believes a dual class structure disenfranchises the majority of equity holders as it allows DCS owners the ability to control more voting rights without having to risk an equal amount of capital. CalSTRS Corporate Governance Principles outline our Board's support to the one-share, one-vote principle.³ We also believe "one share, one vote" structure is associated with stronger long-term performance and mechanisms for accountability to owners.⁴

As a member of the Council of Institutional Investors (CII), we agree with CII's letter to the SGX, "that permitting DCS on the SGX would represent a significant step in the wrong direction, and we would strongly support a decision by the SGX to preserve its existing "one share, one vote" listing standard."⁵

Additionally, as a member of the Asian Corporate Governance Association (ACGA), CalSTRS supports ACGA's submission to the SGX and belief "that DCS has the potential to threaten the quality of Singapore's equity market, resulting in unintended consequences that cannot be managed with appropriate safeguards."⁶

CalSTRS concludes that companies adopting a dual class structure are sending a message to their shareholders that they want to control a majority of the votes without taking the majority of the risk. Matt Orsagh from the Certified Financial Analyst (CFA) Institute provided a discerning comment, with regards to DCS:

Another way to say it is that companies (with DCS) want the public's capital, just not their opinions. If issuers don't want to give up control of the company they can finance through debt, raise venture or equity capital, sell fewer shares so they retain control, or they can simply choose to remain a private company.⁷

³ California State Teachers' Retirement System, Corporate Governance Principles, 4. Other Governance Matters, Section d. Unequal Voting Rights, page 15, Updated July 14, 2016. http://www.calstrs.com/sites/main/files/file-attachments/corporate_governance_principles_1.pdf

⁴ Council of Institutional Investors (CII) sign-on letter by CalSTRS and shareholders with combined assets under management exceeding \$3 trillion to the CEO, Chief Technology Officer, Chairman- Designate of Snap, Inc.

⁵ CII comment letter to the SGX regarding Dual Class Share structure within SGX Listing Standards, 29 March 2017. http://www.cii.org/files/issues_and_advocacy/correspondence/2017/03_29_17_letter_to_SGX.pdf

⁶ Asian Corporate Governance (ACGA) submission letter to Singapore Exchange Limited on Dual-Class Share Structures, April 11, 2017. http://www.acga-asia.org/upload/files/20170411_ACGA_Submission_SGX_DCS_Consultation_Final.pdf

⁷ Matt Orsagh, CFA, CIPM, CFA Institute, *Dual-Class Shares: From Google to Alibaba, Is It a Troubling Trend for Investors*, 1 April 2014. <https://blogs.cfainstitute.org/marketintegrity/2014/04/01/dual-class-shares-from-google-to-alibaba-is-it-a-troubling-trend-for-investors/>

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The SGX's Listings Advisory Committee (LAC) proposed safeguards against risks of entrenchment, expropriation, poor quality listings and lack of clarity that is inherent with DCS. However, the most optimal outcome of this consultation is for the SGX to continue the fundamental safeguard by upholding SGX's requirement that listed companies issue common shares with equal voting rights. In 2015, the Hong Kong Stock Exchange (HKEX) found the risks with DCS severe enough that the HKEX decided against the potential implementation before it even got to the consultation stage.⁸

CalSTRS believes that DCS structures may exacerbate governance risks by distorting the relationship between ownership and control. CalSTRS is a strong advocate of investment stewardship and corporate governance principles. As a long-term institutional investor we take our fiduciary responsibility seriously in our proxy voting and engagement guidelines of portfolio companies.⁹ CalSTRS respectfully urges the SGX to take this opportunity to maintain the best interests of investors by preserving the one share, one vote listing standard at the Singapore Stock Exchange.

Thank you for the opportunity to respond. If you would like to discuss this letter further, please feel free to contact me at my number above or Mary Hartman Morris at 916-414-7412, MMorris@CalSTRS.com.

Sincerely,



Anne Sheehan
Director of Corporate Governance
California State Teachers' Retirement System

⁸ *Hong Kong exchange gives up on dual-class share plan*, Financial Times, October 5, 2015. <https://www.ft.com/content/0bc597ee-6b42-11e5-aca9-d87542bf8673>

⁹ Investor Stewardship Group and the Framework for U.S. Stewardship and Governance, CalSTRS founding member with 15 additional U.S. and international institutional investors, 2017. <https://www.isgframework.org/>